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“Small and Medium Enterprises - Possibilities and Perspectives 2011”

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International - University of Novi Pazar

Dimitrija Tucovica bb
Novi Pazar, Serbia



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International
University of Novi Pazar



Faculty for management in
traffic and communication

International scientific conference

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POSSIBILITIES AND PERSPECTIVES 2011”**

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**SMALL AND MEDIUM ENTERPRISES UNDER
TURBULENT CIRCUMSTANCES – POSSIBLE
DIRECTIONS FOR FURTHER DEVELOPMENT**

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Abstract

Is the idea of small and independent, but successful, entrepreneurship based on fiction or a real chance? What has to be done to implement an idea? What has to be done that an idea becomes the basis for a successful business? How can entrepreneurship help in economic development? How can small and medium enterprises escape from crisis? All these important questions have to be answered, especially in the time of crisis. Therefore, we will try to answer these questions in this working paper.

Keywords: Entrepreneurship, small and medium enterprises, crisis survival, creative techniques, innovations

JEL codes: M13

1. INTRODUCTION – ENTRY INTO PROBLEMS

Leaving the old model of society's ownership and the socialistic way of doing business in favour of the capitalistic development based on private ownership and citizen society, led to numerous problems and dilemmas in countries facing transition and the question arose how to create further social and economic development. The new-established market-oriented system was, and it seems still, something unknown for many decision-makers in the public administration, scientific institutes and the management of companies. The democratic society as a model of a capitalistic market-oriented economy was only partly known to the bearers of the activity in transitional countries (on the macro and micro level)

and only known from domestic and foreign literature. This was, above all, literature published in the previous period of socialist development. Thus, the information about market-orientated business, which was officially created, or translated from foreign literature, was ideologically painted until the 1990s. This meant that this literature described the capitalistic system in a negative context, i.e. the capitalistic system was described as exploitative and unjust.

But, almost overnight, the fast and unplanned executed ideologically and political move from public and socially to the private capitalistic economic model – through the so-called process of transition, left almost all subjects of decision-making unprepared. Not only the managing structures (directors and other managers) in working organizations were unprepared, but (it seems) also leading politicians. Unprepared were also professors and researchers at universities and at scientific institutes, which had other ideological thoughts.

Additional confusion was created by the growing nationalism which led to civil wars. Wars and political tensions shattered the up to then solid foundations of the economy and ended the exchange of goods, money and ideas, which had existed to then.

However, not all individuals have been unprepared for the ownership transition. Besides some former socialist “flexible” directors and other political and economic leaders, new young people emerged, who were trained in the West and embraced democratic ideas. These groups took power after political changes in the country and led the, publicly perceived unsuccessful, privatisation. After the executed privatisation, much of the functioning industry has been destroyed or the successful part has been sold to foreign investors.

In the mentioned context and in the chaotic sequence of events – in order to ensure a fictive stability and development and a necessary social peace, until the whole process of transition has finished, the governing state structures, with the approval of its foreign mentors, are taking loans from abroad. With the received money, the value of domestic currencies is stabilised in an artificial manner and a minimum of aggregate demand is ensured. However, the received money is not used for economic development – this concern is transferred to private entrepreneurs. On the other hand, we have a big public service, inherited social obligations and an ever growing number of pensioners. Because a great number of companies are becoming bankrupt during the process of transition, the number of employed people in the productive sector has been decreasing. In Serbia, and the situation is similar in the rest of the former Yugoslav republics (with the exception of Slovenia), the number of depending pensioners and the number of employed people is equal. So, one employee is financing one pensioner. It has not to be mentioned that the greatest part of the employed population are made of public servants. When we look at the aspect of reproduction, the majority of the mentioned groups are consumers. Among the employed, only a small number is producing something really worth, which can be materially or spiritually consumed or placed on domestic or international markets.

2. FOCUS ON SMALL AND MEDIUM BUSINESS AND THE SERVICE SECTOR

Keeping in mind that great, especially industrial, systems are destroyed or are sold to foreign investors, whereas our country is overdue, the basic of further economic development has to be searched in the development of the sector of small and medium business and the service sector. According to official strategists of economic and social development, the establishment and efficient functioning of small and medium enterprises has to be the foundation of economic and social development. Furthermore, the problem of unemployment has to be solved by the development of small and medium enterprises. However, despite the mentioned problems of the economies and societies of former Yugoslavia, solutions to the problems have to be developed and implemented. In the context of the aforementioned, we have to refer to the emerging service sector (the so-called tertiary sector). The service sector in post-industrial societies offers a perspective and basic chance to overcome the stagnant situation and solve the problem of rising unemployment.

The service sector in transitional countries develops slowly and inadequately. In the domain of the productive service sector neither sufficient knowledge nor experience exists and there is also no innovation. But these are qualities which are indispensable for development and especially the inventive tertiary sector. In countries, which originated after end of former Yugoslavia, with the exception of Slovenia, no adequate education system exists to educate necessary employees for the service sector and there are entrepreneurs to develop the sector of small and medium enterprises. The inherited network of official universities, which educate students for future needs, was created before and is static, according to past needs of giant production systems, but not for the need of small and medium enterprises, especially in the service sector. We will mention the situation of mechanical engineers, who are educated for the need of giant industrial systems in the universities of Belgrade, Novi Sad, Niš, Kragujevac, Kraljevo and other places in Serbia. However, mechanical industry in Serbia does not exist anymore in a giant manner and it seems that there are no chances that it will develop again. Foreign investors from abroad possess capital, technology and markets in the mechanical industry, and have already moved their factories to China, India, Brazil, Turkey and other Asian and Latin American countries and some countries in Eastern Europe.

If we start from the hypothesis, and the fact, that the development of entrepreneurship in small and medium business, in the context mentioned above, is the only chance to revive the poor economy of former Yugoslavian republics (of course with the exception of Slovenia), in the further text of this working paper we will mention some dilemmas and facts which will be faced in developing a positive climate. The dilemmas are the following:

- Affirmation of small and medium or affirmation of small, medium and big business

- Affirmation of the sector of material production or affirmation of the service sector
- Affirmation of independent or affirmation of licensed development

3. SMALL AND MEDIUM OR SMALL, MEDIUM AND BIG BUSINESS?

According to the majority of economic thinkers and government representatives the dilemma about small and medium enterprises or small, medium and big enterprises is rather academic and scholastic, but not real and practical. Nowadays, according to the current distribution of political and economic might, the chance for domestic development is generated from within (from domestic accumulation) can only be seen partly in the affirmation and development of small and medium enterprises.

We have already mentioned the fact that wrong economic policies and, generally, state development policy in fact lost all chances to develop big industries and big businesses. Big industries which create its own accumulation and reinvest into new business do not exist anymore in Serbia, Montenegro, Bosnia-Herzegovina, Croatia and FYR Macedonia.

While civil war and inter-ethnic conflicts were taking place in former Yugoslavia, big industries, on the planet as a whole, have moved from the USA, Japan and Western Europe to counties in Asia, Eastern Europe and Latin America. Past war events in the Balkans had not only a negative effect on the biological and economic survival of the local population, but also had a substantial negative effect on the technological state of the economy.

During the last decades of pre-war, war and after war period, technological progress has developed enormously in the developed world. Important technological discoveries were made in all fields of science. These discoveries were applied in practice immediately, especially in developed countries and emerging economies such as China, India, Brazil, Poland, Turkey and other emerging countries.

These new discoveries have led to a new framework of doing business with a massive use of information technology, electronics and automation. These ways of organising processes produce a large quantity of different products at low costs. Therefore, the need for employees, especially in large companies, has been falling continuously. Due to high fixed costs, companies applying new technologies need much money to finance a modern production facility and have to be eager in having a high output in order to generate a profit. Such systems almost do not exist in the Western Balkans, with the exception of Slovenia, which has been able to generate a positive economic development contrary to other countries of former Yugoslavia. In the other countries of former Yugoslavia, applied technologies during the last two decades have stagnated or even regressed. War, embargo on the import of technology, lost markets,

stagnation in the quality of education have led to technological backwardness, which cannot be surpassed under the current circumstances with a relative old population and an old-fashioned way of education. It seems that everything has to be started at the beginning, where small and medium enterprises and innovative entrepreneurship have the best chances to further economic and social development. The aforementioned has not to be so bad, because small and medium enterprises have certain advantages compared to big businesses. Here, it is especially important to use the eastern art of fighting, i.e. to transform weaknesses into strengths.

Now, we will show the major advantages, which small and medium enterprises have compared to big companies:

1. Small and medium enterprises need a smaller amount of capital in modern equipment and modern technologies compared to big businesses
2. In small and medium enterprises technological and managerial innovations are applied faster than in big businesses, which are known for their bureaucracy and their sluggishness
3. Small and medium enterprises are more flexible to adapt under new circumstances. Big systems have the problem to adapt under new circumstances due to their inertia. We are witnesses that in the countries of the Balkans, former major players are degrading because they did not have the possibilities to adapt to new framework of doing business, especially to the liberalisation of foreign trade.

However, it is a fact that in many areas small and medium enterprises are only a supplement for big companies, which are also indispensable for a functioning economy.

4. PRODUCTION SECTOR OR SERVICE SECTOR?

During the 1950s the number of white collars (employees in the administrative sector) has risen first in the USA and then in other industrialised countries compared to the number of blue gowns (employees in the production process). Due to this development, scientists and other academicians, as well as other public figures called this the “service revolution”, which will determine the further economic and social development all around the world. Forecasts, which were made that the tertiary (service) sector will grow exponentially compared to the primary (agricultural, raw materials) and secondary (production) sector have been confirmed by recent developments. Most of the market-oriented countries have already more than 60 percent of the employed population working in the service sector. When a society becomes more developed the number of people employed in the service sector increases. It has not to be mentioned specially that entrepreneurship, as a discipline of designing and managing a business under market circumstances, especially in the field of the service sector an extreme success.

Primary and secondary sector decreases its share in the capital investment and in employment, what is an effect of chemisation, mechanisation and genetic engineering in agriculture or effect computerisation, automation and robotisation in industry and other filed in the primary sector. We have already pointed out to the fact that all mentioned development processes are executed synergistically and the direct effect of the immense course of scientific progress. This process has been incorporated in the meantime in all fields and branches of human creativity creating not only new models of business but creating new industries (so-called creative industries) and new models of innovative entrepreneurship.

Fascination about the service sector and directing money and human resources to this sector has also negative effects. Keeping in mind that the field of service sector are executed in urban areas, this has led to a fast migration from rural areas to urban areas, especially by the young population. In many countries agricultural production is neglected, which is also valid for the countries of the Balkans which causes many different bad economic, ecological and social consequences. The concentration of the population in urban areas, if it is followed by the production of high quality intellectual and productive work, which can be marketed on the local and international market, is not a problem. But on the other hand, if people from urban areas come without a proper plan, they will be unemployed which can cause tensions due to their unhappiness with their economic and social status. Recent social tensions and violent escalations in Arabic countries have shown that such migrations can cause big problems for a country. Neglect of productive entrepreneurship and stagnation of the primary and secondary sector, on the expense of the service sector, causes bad effects on the balance of trade and payments. Deficit in these balances, which are caused by larger imports than exports, leads in countries with inferior human resources, technological and economic backwardness to a high indebtedness. Such an inferior position eliminates or decreases the possibility of conducting a independent economic policy based on desired and nationally needed development.

In the state of high indebtedness, in which are located all countries of former Yugoslavia, with the exception of Slovenia, are not all countries of the world. Developed countries of the European Union, Japan, China, South Korea and other Asian “tigers” have not allowed that cheap imports take agricultural and production sector. By using trade barriers, they were able to create an exporting economy based on these sectors. As a positive example, we can mention Japan, which government has been able to keep the rural population in the villages and thus was able to produce enough rice and other agricultural products for the local market by giving large subsidies to this sector. Japanese consumers buy domestic rice and other agricultural product for a price, which is two-times lower than the sales price which has to be paid for imported rice. Thanks to such an agricultural policy, Japan has been able to keep its villages and to develop them, so more than 20 percent of the young population has a perspective in the agricultural sector. It has not to be mentioned in particular that such an economic

policy has supported the development of entrepreneurship in the agricultural and food industry, which efficiently connects villages and towns from an economic perspective.

The right conclusion in this matter is clear: any developmental concept has to be based on the affirmation of the service sector, which is an unavoidable development trend. However, vital parts of the primary and secondary sector which produce goods for domestic demand and for export have not to be neglected.

According to the mentioned, it is indispensable to stimulate all kinds of socially beneficial entrepreneurship in the field of production, especially in economically underdeveloped areas. Especially, of fields which are based in an economically underdeveloped region. In fact, geographically (between single areas) and functionally (between single sectors and branches) harmonised development ensures health interactional connections:

- Between urban and rural
- Between big urban centres and periphery
- Between production and services
- Between export (sales) and import (consumption) of goods
- Between a health development which generates new employment and sterile consumption on which economic and social progress of any organised social community has to be based

5. INDEPENDENT (AUTONOMOUS) OR LICENSED DEVELOPMENT?

Euphoria about the idea of small entrepreneurship, which is partly accepted politically and encouraged in the last decade of the 20th century and in the first decade of the 21st century in all transitional countries, is beginning to decrease. High expectations from the entrepreneurial capitalism which will everyone, who wants and is able, give a chance is falling among citizens and the business public. Instead of strings of, above all family, businesses which operate successfully and generate high profits – ensuring a high standard of living to their owners and employed people – economic, social and psychological depression has appeared. The reality is characterised by a difficult business of market-orientated subjects in the economy – companies, accompanied by massive insolvencies of formerly state-owned and private companies. The mentioned leads to a fall in the living standard of the majority of population and, thus, to a high unemployment rate.

However, it has to be mentioned that small and medium enterprises operating within a cluster or working under a franchise are more resistant against insolvencies than independent enterprises.

Clusters are independent small, medium and big enterprises which are connected and form a unity in order to have a competitive advantage. Experience from all

over the world shows that member of clusters are working very profitably and there are only few insolvencies in such cases.

Franchising is also a good way for starting a successful business in turbulent times. Generally, franchising means to use alien knowledge, alien technology and an alien brand in the execution of someone's business. Instead of risking with someone's original job, some entrepreneurs decide for franchises. They try to find a respectable franchiser and to buy the franchise. Franchising gives them the chance to use the name and prescription of an already developed, tested brand. Of course, procurement of a franchise costs and the more expensive the brand is more popular. On the market, also so-called "low cost franchises" exist, which are offered by less known companies. Using franchises costs franchisees, but also ensures security in doing business and often a secure revenue and profit. Among the beginning expenses for getting a franchise, a franchisee has usually to pay an annual fee which is between five and eight percent of the total revenue. To these costs, we have to add costs for marketing which accounts between one and three percent. Although, taking a franchise causes lots of costs, the return is adequate due to the secure business. Research conducted in the USA and Western Europe has shown that taking a franchise with a developed brand is positive in the critical period of the first five years in even 90 percent of cases, whereas the mentioned percentage is at "original businesses" only at 20 percent. Franchising can be implemented in the field of production, trade and services. In all mentioned field, exceptional results have been achieved.

6. CONCLUSION

In this working paper we tried to give a short description of the current economic situation and social status with possible directions of development and activities which routing and fulfilling could enable an exit strategy to get out of the current crisis, in which all countries of former Yugoslavia with the exception of Slovenia, are currently located. It is a fact that old and simplified industrial capacities and infrastructural systems, a large bureaucracy, many old and dependents, enormous unemployment, empty villages, high indebtedness, as well as a shortage of creative ideas, and other economic and political problems do not form a good basis to revive the current economy and to intensify the needed economic and social development.

However, from some point we have to start. Good ideas, attractive projects and honest and firm commitment to development are indispensable resources of progress. As the famous saying: "where there is a will, there is also might", so in the revitalisation of the economy and depressed society, we need to start from the beginning. The rest will, if everything is planned correctly, according to the interaction of cause and effect, come.

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**PROSPECTIVE OF SMES IN THE PROCESS OF
REGIONAL COOPERATION**

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This is a story about four people named Everybody, Somebody, Anybody and Nobody. There is important work to be done and Everybody was sure Somebody would do it. Anyone could do it, but Nobody didn't. Some is angry because it was Everybody's job. Everybody thought that Anybody could do it, but Nobody realized that Everybody would not do it. It turned out that Everybody blamed Somebody because Nobody did what Anybody could have done.

Causes of all our troubles in the present are usually wrong decisions made in the past, because if that decisions were good we would have no trouble.

Instead of introduction

Diagnosis of the current position of the state is: The Burden of Indebtedness, Law on the Protection of Property Rights, Neo-liberal approach, The Policy of Creating Unemployment, Class split in the by geographical and national lines.

We are sad example of a failed social project.

The entire twentieth century from 1906 until today we spent without orientation and vision for future.

Politics is emerging as a profession and an undefined area, and the undefined areas by magical power are attracting undefined people.

Diagnosis of the position of the company: The range of thinking spectrum of a firm is on the same level as thinking of the state.

It is disastrouss for Management

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The general model of business management:

First: How will the environment in which we operate look like? Technology? Consumers? The needs-new? Competition? The political system? Socio-economic system? Other factors? Chances? Threats? Risks?

Second: Where the company and what is it today? Definition of company: the game, players, goal, outcome: Mix products? Resources of the Company? Stability? Competitive position? Flexibility? Company policy? Problems? Abilities? Weaknesses? Where a company wants to go: To take a chance? To avoid the threats? Save power? Solve problems? Overcome weaknesses. How to reach the defined goal:? Strategy? Tactics? Conditional forecasts and plans? Resources? Responsibilities?

Crisis?

The world economy is going through a "tectonic shift" and the "transformation of the sink and take off." This is due to the fact that there is no universal model for change, and there is no recipe.²

Economic thinkers of the new era have two distinctive characteristics: 1 few brave looking forward to a new golden age of prosperity and prospektive (?) and 2 The majority provides some form of economic final battle.

In all the rich industrial nations, more people are concerned about rising unemployment and wage stragnirajućih ... The alleged causes of globalization and amazingly fast tetechnološka change. Computers and robots, along with management techniques, it talks, destroying jobs. At the same time, free trade and capital flows, and enormous progress in telecommunications has increased the ensuing crisis competition (competition) and companies that facilitate the production transfer to developing countries with low wages. Many feel that the invisible hand of Adam Smith is trying to push them off a cliff. There is little doubt that today's government policies do not work anymore, because they are not suitable for a new global, digital economy.³ The question that can be generally set might be: Is the technological revolution requires economic revolution also.

Lowering costs of communications, IT helped globalization of production and financial markets. In return, the globalization of the technology encourages the intensification of competition and accelerating the diffusion of technology

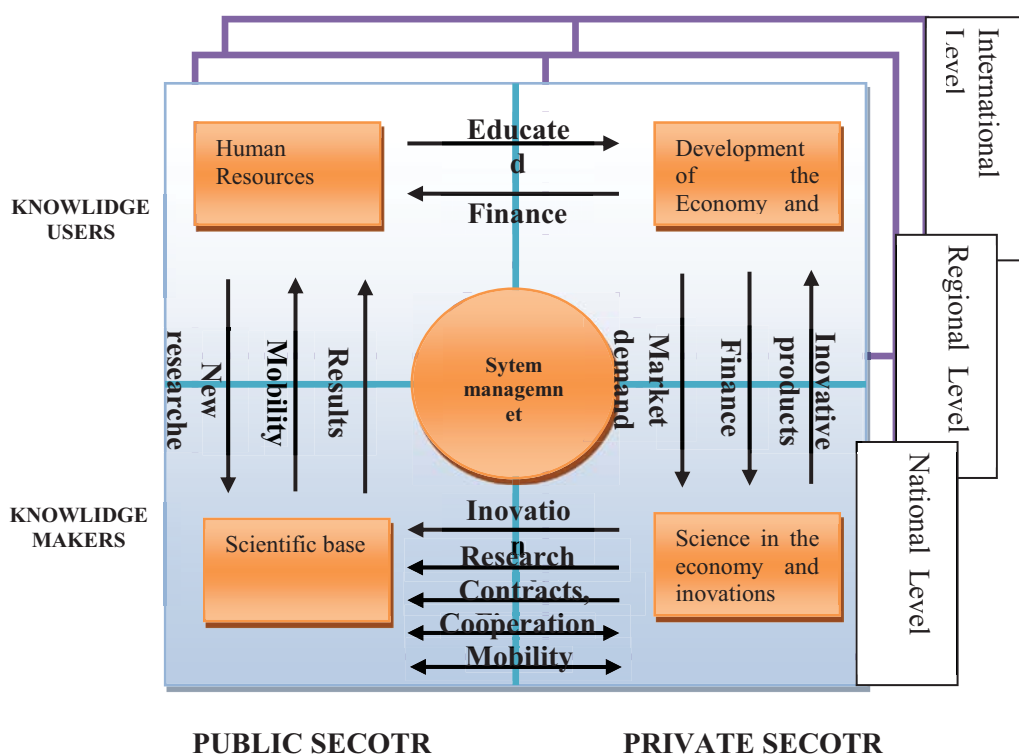
² Lavina futurofobičnih knjiga nagoveštava, ni manje ni više, nego kraj starog ekonomskog poretka. Pogledajmo naslove knjiga: "Kraj izobilja", "Kraj rada", "Smrt inflacije", "Smrt konkurencije", Kraj geografije", "Smrt novca" ili čak "Smrt ekonomske nauke".

³ Lester Thurow, ekonomista ana MIT, argumentiše u svojoj knjizi "Budućnost kapitalizma", da tektonska pomeranja obaraju stara pravila kapitalizma.

through direct foreign investment. Together, globalization and information technology effectively overcome space and time.

Over the past twenty-five years of a global network of computers, phones and televisions, and other devices and consumer electronics business, increased its capacity for transmitting information about two million times. Computer power doubles approximately every 18 months according to Moore's Law.⁴

The question arises: can we compare the level of technical modernity and quality of output or to be seen always in the context of time events, no change, whether a certain techno-economic dominance.



More economies of various countries have opened their markets to trade and capital. Is this their way deeper into poverty? At the global capital markets huge sums of money are transferred across borders at the touch of a button. Average daily foreign trade soared to \$ 3.5 billion. Transactions of the stocks and the

⁴ Gordon Moore, suosnivač Američkog Intela-a

securities across the border climbed from 3% of U.S. GDP 1970 to 136% in 1995 g. How many today? The tendency has continued and forecasts feasible.

As the economies move from industrial age of steel and automobile to information and computer age, some scholars are convinced that the old laws of economics no longer apply. The basis for this reasoning consists of the following popular theses:

First, Information Technology, unlike any previous technology will destroy more jobs than they create them?

Second, Globalization and technological change have disrupted the social contract between workers and employers, all the benefits of higher productivity goes to owners of capital at the expense of workers, leading to a shift of income from wages to profits?

Third, The theory of comparative advantage, which supports free trade undermines the mobility of new technology and capital to companies in rich countries are allowed to locate anywhere in the world where it is cheapest?

Fourth, Inflation is dead? Free trade and new technologies have liberalized the economy and therefore the central banks unnecessarily apply excessively tight monetary policy. This is disastrous for developing countries, as monetarism as a growth strategy fails.

Fifth, Information technology will result in monopolistic concentration of business endangering the competition and free market economy.

The common message behind all of these ideas could be synthesized in the fact that the world economy that is changing, demands, no less, a new economic paradigm. This implies continuous adjustment and active development retroactive effect in accordance with the processes that occur in the external environment. Alternative could possibly be the following:

1st If technology destroys jobs, then maybe the government should make it difficult for companies to give workers dismissed;

2 If there is nothing more like komparativnu advantage, then perhaps trade barriers and subsidies domasćoj industry make sense,

3 If inflation is dead (?) Or may be successfully controlled, then the central bank may need to stop being so cautious, it's time to lower interest rates and be committed to the growth and development.

Only careful scientific view of the implications of the Information Technology revolution in productivity, jobs, trade, inflation and the organization of companies and markets call for help from old textbooks and economics suggests that a large part of the fashionable thinking simply wrong. Information technology certainly indicate a second industrial revolution, but understanding and mastering of this revolution, and does not require a revolution in economic science.

The scope of both globalization and information technologies are greatly enlarges.⁵ By some standards the economy at the beginning of this century were open and integrated as they are today. Trafficking in most industrial countries as a share of GDP is much higher now than it was a century ago. While the capital certainly become much more mobile in recent decades, net capital flows between countries were actually higher than the GDP.

On the technology side and also we can discuss and argumentisati that the railways, steamships and the first transatlantic submarine telegraph cable in 1860 were far more revolutionary than the satellite connection, internet and other modern digital and virtual magic. What is different is that globalization in the nineteenth century was spurred by declining transport costs, while globalization is now encouraged survavajući Trotsky communication. These costs and prices provide much deeper international integration. Cheap in effective communication networks allow companies to different parts of your production process locate in different countries while still being in close contact with them.

Globalization on the one hand, and information technology on the other hand, will surely have huge implications for companies, workers and governments. The implications are not necessarily bad. We will try to point out the arguments that information technology will provide significant impetus to growth, and hence living standards especially in the rich industrial countries. That benefit will be difficult to measure because the conventional economic statistics, designed for the industrial age, did not live up to the information age. On the other hand there is no reasoned justification for the apocalyptic prophecy of rising unemployment and reduced wages for replacement workers computers or foreign workers in the rich industrial countries. Some companies and workers will indeed be repressed, but overall the information society, like any technological revolution before it, will create at least as much destroys jobs in general. New jobs will be better paid than the old, because of the fact that the requirements for the jobs and tasks within them will be at a higher level of complexity, and many tasks to be performed by pre-defined software, so that the management and control functions all the more striking than the immediate execution of the functions that would be manifested through a mechanical operative approach.

Changes and novatorije will always lead to incitement of fear and uncertainty, because of the fact that change is always destructive, and stresses that it is

⁵ Karl Marks, Manifest... "Proleter i svih zemalja ujedinite se". Nije li to globalistički zahtev ili samo parola, ili Isus Hristos, "Ja sam tvoj gospod bog nemaj drugih bogova osim mene".

someone opposes. Nevertheless, the change is simple, economic growth under a different name.⁶

A steady growth of income and employment based on continuous shift of resources from declining industries to industries that are under development in a process that is described brilliantly by J. Schumpeter as "creative destruction"⁷ By contrast, a frozen job market, without receiving or releasing the workforce, it would have been cause for concern. Likewise, if governments try to protect businesses and jobs of the changes via import tariffs, subsidies and protection of employees, they will prevent not only change but also economic growth.

For the economy as a whole, rapid technological change is pure luck, because in the long term the main source of higher social standards. For individuals in these economies, the benefits are not always so obvious, because the costs and benefits of information technology and globalization are not evenly distributed. Even if in the long term, information technology creates many new jobs, the demand for a shortage of computer programmers is no substitution of redundant workers in the steel mills or automobile industry. It has always been and will be winners and losers (the legality of game theory), which can lead to increased inequalities in income and employment prospects between skilled and unskilled workers. Such problems are difficult to overcome, but they just may be expected by traditional economic theory.

Also, the expansion of the economy based on knowledge, where production will be increasingly in the non-material values such as information services, advertising and entertainment, rather than material goods, will make a huge difference between individual countries, but not in the model of economic science. Economic theory has proved to be more clear, versatile and adaptable enough to provide a program for the digital future and mechanical history.

Entrepreneurship

The entrepreneurship indicates the position of innovation and the tendency to take risk. Therefore, entrepreneurs are innovators and people who are not afraid of risk. To do better and differ, entrepreneurs must possess the so-called. "Distinctive competence". Distinctive competence means a unique insight into the market, technology and management in order to face the competitors.⁸ Designated innovators have a natural talent for management (for example, Steve Jobs one of the founders of Apple Computer). However, people who know how to create innovation usually do not know what to do with the innovation. Investors

⁶ 1820 g. $\frac{3}{4}$ američkih radnika obradivalo je zemlju. Danas taj udeo iznosi jedva 3%. Ostali su mnogo produktivnije zaposleni u drugim sektorima.

⁷ Ovaj stav Šumpetera nedvosmisleno potvrđuje i stavove Gutenberga o dvojnomoj dejstvu tehničkog progressa, što smo u ovom radu ranije istakli.

⁸ Stoner J., Freeman E., Management, 4th ed., 1989, Prentice Hall, New York

(and creditors) also may be involved in company management (for example, representatives of owners and banks who sit on boards of corporations), however, their core business is the placement of funds in profitable business. In addition, certain employees may enter into independent practice activities, but only at certain reservoirs (knowledge and capital). Finally, managers are, by definition, involved in business enterprises but there are big differences between the activities of managers in companies and other businesses at the start of the mature stages of the life cycle. For the initial phase of development and all exceed the life cycle phases between essential component of managerial work makes entrepreneurial component.

What separates entrepreneurs from others? It is a specific way of using the factors of production. Certain entrepreneurs generally use the available information to produce a new way. For example, H. Ford did not invent any car or the division of labor but the division of labor applied to production cars. In most cases, innovators never become entrepreneurs. For example, Leonardo *DaVinci*, perhaps the greatest innovator of human civilization, failed to realize the majority of his invention because the technology of time in which he lived was not at a sufficient level to follow his inventions. There are significant differences between entrepreneurship and management. Management is based on Combining the factors of production to be produced while entrepreneurship based on factors of production in order to initiate change. Management is the phenomenon of continuity and entrepreneurship is phenomenon of discontinuity. The essence of entrepreneurship is changing. Today nothing is so stable as change. Entrepreneurship becomes more important for the large corporations in crisis. Obsessed with productivity, managers of large corporations are more focused on supply than on sales management. This orientation has led to slowing growth in traditional industries but not in growth in new sectors such as IT, telecommunications, robotics, genetic engineering and etc.. New high-tech industry is characterized by small enterprises in the early stages of development. These are companies that typically combine individual entrepreneurial ideas, capital and managerial skills.

Since the entrepreneurship is, in fact, the promotion of economic change, the same factors that affect economic development influence the development of entrepreneurship. Specifically, there are two sets of economic factors. The first group consists of market opportunities, or emerging needs of entrepreneurs trying to meet in new ways.⁹ The second factor is savings which are conducted these financial intermediaries agglomeration and make it available to finance new projects. In this context, the accumulated wealth is a precondition for increasing wealth. The economies that have lost the economic vitality of lost

⁹ Burgelman, R. Designs for corporate entrepreneurship in established firms, 1984: California Management Review, No.3.

economic opportunities and / or equity.¹⁰ The non-economic factors are political system, culture, social mobility and so on.

In developed market economies in the '80s of the last century, most new entrepreneurs come from the world of big corporations. It is estimated that the founders of around 6 / 5 high-tech firms were former managers of large corporations. For example, S. Wozniak Early in the 1970s was the idea of a personal computer while he was employed by Hewlett-Packard Corporation. However, this idea is implemented with Jobs establishing Apple Computers. Today the corporation is the only integrated IT company (hardware and software into one product.)_L During the 1990s there is a new phenomenon called. "School of" These are companies that use the Internet as an infrastructure whose elementary and younger people with no business experience.

One of the main reasons why economists have begun to pay attention to the new companies is their ability to create new jobs. We investigated and found that almost 5 / 6 new jobs come from small companies. Among small business 1 / 3 are companies that are not older than 10 years.

In Serbia, the privatization process of state and social ownership of capital has created the basis for development of entrepreneurship. However, success does not depend on the nature of ownership and its origin, but rather on the quality of governance. Management of technology becomes a key determinant of success of enterprise and organization in general the system. While the main task of entrepreneurship in the new enterprise creation and implementation of entrepreneurial ideas, the main task of the existing businesses of entrepreneurship is making the difference. The main levers for change are: information system, istrazivanje and development and investment programs. In addition there is a close link between research and development and investment program as both activities have a high entrepreneurial input. In addition, the development of enterprise and government regulation affecting the macro-economic policies.

History and diagnosis

In developing and implementing strategies, Serbia has a lot of barriers. Lack of concentration of effort, lack of understanding of the nature of change, a high level of technical obsolescence, structural mismatch, economic imbalance, isolationism, the investment inefficiency, lack of a selective approach in technology transfer, low levels of competitive performance, inadequate definition of its position in the international environment, many irregularities in the functioning of the economy and the state, political appearances without

¹⁰ Todossijevi' R, Strategijski menadžment tom 1. Ekonomski fakllet Subotica 2010

coverage, increased the uncertainty of the future and many other things that will certainly be important in defining the future strategic options for both businesses and the economy as a whole and for the state. Due to the inability of an adequate understanding of current and emerging situation we are faced with problems of complexity and chaos.

Serbia would need to have surplus of balance of payments every year of two billion dollars to pay, without the use of new loans, the current debt. Interest is covered by the current transaction and even if it is "taken" from national income, have the same economically or accounting nature as repayment of principal. At present condition of our economy the possibilities of its exports, balance of payments surplus of two billion dollars is not possible. Hence the new foreign borrowing of about \$ 1.5 billion on average every year will be necessary in coming years. Unfavourable side of this - besides the "classic" that affects every country alike - is that future debt will not be used for development purposes or to increase production but to regulate the duties on the basis of previously obtained by accumulation.

Principal and interest will be about 6.5 to 9 % of GDP over the next decade including the effect of outflow of income from sales abroad under the "domestic" price denominated in dinars. Domestic consumption have to reduce for that much in order to establish a balance between the required surplus balance of payments and aggregate demand. Five percent of the required measures to reduce domestic consumption, regardless of the increase of GDP.

Reducing consumption is also the reason why the standard will be lower than the corresponding realized production and effort exerted. The process of paying the debt affects the money in which he expressed, which in our case is mainly the dollar, now worth a greater amount of goods from Serbia, than when the loan is used. As a result, the loss of purchasing power is higher than its added value was at time when foreign loans were obtained.

Recommendations

- 1st The concentration of capacity, the concentration of resources and the concentration people as the holy trinity of Economics
- 2.The selection of investments as the highest possible form of saving and creating conditions for the productive employment of the unemployed labor force
- 3.Protection of domestic producers
- 4.Selection strategies based on comparative advantages in the use of certain resources and in terms of ability to concentrate its efforts in the implementation of the function
- 5.The village needs to be given the status of urban environment and that means the right to development

6. Agriculture as the basis of industrial production but also as the basis of current spending requires defining a new model of economy and should be in the features: first, the reaffirmation of those values that come from it and secondly because it shows that it is the backbone of long-term development.

General and partial strategies need to be in line with value matrix. The matrix value is subject to constant change, which means the process of adaptation and active feed back between strategy and the value matrix.

Utilization of resources (labor and capital) in the pre and post technology stages, it is necessary to analyze and evaluate the position of flows of material inputs and outputs, and the ratio of value of equipment to increase productivity.

Starting from the inputs that require a certain technology, expected outputs, should be the function level technical modernity, quality resources and employment of technical and non-technical staff.

Efficiency and profitability at the firm level increase and maintain the competitive position.

Analysis of ex post

The economic system can be studied in the same way as the molecular structure. The mutual dependence of parts of the system creates a situation where changes in one direction may produce changes in the other. This suggests that the equilibrium reveals a cyclical development. This is contrary to the prevailing evolutionizam of cetrain time.

The question is whether the economic and social systems are moving equilibrium of the change?

Changes in the distribution show that the distribution of wealth is relatively stable. Any attempt to change it is creating conta forces to return system to its original state. Drastic reduction of the difference is impossible, because the rich find ways to protect their own interests.

Conclusion: if the relative share of the "economic pie" stable, the only way of improving the situation of the poor is to increase the "pie." Economic decisions are then choices that reflect a balance between the needs and constraints to address these. Stable equilibrium when we have a change in one part of the system produces a shift system that minimizes or turning action and change the system back into a state of equilibrium. Logical actions are the subject of Economics, while not logical action does not meet the conditions of logical action and are subject of Sociology. We emphasize that in each period of development of economic processes is dominated by elites. In terms ofsentiments eliteare stockholders or speculators. Elite recruit similar to themselves and exclude those who do not share theirsentiments.The result is that over time become more homogenous and elite are the resistance

to change. Potential elite has lost its historical chance to become just corrupting itself for the position. Are we in search of arguments which will support theories about the circulation of elites, which in fact have never been nor is likely to be skipped or lost valuable time? Homogeneous elites are vulnerable and can be lowered than those of their opponents.

Ex ante recommendations

The speed at which changes occur is a function: power and influence of "elite" on it and the skills that want to use the power, force, kooptaciju and propaganda. When and how Neele (the opposition) are alienising exploitative activities, their alienation, which then creates pritisak exceeds the capacity of elites (government) to force applied and then the result is a change by replacing one type of elite (government) to another. Since the new government (and now former neelita elite) with no experience it is essentially the recruiters and the recruitment of longer duration, the initial dominance is slowly disappearing and loses credibility and uncertainty about the intended changes are not. The changes essentially absent, because the government (elite) brakes progress, it can not cope with the challenges of the future, it tends to conserve the status quo, seeks equilibrium and give up on radical changes. We forget that today's constant changes.

Will show that the cycles of change of elites (government) in relation to the correlation with economic developments. The economic contraction, but also economic growth and prosperity leads to smanjlivosti elite (government). Ideological beliefs from extremely conservative to radical and liberal meet the needs for change. The outcome is always uncertain, because changes can be carried with you and progress, and regression (regression).

The changes are occurring as a result of the accumulation of decadent elements in the existing government and set - and the rise of a generation of superior quality elements in neelitama (opposition - the coming generation of dominant). Why is this appearing? Because people react to events in the way these are filtered through the prism of their beliefs.

Beliefs in turn oscillate between two poles: one which is essentially "conviction" while the other is "skepticism." In certain periods verovaja emphasize tradition and the status quo.

Show that the modeling kuzalno vain. Instead we have the element of interdependence of society on the basis of which we can not make generalizations about long-term patterns of change.

The main conclusion is that oscillate things: bad times follow good times and good times then bad track. Occurs cyclical character of social processes that are manifested through the three parallel cycles: economic, the public between radicalism and conservatism and centralization and decentralization of power.

Changes in the direction of historical change sentiments. The state and its economy is going through periods of ups and downs mostly as a result of changes in the areas which encourage or inhibit innovation, economic growth, legitimize or prevent political rebellion. The combination is with people who have various talents and dispositions necessary condition of continued prosperity. In times of crisis and transition times of the traditional norms and values begin to act out of date. The rules are seen as restrictive and the growing need to relax the social climate. Then, question authority and conduct a variety of other conduct contrary to norms of tolerance of society gain legitimacy and be subsumed under the criteria of normality (bribery, corruption, connections, favoritism). Punishment that is missing is turning into tolerance. Liberalisation penetrates when society begins to feel that too much lost. People logically conclude that too "irresponsible" behavior is tolerated and then creating the conditions for a conservative counterattack. Then come people who want to define all and limit the overall behavior come to the scene. When liberalization happens to us then usually art, science, philosophy and trade flourish. In contrast to liberalism, conservatism favors religion and nationalism.

It is undisputed that investments lead to economic growth. But the posse long period of prosperity economic infrastructure is being changed and requires more and more investment. It is shown that the longer the period of prosperity that is more likely to miss start capital for further growth. Then the question of equilibrium dynamics of the economic development occurs.

Economic contractions accure when we have growth based on consumption, because then spend the savings and leads to increasing debt and debts are growing and can not be paid. The result is a rise of conservative values, which means that consumption is declining, savings begin to grow and create new conditions for the start of a new economic and social position.

How are things now?

The question mark at the end of the title is no accident. There are studies that indicate the validity of these parallels. Two significant modern features are:

- *increasing complexity*^{11 12} *and*
- *increaseing speed at which changes take place.*

11 Vester, F., *Ballungsgebiete in der Krise: Vom Verstehen und Planen menschlicher Lebensraume*, Deutscher Taschenbuch Verlag, Munchen, 1983.

12 Wiedmann, PM, Tabu, Sunde, *Risiko: Veränderungen der gesellschaftlichen Wahrnehmung von Gefährdungen*. In: *Risiko ist ein Konstrukt: Wahrnehmungen zur Risikowahnnehmung*, Bayerische Ruckversicherung, Munchen, 1993, str. 43-67.

At the same time one of the leading sociologists of disaster Lars Clause essentially defines a catastrophe as a phenomenon when the complexity shows the maximum value and when the things happen at maximum speed.

We will compare the results of an hypothetical experiment in which we in the four projections of the society to increase the complexity and speed of change with the results of empirical research in the same disaster projections. (Evaluation, construction of probability, cooperation and reputation based on knowledge).

If it was cold, hard truth is that modern society has only mentioned two characteristics result then thought experiment enabled prediction of events in the event of a disaster in the four projections of the company. Or vice versa, based on empirical research could have been implemented consequence about what tomorrow will bring the so-called normality. In other words, we can meet or thought experiment or empirical investigation of disaster. But we have no guarantee that the starting point of irrefutable truth.¹³

The accuracy of consumer evaluation

Homo oeconomicus knows what he/she wants. In the language of economic theory, preferences are precisely definable and transitive. However, psychologists warn us to be careful and write about the "unstable values" and "contradictory values."¹⁴ When we can expect that the values are indeterminable, unstable, or more so contradictory?

If the problem is analyzed from an economic standpoint, the above question would then be modified and that is: when the result of a thought for the cost / benefit analysis can be expected that the value of a vague or that two or more conflicting values? On the cost side, at first glance, the two factors are relevant, to the complexity and¹⁵ novelty. It is easy to imagine situations where the decision on the selection of complex to the point (on what to look for when buying a car or detergent) and the pace of change is so great product (just as well-known brands have a label next to it a "new" in advertising) that the evaluation postaje nemoguća, i potrošači pokušavaju kupiti proizvode koje nose ili koriste njihovi omiljeni medijski likovi.¹⁶

13 Luhmann, N., *Beobachtungen der Moderne*, Westdeutscher Verlag, Opladen, 1992.

14 Fischhoff, B., Slovic, P., Lichtenstein, S., *Knowing what you want: Measuring labile values*. In *Decision making: Descriptive, normative and prescriptive interactions*, Cambridge, Cambridge University Press, 1988. str. 398-421

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16 Evers, A.: *Umgang mit Unsicherheit: Zur sozialwissenschaftlichen Problematisierung einer sozialen Herausforderung*. In: *Risiko und Gesellschaft: Grundlagen und Ergebnisse interdisziplinärer Risikoforschung*, Westdeutscher Verlag, Opladen, 1993, str. 339-374

The probability of events

After this, let's see what kind of claims can be found in the literature about the disaster which is the subject of an economic nature. Economists in this respect are not very eloquent. In kompendiumu the basic rules of the UN¹⁷ can be read, it happened that prices do not reflect the relationship between values corresponding to the objectives of the national economy. Therefore, the authors propose the application of this kompendiuima one type of shadow price. However, Yutz¹⁸ questioned what the priorities can be found in U.S. municipalities behind the actual behavior during or after a disaster. Among other things, he writes: "... until it is clear that the various activities can achieve immediate goals, the municipalities do not deal too much with the priorities. The question of priorities is becoming increasingly topical when threatened worthy goals ...". After that, he introduces us to the priorities. The first three are: saving lives, ensuring the functioning of important public services, maintain law and order. Results Yutz-wont observations and analysis from our point of view can be explained as follows: in case of disaster, emergency needs, and the need to change the company ignored the market price and system of preferences (in the economic sense) and the emphasis is on meeting basic needs. In other words, it happens to the regression of the value of needs, and Blomkvist's vocabulary of "value" to "needs"¹⁹ or the "Wunsch" to "natürliches Bedürfnis."

The result of comparison, in short: a thought experiment resulted in a blurring of values with increasing complexity and speed of change, a regression of empirical research in the direction of satisfying basic needs.

If the complexity of the maximum and if the pace of change in the maximum, it is impossible to estimate the probability of events.

Status of cooperation

But if you accelerate in a society changes, anyone can doubt: if I will tomorrow meet with those with whom I now kooperirao? If yes, will we be able to cooperating? The increasing complexity makes it difficult calculations, suggesting defektovanje. The result is a thought experiment: if the complexity and pace of change take on extreme values, cooperation is reversed (Proof: the privatization in Serbia and the change of models and conditions privredjiva).

17 Disaster prevention and mitigation: A compendium of current knowledge. Vol. 7: Economic aspects, Office of the United Nations Relief Co-ordinator, Genf, United Nations, New York, 1979.

18 Yutzi, D., Priorities in community response, ABS American Behavioral Scientist, Beverly Hills, Cal. 13th (1970) no. 3., str. 344-353.

19 Blomkvist, A.. Ch., Psychological aspects of values and risks. In: Risk and society: Studies of risk generation and reactions to risk, L. Sjöber, Allen & Unwin, London/Boston/Sidney, 1987., str. 89-112

Empirical research shows the opposite²⁰ catastrophe! People help each other, receiving in themselves that they were left homeless, rescue and care for wounded members of the civil protection combining work night and day, Red Cross and Crescent srveni and other humanitarian organizacije come into play. Mother Teresa sprang?

The position of the economic system, based on the growing specialization and technological methods of determination, the level of technical modernity assumed absolute complementarity and compatibility.

Standing in society, if the reputation is based on knowledge

In increasing complexity and accelerating change in forecasting the future is difficult. Shortens the time horizon in expert opinions, the experts thought based on stochastic models and thus they express, the greater the diversity of expert opinions, the experts are dealing with even the time what to do when decision makers are conflicting expert opinions. In these conditions, reducing the reputation based on²¹ knowledge.

Empiriskih research results are contrary to expectations again. Sociologists have been a disaster, first of all, notice that there is a centralization of the power structure. Preparations for the "impact", the distribution of human and material energy resources, evacuation, search and rescue injured and so on. goes along with the centralization of²² power. As a significant source of power becomes knowledge, especially if it is related to the disaster.

Although Wengor's²³ conception of power does not fully Lehmann's²⁴ notion of reputation nor the reputation of an organization need not be identical to the average reputation of the members of this organization, based on these two sources It can be concluded that in situations of disaster before growing reputation than decreases those who know how to reduce the harm and those who care about security. Search the help of knowledge, for other assistance absent.

A brief comparison and analysis of results

Observed the four projections of society: evaluation, construction of probability, cooperation and reputation based on knowledge.

20 Douty, Ch. M., Disasters and charity: Some aspects of cooperative economic behaviour, The American Economic Review, Menasha, Wisc., 62 (1972), str. 580-590

21 Luhmann, N., Beobachtungen der Moderne, Westdeutscher Verlag, Opladen, 1992.

22 Wenger, DE, Community response to disaster: Functional and structural alterations. In: Disaster theory and research [...], str. 14-47

23 Wenger, DE, Community response to disaster: Functional and structural alterations. In: Disaster theory and research [...], str. 14-47

24. Luhmann, N., Beobachtungen der Moderne, Westdeutscher Verlag, Opladen, 1992.

If the observed trends: increasing complexity and accelerating change in education: *the evaluation accuracy of modern society will be reduced*. Empirical studies, however, show that there is regression in the direction of satisfying the existential needs, and *reduce the accuracy of the construction of probability*. *Reduce the co-operation* in general, almost all forms of production and business cooperation. Disasters cause unintended changes and then the need for Co-operation increases. Why? There are two logical explanations are: 1 in the studied population is considered probable cases of survival and partly to know each other, therefore, believes in the usefulness of any later cooperation. 2nd population is considered unlikely survival, and fear of negative sanctions in the event that power is not cooperative.

Decreases reputation based on knowledge? However, empirical studies have shown the opposite. The following explanation should be sufficient: if the shortage is evident, and shortages of certain goods, then the growing reputation of those before, in shortage of similar cases, they knew to help the good advice.

We also consider the future of society on the basis of these two trends, the situation is not favorable in any projection. What then gives us hope? First of all this, that such trends do not represent the essence of modern society. Applicable to be considered an innovation and a willingness to reduce the field of social disintegration in the field of effective design complexity, and even encouraging the innovation field.

Žvimo Research shows that the "claustrophobic society," which threaten the world's technical and social disaster. With the passion of the old prophet says Beck then prestravljenoj readers that the price of economic growth more rapid development of a growing number of techniques that can potentially lead to²⁵ disaster. Continue with the modernization of the humanity to the growth of the economy, there is a risk of developing self-uništavačkih potential if not properly transform social structures and science and if they do not carry "*a reflexive scientific development*" as part of "*reflexive modernization*." We live in an age of risk society, because the social dynamics we use more and more risk (eg, technical development). It seems that we are all willing to live dangerously. But this is not the human response to the route of a human, because the size of man consists in the liberation of fate. Its entropy of their psyche can stand on itself, how well it depends on the knowledge, skills by acting as negentropy and the solution is essentially the puzzles of the past and future puzzles. Complete the inauguration of the environmental movement and more knowledge would be a "godsend". That would mean no less technique but more technique with absolute technical and technological and social and economic safety features.

Decisions on which to implement the changes should be directed at risk and the substance of the functional differentiation. The danger always denotes

25 Wright, JE, Organizational prestige and task saliency in disaster. In: Disasters theory and research [...], str. 199-213

something external happens independently of our will, and we examine the risk of possible shortcomings of our decisions. *With advanced "functional differentiation", the structure of society is becoming kontingentnija.* In social development, more specifically, contingency increasingly asking themselves, relying on all more on science and technology based on it. As a *dimension of the future, though still contingent factor is becoming crucial in the present daterminanta behavior* becomes more evident. The increasing strategic importance of science and technology for social dynamism is, whether we like it or not, our behavior becomes increasingly orientated towards the future. Entering the "risk society" takes on a central dimension of the future importance of the involvement of the highest possible level of risk in decision making.

In certain contexts, each technology carries the potential negative consequences, as well as human interference in nature. However, there are techniques whose development of a social life built in the immediate potential catastrophe. Their introduction is an attractive, promising, for example. solve the energy problems of the construction of nuclear power plants, or the application of genetic engineering in many fields ranging from agriculture to human genetics. Thereby, they can be more or less reliable projections of escalating threats. The exploitation of the positive features of these potentially catastrophic technologies is only possible while solving the problem of their safe handling and enormous increase in security requirements.

Previously it was thought that the choice of adequate resources policy needstaje scientific basis, prediction of social events with appropriate precision and explanatory power, for example. Social Forecasting, technological analysis and knowledge of social indicators. Anomalies of technical development, according to this view, the consequences of the earlier lack of knowledge (which can be adjusted) and policy measures.

This orientation is, therefore, accepted the basic assumptions of industrial society relating to the institutionalization of policies, technologies and harnessing the necessity of continuous economic growth and the associated technical growth. In this way, is off any criticism directed at ekonomko-industrial-technical system as a whole, who wished to set up alternatives. From this emerged *"fundamentalist" critics and / or "philosophical" reflection.* This is derived from the deficit as a market economy samoregulacionog system, but it is regarded as a basic axiom that needs to serve the growth and stabilization of industrial society, public policy research and technology is itself self iskrojila structural constraints. This constituted a development policy aimed at growth paradigm kontrolisanim modifications contribute to the modernization of the abolition of an anomaly, defining the tasks of the state in the area of accelerated growth and securing "justice" in the rehabilitation of the consequences of possible side effects. The importance of dilemmas arising from a situation where

politics is also a sought legitimacy for their basic assumptions is waived, depending on the extent to which structural in nature "crack" in "fair" distribution "blessings and curses" of growth and development of motivation and perception tangiranih problems. In the case of very large structural "crack", contrary to the interests of policy makers and those who are tangential with those decisions and the conflict that is constantly renewing itself, we suggest that environmental conflicts are a permanent phenomenon.

Research based on these changes require a narrower perspective "professional nature", rather than the future of global research. One dimension of the "professional nature" refers to the technological analysis should be limited to research further the effects of specific technologies and at the same time does not criticize her to set goals, and the second dimension refers to the empirical application. In the United States between the 1966th and 1972. The technology developed as an institutionalized activity analysis experts, precisely in order to explore the hidden side effects.

You must create the possibility that policy decisions are made on a scientific basis, and it is necessary as early as possible detection of possible natural and social consequences and if necessary, propose alternative technologies. This model is elitist in character, as it aims to connect the scientific and political elite. *In addition, political solvable problem can be solved in two stages: the first objective study utrvrđuju neutral, objective scientific facts that are not subject to political discussion, and then smoothed with political methods conflicts of interest.*

The scientific prediction is a factor that is subject to monopolization, and which, if incorporated in the activity of the bureaucracy, it helps in the establishment of its special role as a factor in government, and thus takes on an ideological and rhetorical dimensions. However, there arises another problem: the higher the possibility of organizing a society on a scientific basis, is growing and needs of the bureaucratic apparatus that organizes and manages the company (especially when applied to a formula composed an instrumental way "decide for you") for the public to believe that the phenomena can be managed on-instrumentalist and elitist technocratic-bureaucratic way, because it justifies the necessity of the bureaucracy.

Starting from the title, the survey point out the following link references:

- The key to change and cooperation as a change-oriented vision of success is achieved niovou knowledge and rational decision-making, but also in pluralization of techniques and procedures rather than in predetermined patterns,
- the ultimate scientizam that would formalize the research and changes based on them in a paradoxical way to reduce their credibility with the public.

Today we have an identity crisis that threatens national integration with obvious implications for the process of economic development. Causal link between the

resurgence of ethnic and socio-economic development overall would have to be defined, because this dimension is still overlooked in theory development.

It is likely that the transformation of a regulated, protected and nedinamične economy, where political patronage plays an important role in a changing, unpredictable, and success-oriented economic system, easily disturb the delicate relationships and habits of certain segments of the economic system, which its position and to privileged considered as a kind of natural law. We need a new architecture of economic change. National development should be given the highest political priority. The state should be viewed as a homogenous whole, autonomous from the other driving forces, the owner of the political and economic power, which controls the external economic relations and with the necessary technical and administrative and managerial capacity to implement development plans and programs. Simply realize that the technological revolution causes revoluciju.a economic conflicts at the time for development.

Economic policy makers, have much to do to help their economies to adapt to change and to provide opportunity for new employment for those who have lost their jobs. Taking reconstruction may occur as a means of adjusting dramatically pšromenjenim conditions that cause change. One can represent the kind of rationalization and modernization, and create conditions for increasing internal and external flexibility, creating effective conditions for increasing economic success but also to preserve or increase employment levels. In periods of technological change (and to the reconstruction and it can be), the economy with the most flexible product and labor markets are those that are most successful. So "new" phenomenon of cybernetic economy even more important influence, they rule their economies to facilitate and provide a greater degree of freedom.

Critically and comprehensively reviewing the situation, results and problems in this oblastii, judge that, **despite** the many weaknesses of subjective and objective difficulties, particularly expressed in the dogmatic ideas and bureaucratic **and** sikim tehnokrat-resistance of small business development, based on the favorable conditions created for the development of small economy, positignuti certain results in this area - kapacitati increased the number of employees, particularly in privtnom saktoru. However, the development needs of companies looking for radical change **and** multiply strengthening the role **and** position of small business in the process of restructuring the economy in whole.

It was estimated that there are a raskoraik between fortified choices on the development of small businesses, socio-political commentary that was insufficient, and the results attained in this field. Slow to develop production **and** service units that are able to produce high quality goods, as lacking the necessary technical equipment and technical level work contemporary means of

production. In particular, small spots to develop capacities both at the same propulsion as in traditional industries. Prevail in units that are closed due to local market protected by domestic and overseas konkurancije and are not competitive on the world market.

Risk society - the crisis as a founder of changes

In the study of development we have time disaggregation. "A single underlying cause" approach to the problem of underdevelopment has disappeared with the fall depending on the school, as he disappeared with the fall unilinear access paradigm of modernization. The illusions of the development are usually ruined by the crisis and the crisis in turn appear as errors in the assumed continuity of development, resulting in the determination that there is a state of "development" but only continuous processes of change that have been accepted as "development" or "underdevelopment" according to the points view of the individual.

Today we have a crisis in trade, industrial development, employment and social protection, integration, environment, defense and security, cultural values, lifestyle and so on. The answer to these and other issues depends on the conceptual instruments since the crisis as such is indistinguishable from our perception of the crisis. If the crisis can be a starting point for the study of social transformation and total transformation, it does mean that we need starting points for the crisis. Even when you get a new era of growth would be difficult to return to the old project. Stagnant sectors have created a growing unemployment, which is not sufficiently compensated by the dynamic expansion of the sector. The fiscal crisis for the state reduces the means by which the crisis of unemployment could be solved at the Keynes way.

One of the reasons why we have a crisis and the crisis of development theory, there is a complete change in the problems of development of long-term development issues to the fact that currently must be addressed such as debt management.

Management, however, is a generic feature of all generations, regardless of their business commitment and appears as "a generic body of knowledge society."

Imitative approach, believing that the simple imitation of the economic and social structures that characterize the "Western modernity" automatically lead to the "upsurge of self-growth," carries with it a weakness in the expression of absolute non-acceptance.

The science-based development, which is advocated by us, seems like the best possible deception, because of the fact that in these attitudes in our society created a very rich phraseology, which clouds the situation and the invisible horizon. The question of creativity does not correspond with the question of competence. They are born more and more new discontinuities that create new crises. These attitudes are the result of the absence of real, sound scientific policy continuity and it is time to stop to constantly discover the beginning?

Technical changes

Comes to revolutionizing economics because the subject of the impact of technical change in the development of economic theory, which is increasingly becoming a result of these changes.

Technical changes are now taught at the level of the profession, businesses and lower units. It combines the study and their overall impact. Robotics, telecommunications and computers occupy a special place in discussions on labor-saving effect of the dynamics of new information technologies.²⁶

If you would happen to the organizational and social aspects were ignored in relation to technological change, it would probably have been a serious interference in the implementation and effective use of information technology. You can not force a tendency to continue developing countries impose abandoned old technology from developed countries. The right to choose, as the right to equality can no longer be denied access to less developed countries.

We need a positive strategy for adapting European and global economic environment. Full mobilization of human and material resources, the assumption for the re-establishment of credibility and ability to participate in international financial transactions.

The combination of technological and market changes than the aging process beyond manufacturing processes. Technology focused strategy simply aims to achieve financial and commercial advantages by investing in new IT technology and through the medium and long term training, tends to reduce acquisition costs and requirements for flexibility.

The metaphor of an innovative economy as a way of reasoning that leads to the interaction between technology and organization in an evolutionary process all the more notable. Technological innovation is seen as a mutation which, if successful, result in the change of economic environment.

²⁶ Radmilo Todosijević, Strategijski menadžment, Tom 2. Metode i tehnike, Ekonomski fakultet Subotica 2010g.

Evolutionary economics has a different view of technology, organization and innovation of the classical and neoclassical economics

from the evolutionary perspective in the center of our program is to forecast the activities and criteria for the definition of economic development options and how it should look like in the future. "Natural" state of the "change" and "imbalance" and those who can adapt and learn to survive - it will last.

The longevity of the organization is conditioned by the development of meaning through which information is transmitted to the adaptive behavior of next-generation members of the organization. This is achieved through rules and routines to ensure continuity in behavior. In this sense can be considered to take a "genetic makeup", which is reflected in the "know-how." "Dependence on the Road" is the starting point for the concept of "technological regimes" or "trajectory". This idea of trying to explain the continuous, rather than random ways technological development found in the economic system as a whole but also at the sectoral level and organizational level

Roadmap for technological development include a series of incremental innovations that are more or less permanent marginal change of existing products or processes.²⁷ New trajectories can be expected as a result of discontinuous events such as the application of new ideas generated through research and development, which produce radical innovations completely new products or processes. The cause of these shifts can be identified as the product life cycle which consists of relatively short periods of radical product and process, and long periods of incremental innovation.

Determinants of existence

Learning ability is reduced if the spread on several fronts. Innovative behavior of the organization is "depending on the times" in his direction, "strongly conditioned by the benefits gained through the development and current basis" and restricting the large "jump" from one time to another. Managers must accept the future and react positively to the complex challenges of the world-changing. *The rule is to know how to do many things to quite a sophisticated level of understanding.* The causes why small businesses, and public and private sectors, there are more dynamically evolved, primarily, the strong resistance (ignorance) zakomitositi greater appreciation of commodity production and market criteria and institutions of the state. Resistance and fluctuation in the application of economic criteria in earning serious causeharm small business development and overall socio-economic development. This makes the total in the company's efforts to realize the principle that the acquisition of higher income, based on performance, becomes the main motive for restructuring the economy toward a modern production, high productivity as workers in the state and zaposlnih in the private sector. Economic conditions of earning more dominantly regulated by

²⁷ Todosijević Radmilo: Promenama do uspešnog preduzeća, „Prometej“, Novi Sad, 1996 g.

administrative methods, which applies particularly to small businesses. Excessive throat normativizarm iniiijative businesses and individuals to establish and develop the organization and units of small businesses in different industries. For non-market way of economy follows a series of obstacles that hinder and prevent the development of small business, but at the same time, and without the development of small business is not possible to promote market-earning. Solutions in the economic system and economic and development policies have created many of the necessary institutional and other conditions for the development of small businesses.²⁸ Shameful privatization there was an intensification of different territorial branch and other forms of monopoly and the enrichment of a small number of individuals and social naračun accumulation. The absence akumulacije and debt burden are always at the expense of future generations of employment

extremely slow development of small business was the lack of prouzrokvan nemobilnošću and financial and credit facilities, lack of creative and business personnel in small businesses, inadequate podstdcanja creativity and innovation in this area, very inadequate poresike policy in relation to this activity, and other adverse factors in economic system and economic policy.

We can identify many barriers to the preliminary nature manifested in the strong resistance in many privatized enterprises to develop different forms of production and business sardanje, which would be the optimum dispersion of the production of complex products create the preconditions for raising the level of production and economic efficiency, so the domestic companies gained in importance in terms of creating konkurentrske advantages.

Think globally to work locally.²⁹

Local economic structure and the staff were surprised by the "order-change" after the year 2000 Prduzetništvo - what was it? Hasty moves before the errors were the result imporovizacija and ignorance, and inability to carry out some things on the recipe. Still, unfortunately, the state and economic establishment has realized that there are no recipes nor sensational and stylish models by which a society and its economy can grow. On the other hand in terms of organization does not have absolute freedom of choice.

²⁸ Top lista inovacija za poslednjih 25 godina a da nisu iz oblasti medicine: Internet – nastao 1969 g. kao Arpanet- vojna komunikaciona mreža. Mobilni telefon ,PC, Optičko vlakno – fiber- telefonski pozivi su postali jeftini ma odakle da zovete osim iz Srbije, Elektronsak pošta, GPS uređaj, Laptop, CD/DVD, Digitalni fotoaparat, RFID, Mikroelektromehanički sistemi, DNA otisak, Vazdušni jastuk, Bankomat, Naprdne baterije, Hibridni auto, OLED, Displej paneli, TV visoke rezolucije, Nanotehnologija, Svemirska letilica, Fleš memorija (tanušna verzija kompjuterskog diskdrayva), Glasovne poruke , Slušna pomagala VF radio niskog opsega

²⁹ Krlitica koja je izmозgovana na prvoj svetskoj konferenciji o istraživanju budućnosti u Torontu 1972 g.

The degree of development of an economy is a determinant of the development of small businesses.

The condition of small and medium enterprises is a highly structured and diversified economy and production of complex products in which the capacity of small businesses participate and emerge as participants in the creation of complementary outputs.

"Large - velaka economy" collapsed, which was destroyed in the starting position for the construction of the philosophy of small and medium enterprises. When the capacity for making complex products are, generally following the collapse and specialist facilities which function as subcontractors. Then stagnant and falling behind ukpni development process. Destroyed accumulation and absence of adequate incentives and an unstable political environment, favorable for the total ruination of the economy and society.

Some forgetful people have figured out that it still Unsurpassed view that only large-scale development organizations and business systems we obezbediiti rapid socio-economic development and create conditions caused by the development of ownership (akcionarsto), the financial system and financial derivatives for the rapid development of small businesses.

Conservative awareness and ignorance, absence of entrepreneurial spirit, do not favor the development of small businesses .. Resistance to small businesses are also in the economy and fear of competition.

The initial assumption would have to be: every yard, every basement, every attic has potential office space. Each authority, municipality, city, region, province, republic, as well as other organizations and institutions of the system should be placed in initenzivnoj **and** coordinated activities for the exercise of choice and commitment, ideas and solutions on the rapid and comprehensive development of small businesses. Hesitation in carrying out these tasks is unacceptable because it deepens the economic and social crisis, and causes serious damage to the overall socio-economic development. Developing small priviede public and private Sector, is one of the most important čiinilaca out of the economic crisis, to increase production, exports, employment and solving prestruktuaranja and other social problems.

The biggest problem for small and medium enterprises in Serbia at this moment is the environment: internal and external and regional environment.

In terms of high interest rates and expensive capital, and even more expensive due to our companies činjeice continuously suffer from chronic shortages of

working capital, it is difficult to promote new and highly engaged investment development projects and programs.

On the other hand, the current government seems to still not realize that betrays monetarism as a growth strategy.

Living under the directives - order-giving, the International Monetary Fund and World Bank, shows the ravages of future growth and development of the economic system.

It takes mobilisatri: funds, personnel and facilities. The concentration of these factors is the holy trinity of economic science.

Illiquidity of the domestic economy from a position of equal consequence of the effects produced by runaway inflation and uncontrolled. The money becomes more expensive interest rates are rising, the key policy rate also miss opportunities for the development, stagnation and setbacks occur as characteristic of the environment.

No large industrial facilities does not have complementary capacities of small businesses. But the legality of the development of small businesses are not the same in all areas of activity. Osamostaljenosti degree possible in developing the capacity of small business is essentially determinatna development.

In reproducing the raw materials of agricultural origin can be developed izutno propulsive capacity and a wide range of existing, enhanced and original new products. When the Lima valley was annexed to Montenegro, Prince Nicholas Montenegro announced that it will never be hungry.³⁰

Development Fund could be posted on the new foundations of financial markets, to be selective development a generator of ideas and their implementation. The formation of regional, city and even the municipal funds, it would be a function of small businesses incentives razvoaja.

Unlike the Fund for Development, to organizational restructuring and compliance with legal provisions on the formation of his assets, put at the service of rational kontrolisannog balanced regional development, the National Investment Plan and the Office of the President of the Republic in terms of economic performance of the act caricature.

Preconditions for effective category accelerate the development and cooperation

³⁰ Brat Kneza Nikole Danilo, pšenicu koju su Francuzi poklonili da se prehrani stanovništvo, prodavao je svojim podanicima i to za razne vrednosne ekvivalente.

Exit ekonomisike crisis and involvement in modern trends of development are not possible **with the** existing economic structure. It should be determined to create conditions - system solutions and measures of development and economic policy - for fast changing economic structure on a dynamic basis and in accordance **with** economic and market requirements **and** technical progress savemeniim.

The development of economic structure on the basis of modern requirements, in addition to large systems and large organizations, **and** large number of medium and small organizations, which she, with a stable of dynamic change, allows for an efficient and rational functions, it allows a steady growth in production, exports and employment in the productive base.

Changes in economic structure **and** the development of small worth based on market principles should be supported and incorporated into the company's ambitions and drustvemopolitickih communities.

The structure of our economy there is a huge gap in the development of small manufacturing and service facilities, and small businesses, which did not change any entry of new companies or restructuring existing organizations.

is essential - for a total dynamic socio-economic development and changing economic structure on the basis of modern ekonomisikog and technological advances - faster and fuller development of small businesses in all areas of the economy, particularly in the Downstream industries, agriculture, transport, trade, tourism, home industries, handicraft production, service industries and al. The dynamic development of small businesses should be supported maksiaalno economic policy measures and systems solutions, and overall activity in society.

At all levels of social organization of socio-political communities and municipalities to oirganizacijama of state incentives to pursue specific commitments. This implies the effective functioning of the single market, free circulation of goods, funds, people, ideas, infioirmacija, enabling businesses and small business development under stable conditions and ravnopravniim and the economy as a whole, taking into consideration the specificities of small businesses.

I freely and quickly establish new organizations and their appearance of new market and product portfolio, and out into the world pretpostvaljlalo the inclusion in the international economic milieu.

Supporting the development of creative individuals and high professionalism should create opportunities for using social resources to create new products to market principles, organization and construction of new legal frameworks and market institutions that enabled and encouraged the realization of the concept of small economy based on entrepreneurial orientation.

It is essential to the system and mimic encourage enterprise and initiative of creative individuals and groups to create new accounts di-quality small business units in the public, mixed and private sectors (from conceptual design to their implementation). It is

necessary to show that all potential new business unit osinivačima be available quality information about the modern technological advancement, modern organization, market trends and possibilities for their creative use. Without high-quality, professionally capable and unsolicited individuals and groups may not benefit from rapid development of modern technological and market small pivrede as an integral part of the economy as a whole.

Istraživakog scientific creativity sector, could create a "bank" of potential programs for the development of small business, which would complete product mix, while in terms of exports was not possible to go into a "cavity" through the major economies "uklinjavanje", which would create multiple benefits for the affirmation of diversification as the direction of development. This "uklinjavanje" is possible in production activities and exchange activities.

The basic philosophy we are advocating with regard to development is the emphasis on eksportnoj antiimportnoj and orientation. This substitute many shortcomings and promote current and future value.

Constantly be looking into incentive conditions and create privredavanja for small and medium-sized enterprises regardless of ownership and organizational structure (company, corporation, company sizes and degrees sčloženosti, cooperatives, ugovome organization independent craft shops and workshops, etc.). In this regard, it is necessary to achieve and provide appropriate economic-system conditions, as well as conditions within the organization of small businesses.

In all organizations and institutions of the system, especially in the bodies of municipalities, cities, regions, provinces and republics to:

1. provide a more stable operating conditions stimulating economic entities of small business,
2. ensure that tax policy must take into account more small business development function,
3. ensuring that expression occurs preduizetnistvo, in high business ability and results in small business operations,
4. facilitate and simplify the possibility of using social reservoirs (domestic and foreign) and credit facilities, not only existing but also new small business units,
5. create conditions for greater involvement of business, professional and financial potential of our employees and citizens abroad funkoiiji faster development of small businesses and the economy as a whole,
6. consistently achieves the determination of the application of real economic categories of action open to the world market. such as real costs, real depreciation, real income, real interest rates, real exchange rate, formiranije price according to market conditions, reducing adminiscriranja and second, it is essential to set on earning a healthy eco-nomic plan,

7. systems solutions, the long term, create the conditions for the establishment and dynamic development of small business units as a rule under the same conditions, and the economy as a whole, with particular needs to stimulate the modernization and other forms of expanded reproduction of small businesses,
8. within the financial and tax system to efficiently solve the problems of working capital small the lot in terms of inflation and stimulate visolke strengthen their own sources of working capital to small business units,
9. initiate and create the necessary conditions for the banking and credit system, provide funds to encourage small business financing, and also creates conditions for the formation of savings and credit and other similar financial institutions,
10. within and on the basis of special-purpose systems provide incentives and encourage other types of financing small business development, such as bonds, stocks and other financial instruments and derivatives.

It is necessary to access the review of work professional bodies and professional institutions for providing finansijisko-tehniickih and other consulting services for the establishment and effective functioning of organizations and economic entities of small The need

business.to show that sisternski provide an organized and direct involvement of small business in exports and their wider participation in the international division of labor by durable cooperative relations, joint investment and other economic cooperation obliika with foreign countries. They need omogucitii import of raw materials, new technologies and the like,

is shown to be necessary in the social sectors of the economy such as agriculture, tourism, hospitality, information technology, intellectual services and the appropriate institutional solutions accelerate their development. We must also develop the system and other solutions for the facilitation of faster personal development work resources owned by citizens in the area of non-economic activities (art, culture, etc..)

The affirmation of trade unions as negotiating partners on behalf of workers with employers, the seriousness and the assumption of a state and politics and economics.

We are committed to act appropriately in the organs and institutions of the Republic of municipalities to quickly and effectively solve the vital problems of small and medium enterprises such as are brojinih reduction and simplification of administrative acts of normative regulation, resolution of location depending on the type of investment, building permits, utility prikljucaika, with the discretion of the municipality, as a rule, should be eliminated.

maksiinalno think it needs to develop a profit-based interest and dividend engagement at work and earning kvalitetiima, with high income and the highest, if achieved on this basis, should become suštinskii motive and not be subject to devaluation, condemnation and suspicion. We should dare to introduce new

forms of stimulation to evaluate authors' ideas, preduzetničkih ideas about new products, new forms of business, new production processes, ltd.

An honest attitude to work, and includes a fair relationship to the worker, which means that each worker must be evaluated in accordance engagement with his work and the result, whereas we need to strive for the establishment konkurencije workplace-based skills.

How to become a significant factor in the socio-economic development, as well as for more efficient development of its own, it is necessary to encourage the development of new capacities of small businesses that will not only be integral parts of the system but also capable samositalni market business entities. It will be necessary to make changes in the forms of organization before ma zahtvima modern, economic and technological development.

The education system is a function of a future state. In that sense, necessary to show the need of the educational system and promotion of the education process and especially the theoretical and practical knowledge. Functional education system, could occur as povremenost in order to meet the demand problem-oriented professionals to a certain profile.

Worrying is the relationship between current and future entrepreneurs with scientific and professional institutions, who could provide full creative contribution to the development of small business and are forming new organizational units of small businesses in almost all sectors of the economy overall.

Reafirmisanje formation of cooperatives and zadnuga wherever there are conditions for the interests of working people and citizens, by the individual producers particularly in agriculture, handicrafts, housing area, consumerism, cooperatives. štednokreditnoj areas, tourism, catering, domestic and international transportation, manufacturing and handicrafts drugimoblastima. In this framework should be developed and the youth and student associations.

The affirmation of free customs zone, can be fnkcija regional and regiocentričnog etnocentričnog and development.

Industrial, tehnoloki parks, incubators and the development of franchising, a decisive effect on professional conduct and promotion of staff.

By the Free Zones (Official Gazette of RS, br.62/2006) stipulates that the **free zone** of the territory of the Republic of Serbia, which is especially marked on the enclosed and which activities are conducted under conditions specified by law. The zone is carried on under the stimulus conditions: preferential customs treatment, certain tax exemptions and simplification of administrative procedures. Zone may be established local government, company or entrepreneur, who made the decision or to a second founder of the foundation of the zone, and which, through the zone management company is applying for zone designation of the area. Area of the zone **is** determined by the approval of Government. Request for approval of areas for the company submitted to the

Government through the Ministry of Finance. Industrial zone management company may apply for approval of zone areas provided that: the founders of the company founders zone management area; founders of the zone may be founders of a single company. Yes is registered in the Register of economic entities to perform activities of zone management; that the person osnivavača zone and economic zone management company has not been sentenced, that the person was a member of management or supervisory board or vested with special powers in the legal entity which has carried out the liquidation or bankruptcy, that the founder of the zone was not the founder of the managed free zone that is terminated by the Government of the approval for the establishment of free zones; This requirement does not apply to the of local government.

of the Zone is economically justified if it is based on the submitted study and other the evidence submitted, the assessment may be that positive results in terms of attracting foreign capital, production of goods, services, employment, technology transfer, economic restructuring, and if the activities in the area contribute to the achievement of development strategies and economic policies of the Government. Ministry of Finance estimates the economic justification of an application for zone designation of the area and submit its opinion to the Government.

Management zone:

The zone managed by a company registered in the management zone.

The zone may be operated only by one company to manage the zone.

Users of the zone:

zone users can set up a business zone zone management company, as well as other domestic and foreign legal and natural persons.

Business in the zone: the

user of the zone may, in accordance with the law and the contract with the Society for Management engage in the production area and provide services. Exports of goods and services from the zone and imports of goods and services in the area are free and not subject to quantitative restrictions or import to the pimenjuju commercial policy measures. Importation of goods intended for activities in the zone and construction of the zone are not subject to customs duties and other import duties, unless the goods are placed on the domestic market. Goods that are imported and exported from the customs zone shall be treated as commodities. User zone goods may be temporarily removed from the zone into another part of Serbia or to enter goods into the zone from another part of Serbia teritirije to be placed in an active process that is outward, testing, repair and markentinškog presentation. Control of goods in free zone performs the customs authority, a beneficiary is to enable implementation of the measures of customs control and to keep records on goods being imported or introduced into the zone, or is exported. Goods that are out of the zone is placed in free

circulation in the territory of Serbia shall be subject to payment of customs duties and other import duties. The introduction of goods into the zone and providing transportation and other services in the zone are not subject to VAT. The zone can not be imported or to be exported from the zone of goods whose importation or exportation is prohibited

Professional Chamber of Commerce organized on the principle of voluntary and not a legal obligation, imposed the need of motivation to organize the chamber system. It should be an oasis of expertise, knowledge and overall business charm, all in the affirmation of its members.

How are things on regional cooperation?

The first question we might ask GLSi be: is there a geographic spatial discrimination?

Second question: What are the comparative advantages of the neighboring region and identification of areas of cooperation: the textile industry, shoes, wood, art crafts, almost all areas of agriculture, from farming, through vineyards, fisheries, bee keeping, vegetable growing, livestock poultry, construction and others.

When you start? Now?

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**COMPETATIVE ADVANTAGES AND MARKET
POSITIONING OF SME'S**

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Abstract: The authors show how an organization will adapt to constant turbulence and which strategic decisions could contribute for effective, articulated relationship between all stakeholders. This paper is one part of detailed research conducted in Serbia. In the research, sample of 100 entrepreneurs has been used. In order to come up with conclusion the authors had to investigate how SME's plan their activities, decisions, and withdrawal from the planned activities. Respectfully authors had developed questionnaire to gather required information. The outcome has shown that SME's are oriented to cost reduction through better implementation of IT technologies and are willing to match customer's needs and satisfaction through better level of service through distribution channels.

Keywords: Competition, positioning, strategy, differentiation

JEL codes: M 21

1. INTRODUCTION

The world market has undergone a major transformation since the last quarter of the 20th Century. These changes have shifted the center of economic activities from national to international level and from macro to micro level. A number of factors responsible for these developments such as globalization, the rise of new competitors such as Japan and the newly industrializing countries and the

saturation of markets to mass produced goods, the developments in micro-electronics. They were accompanied the decreasing the importance of the mass production and mass consumption, i.e. the end of Fordist-Taylorist model. The result was the collapse of national economy and the increasing importance of the urban and regional economies and the rise of SMEs as new actor in the global markets.

The globalization of economies and production increased risks and uncertainties and required flexibility in terms of production and marketing methods. The response of the large companies to these challenges is to either subcontract or relocate the part of their production to the low wage areas of the globe. This process has resulted in the surge of the SMEs. The new developments in the micro-electronics based machinery have reduced the economies of scale allowing the SMEs to compete with large companies. In addition the SMEs have developed networks of production and marketing to operate on the global level. As a result the economic role and importance of the SMEs have been enhanced. They have become the engine of the world economy in terms of production, employment and value-added.

However in 21st century the economic environment is more chaotic and uncertain. Its central characteristic is the cut-throat competition. Although at first glance it appears that the contemporary market blurs the boundaries between the macro and micro levels (although it is already essentially analytic), it is clear that this shift towards considering the company as the key player of international business and decision making is of great importance not only for understanding the changes in the international division of labor but also the functioning economy in general and trade and production in particular. It is possible to argue that the SMEs have come to constitute the backbone of the international trade in goods and services. A tiny number of multinational firms dominate the international trade and production. It means that international trade to a large extent, have been individualized.

The altered conditions and new profile of the world market require modern enterprises re-orienting their market and competitive position towards international economy rather than relying on the traditional forms of business and (substantial) support from the government (stimulation rate) since its capabilities are limited under the new conditions.

2. THE NEED FOR STRATEGIC DIFFERENTIATION and MARKET POSITING

The rapid globalization and increasing uncertainties in the global markets forces the firm to react as quickly as possible to the changes in the market demands.

Differentiation is one of the available method in which firms can re-act to the markets changes. Differentiation can be defined as the act of designing a set of meaningful differences to distinguish the firm's product assortment from competitor's offerings. It can also be seen as a process of adding more meaning to the product by highlighting attributes beyond the main theme. The process of differentiation is to emphasize the relevant benefits in a distinctive manner which cannot be easily followed by competitors and provide profitable benefits to the company.

It is possible to distinguish between four different forms of differentiation that can be major source of competitive advantage and maximum benefits. These are product, service, personnel, and channel and image differentiations respectively (Lee Him and Tan, 1999). Product related attributes serve as a good base for differentiation. However, product differentiation varies depending on the nature of industry. For example, commodity products are difficult to differentiate on appearance where as automobiles present an opportunity for a large number of differentiations.

Service is a significant differentiation method. It is mainly used where differentiation is difficult based on physical attributes of product. Differentiation in service can be attained by the easy ordering, better customer service during the sell, after sell customer service and consulting. The distribution channel is the final method of differentiation. It may be a very important source of competitive advantage.

It is the general tendency among the firms to alter their strategy in line with the stage in the product life cycle (Vernon, 1966). The product life has four stages: introduction stage, growth stage, maturity stage and saturation stage. In introduction stage firms concentrate on gaining a foothold in the market and in the mind of consumer via promotion, product trial and developing distribution channel. In growth stage, firms strive to raise their sales and if possible to settle in the top of the market. Their strategies have to be based on the gaining new customer, expanding product assortments. Finally in maturation stage, the markets signals saturations and the growth is declined and sales start decreasing. At this stage, firms seek to streamline product category, gaining access to new markets and modify product characteristic as well as attributes.

Market positioning on the other hand, may be described as the result of differentiation decisions. It is the act of designing the firms' products and identity in order to create a planned image. As a consequence firms will have a significant and different competitive position in the target customer's minds. The market positioning leads to the generation of a market-focused value offers. It can be state as why the target market should purchase the product.

Firms may create large number of variations, yet each variation created has not only cost but also consumer benefit. It should be pointed out that a variation is acceptable if its benefit exceeds the cost.

3. COMPETITIVE STRATEGY AND MARKET POSITIONING by SERBIAN FIRMS

The aim of this research is to look at market positioning among the SMEs. It was carried out in the South Western Serbia among various sizes of SMEs. In total 100 firms participated in the research. They were elected via random sampling and were active in the manufacturing and service industry. A questionnaire was designed to evaluate the methods used for the competitive strategy and market positioning by SMEs. 43 questions were asked in the questionnaire and only 5 questions will be presented in this paper.

Question 1: Which Form of Market Positioning is Primarily Used by your firm?

Table 1: Form of Market Positioning Primarily Used (%)	
Capital Expenditure and Cash Flow Positioning	23.3
Service Led Positioning	31.7
Distribution and Selling Led Positioning	33.3
Communication Led Positioning	11.7
Total	100.0

As can be seen from the Table 1 that 33,3 percent of the sample firms preferred using distribution and selling led market positioning. In other words in the firms' the market positioning is driven by customers and suppliers. The 31.7% had services led positioning, while 23.3 per cent utilized cash-flow monitoring led market positioning. The rest, (11.7%) used communication positioning. This form of positioning generally is based on supplying the exact needs of customer. Consequently it can be said that the Serbian Firms mainly preferred to use distribution-selling and service-led positioning.

Productivity can be considered as the key indicator for designing the competitive strategy. This is especially the case when the price reduction or increasing margins can be considered. Thus our second question focused on this indicator.

Question 2. Would you please indicate that which method of differentiation your firms use for increasing productivity?

Table 2: The Method of Differentiation Used to Increase Productivity(%)	
Cost Management and Operation Efficiency (Mostly used by information technology firms)	25.0
Developing Distribution Systems for Better Customers Services	25.0
Better Relations with Suppliers	23.3
Building Optimal Retail Outlets	15.0
Using Economies of Scale	11.7
Total	100.0

Looking at the Table 2 it can be seen that 25 percent of the sample firms tended to use a more effective cost management and operation methods to increase their productivity. This is widely used by information technology firms. 25 percent also prefer developing more effective distribution systems to have better customer services. 23.3 percent tend to develop their relations with the suppliers. 15 per cent preferred building the optimal retail outlets while only 11.7 percent used economies of scale to enhance their productivity.

To better understand market positioning by SMEs it is also important to look at differentiation based on marketing activities.

Question 3. Would you please indicate which form of “product differentiation based on marketing activities is used by your firm?

Table 3: Differentiation Accomplished via Marketing Activities (%)	
Use Information Technology	3.3
Product Policy and Product Range	28.3
Pricing policy	20.0
Consumer Services	6.7
Unique Market Position	6.7
Strong Relationships with Customers	5.0
Advantages of Location	11.7
Cost-effective Packaging and Marketing	15.0

Competitive Activities	3.3
Total	100.0

Table 3 shows that 28.3 percent of the sample companies intended to differentiate their marketing activities via enhanced product policy and product range. 20 percent via pricing policy, 15% via cost-effective packaging, 11.7 percent Location advantages, 6.7 percent unique market position, 5.0 per cent strong relationships with customers. Finally only 3.3 percent based their market differentiation on the competitive activity. 3.3 percent also used information technology for differentiating their market activities. The last two forms of differentiations are rarely used.

Question 4: Which method is used to increase productivity and efficiency by your firm?

:

Table 4: Market Positioning based on Increased Productivity and Efficiency (%)	
Reducing Operating Expenses	40.0
Maintaining Price Differences	36.7
New Products	21.7
None of the above	1.7
Total	100.0

From the Table is seen that 40 percent of the firms designed their strategies primarily to reduce costs of their operation. This strategy is very important since it aims at the maximum utilization of resources. Yet it can be also be contradictory if optimization is realized through the massive layoffs. 36.7% sought to maintain the prices differences constant to increase of productivity and efficiency. 21.7 percent preferred improving assortments of goods and services they produced. This requires the introduction of new technology based machinery as well as innovative and flexible work organizations. The third strategy, aimed at improving the mix and range of goods and services was used by 21.7 percent of the companies.

In time of severe economic crisis, firms may seek to alter their market positioning. In view of the current world economic crisis we wanted to evaluate the Serbian SMEs' short-term market positioning strategy.

Question 5. What will be your short- term market expansion strategy?

Table 5: Primary Market Positioning Strategy for Short Term(%)	
Consolidation and Productivity	33.3
Market Repositioning	36.7
Increasing Market Share	26.7
Diversification	3.3
Total	100.0

36.7 per cent of the companies considered repositioning as the key strategy for the future opportunities and during a possible economic crisis. 33.3 percent viewed the consolidation and productivity as the main strategies to implement in the near future. However for 26.7 percent, increasing their market shares is the key strategies for short term as they believed that economic crisis may create new opportunities in the market niches. Finally 3.3 percent opted for diversification of products and assortment as key strategy in the future.

4. CONCLUSION

This research deals with strategy and market positioning, it is stressed that companies seek more effective cost management and overall operations of the trading company (the most common means for this in the modern economy is information technology) and the creation of market position by building distribution systems that provide customers a higher level of service. Here we think that the company also had to focus on niche markets, namely in that part of the market that is undecided. Further, the company has to go and a strategy of differentiation and build brand recognition through quality and to have regular customers.

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I Financing SMEs

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**KEY ASPECTS OF INVESTMENT MANAGEMENT IN
SME'S**

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Abstract

The author shows how managers of small and medium enterprises manage the investments. In this scientific paper he presents a part of detailed research. The study was conducted on a sample of 100 managers (or entrepreneurs) who run small and medium enterprises in Serbia. Research was conducted in time of economic crisis, where the author has investigated and experienced huge problems of investing in small and medium enterprises. In this paper, the author comes to conclusions regarding the investment policy of SME's, the key aspects of selecting investments and other issues that are of crucial importance for investment management

Keywords: Investment, small and medium enterprises, management decisions.

JEL codes: G11

1. INTRODUCTION

Investment in replacement of fixed assets is due to modifications of old means of production, in order to maintain continuity of production. Rationalization of investment in fixed assets shall be made for achieving quality and increase quantity of products. Coherence scale structure of long-term investments with the scope and structure of long-term sources derives from the general funding rules, under which long-term investments are financed by long-term sources. Uncertainty in the implementation of investment decisions to a greater extent is influenced by factors that operate in the environment, and is not influenced by investors. These factors relate to market development, competition, development of technology. To these factors one must add risk factors

such as risk due to lack of experience with investment risk due to wrong interpretation of data, the risk due to ignorance of the person who conducts an assessment and the other. Therefore, as these risks varied according to the cause and consequence, it is necessary for them to be included into the investment project, in order not to cancel the expected results. This is especially important if the projects are realized in inflationary economic conditions, when the risks are multiplied many times, given the rise in prices and differences in inflation and interest rates. If you are involved in the investment policy and foreign loans, then the risk factor increases in respect to the depreciation rate of domestic currency, regardless of whether the negative effect of depreciation is recorded as an expense or it revalued fixed assets.

2. INVESTMENT MANAGEMENT

The first question we asked our participants was to find out on what principles their investment policy is based on. Asking this question we intended to find out the principles in the creation of investment policy

Table No. 1 - Basic principles in the creation of investment policy

Table No. 1 - Basic principles in the creation of investment policy	Percent
Compliance with the basic goals of society as a whole	11.7
Compliance with the basic objectives of the company	21.7
Compliance with the tactical goals of the	18.3
Research as the basis for the conduct of investment policy	20.0
Objectivity in deciding the best investment solutions	10.0
Compliance with the policy standard of living	18.3
Total	100

Responses show that the creation of investment policy for the most companies (21.7%) is based on compliance with the basic objectives of the company. Also, a significant number (20%) is willing to conduct studies as the basis for investment policy of the company. 18.3% of companies are to manage investment policy in compliance with the policy

of living standards and tactical goals of the company, while 11.7% manage investment policy in compliance with the basic goals of society as a whole. It is interesting that only 20% of respondents make a decision on investment based on classical results of the evaluation of investment.

The second question is the logical course of action considering the investment and the investment decisions, and here we were trying to find out what it is an important factor in defining the investment policy.

Table No. 2 - The factor that most affects the creation of investment policy

Table No. 2 - The factor that most affects the creation of investment policy	Percent
Market	31.7
Science and Technology	8.3
Human resources and financial abilities of the company	18.3
Institutional conditions	20.0
Organizational possibilities of the company	18.3
Total	100.0

Market is an important factor in creating an investment policy for the investment decisions related to the decision on funding, which depends on the projected income and expenses that are directly independent of market trends. 31.7% of respondents chose this logic of decision making. Institutional conditions are key factors in making investment decisions for 20% of respondents. Personnel and financial capabilities of organizational conditions are chosen by 18.3% of respondents. Science and technology as factors that determine the investment activity seen to be important to 8.3% of respondents, while some other factors not mentioned in the questions are answered by 3.3% of respondents.

The third question was examining the phases of the investment process. In this issue we mentioned phases of investment process and the respondents were asked to state which of them should be given the most attention.

Table 3 - The importance of stage of investment process

Table 3 - The importance of stage of investment process	Percent
Previous (pre-investment) analysis (pre-feasibility study)	25.0
Making the investment program (feasibility study)	13.3
Decisions about the implementation of investment	13.3
Technical documentation	15.0
Realization of investments - building construction investment	13.3
Commissioning and trial production and services,	20.0
Total	100.0

We see that most respondents, 25%, stated that of all phases of investment they pay most attention to the past, the preliminary investment analysis. Commissioning and trial production is a key stage in the process of investing for 20% of respondents, while 15% think that most attention should be given to development of technical records and documents. How to create an investment program and make a decision corresponding to the investment and investment's implementation was the most interesting for 13.3% of respondents. I believe that these responses have a very high correlation with the type of activity that company deals with.

When we talk about investments, procedures, types, it is necessary to talk about the structure of investments. The fourth question was directed to the structure of investment, where we were seeking answers about the structure of the major investments in the company.

Table 4 .- Investment in technical structure:

Table 4 .- Investment in technical structure:	Percent
Investments in construction	41.7
Investment in capital equipment	30.0
Others	28.3
Total	100.0

The largest number of respondents considered that the most significant investment projects are those relating to investment in buildings and that response gave 41.7% of respondents. Investments in capital equipment are the most important investment for 30% of total respondents, while in

28.3% of the most significant investment in some of the items that we are not specified.

The fifth question was asked in order to gain insight into where investment projects are aimed at companies at which respondents worked.

Table No. 5 - The focus of investment projects

Table No. 5 - The focus of investment projects	Percent
New product or expand the existing range of products	25.0
Replacement of equipment	33.3
Research and development	18.3
Testing	21.7
Others	1.7
Total	100.0

The largest percentage of investments (33.3%) focused on the replacement of equipment, it is understandable because these are the industries which are labor intensive. The introduction of this product or expansion of existing product range is the area where respondents allocate 25.5% of their investments. Area of research is also very interesting for investment and 21.7% say that most of the investments in their companies just focused on this area. and they focus 18.3%. of their investment in research and development.

At this stage we investigated the initiative how respondents were willing to start up with the investment activity. This is our question number six. The proposal for investment activities is ranging from various instances and functions. To get more information we presented the following results.

Table No. 6 - Proposal for investment activity in your company is moving from:

Table No. 6 - Proposal for investment activity in your company is moving from:	Percent
Head of Department	21.7
Marketing Section	23.3
Vice President for Operations Management	21.7
Committee to monitor the expenditure of capital and the financial manager	8.3
Deputies	8.3
Board of Directors	16.7
Total	100.0

Marketing Department is an instance from which all proposals for investment activities start (23.3%), very important drivers are heads of departments and heads of operational management (21.7%). Heads of departments receive all reports on the needs of workers and work processes, and the heads of the operational management since in the production of labor-intensive industries major equipment replacement is taking place. In addition, the board of directors is the most common investment vehicles in 16.7% of the company, while the Committee to monitor investments and vice-president responsible for investment activity in 8.3% of cases.

The seventh issue is devoted to key factors in choosing investments. This question is part of the questionnaire because I tried to get an answer on whether selection of investment depends on the needs, plans or material possibilities and willingness to invest.

Table No. 7 – A Key factor in the selection of investment is:

Table No. 7 – A Key factor in the selection of investment is:	Percent
The value of investments	28.3
Time of the construction	26.7
Source of Funds	10.0
The financial result	15.0

Marketing strategies	13.3
None of the above	6.7
Total	100.0

We see that a key factor in choosing investment policy is a value of the investment itself and thus is considered as 28.3% of respondents, 26.7% respondents are considered with duration of construction, while 15% of respondents pay maximum attention to the results and the effects of financial investments. Marketing strategy is a decisive factor in selecting investments in 13.3% of the companies the respondents worked for. In 10% of companies a key factor of choice for investments is a source of funds for implementation of the investment while 6.7% is a key factor for something that we did not list out. This primarily indicates a lack of money and investment potential of companies, this is understandable since there is a labor-intensive and low-productivity sectors, also there it is very hard to present any new investment precisely because the value of investments and realization of time often influence the choice of investment options.

3. CONCLUSION

Investment activity was 20% in line with the basic objectives of the company, while in 18% of cases investment was in line of plans of research and development. In this part I believe that strategic management should strategically divide investments in strategically tactical and operational and that each level of management for an investment plan has to be in line with development plans and plans of financial flows. This would have investments that comply with all acts of the company, or what is more important to address the current needs and possibilities.

Among the factors that affect the investments, respondents primarily are willing to highlight the market (31%). This is positive in terms of sales and marketing, but on the other side it is dangerous if we consider just approach towards market because market is very turbulent and rapidly changing in that way the requirements vary and there are just few companies that are able to adapt so quickly. Recommendation for this part

would be that we are guided by market needs, but to pay attention to the real trends and needs in training and innovation.

The proposal for investment activity in the biggest number of cases starts from marketing departments. This means above all that the strategic management manages the information received from the marketing department, it has the advantage that by answering these needs of customers company must opt for the improvement of business processes. On the other hand, there are plans of large companies that create the demand in the market and marketing activities.

A key factor in the selection of investments is the value of investments (28.3%) which is in line with the first two observations that point to the insolvency of companies and the need for money that is to say an affordable investment. It is for this reason fond for development must increase its activities and commercial bank in cooperation with the state to ensure affordable loans to businesses. At this stage we should consider the possibility of starting the development of state-owned banks but it should be noted that the problem of corruption with which might be encountered must be anticipated.

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**SIGNIFICANCE OF SMALL AND MEDIUM ENTERPRISES
AS SHARED SERVICE CENTERS OR THEIR CUSTOMERS**

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Abstract

Small and Medium Enterprises (SMEs) may either be customers of or operate themselves as Shared Service(s) Centers (SSCs), being a quite often used approach to optimizing the efficiency of a large organization, production or service chain. The tactical and strategic competitive advantages and benefits of SSCs are considered, as they generally provide: cost reduction, savings and effectiveness, improved controls, visibility and performance as well as fostering enterprise-wide collaboration. SSCs can be seen as a value generator and an optimal way to leverage best practices in payments and collections. With growing focus on liquidity management, new IT may help treasury centralization, which along with the consolidation, standardization, automation, and improved regulatory reporting justifies applying SSCs in treasury, HR, and other departments. The structures, driving factors, ways of implementation, and benefits from the Payment Factory Model (PFM) are examined in the paper, as PFM is a type of SSCs based on the centralized payables process, improving visibility and control as well as negotiating power with bank partners.

Keywords: shared services, payment factory model, performance visibility and control

JEL codes: G30 Corporate Finance and Governance – General

1. INTRODUCTION

Finance and accounting back-office shared services, including usually receivables, treasury and payments management, are not important only for cost reduction and efficiency as well as for the cash flow implications, but also for the relationships with numerous profit drivers. For instance, when measuring the quality of the customer service, one may start by assessing the health of the firm's accounts receivables. To have complete insight into cash availability and risk exposure, the treasury function has to interact with receivables and payments processes. Improving the quality of both back-office processes and certain front-line functions requires appropriate overall liquidity management, as it considers all the cash coming in and out of the company. The cost savings benefits from shared services can be substantial as they eliminate the costly duplication of transaction-processing efforts across an organization.

Leveraging shared services also provide additional value-added capabilities that will improve management visibility and control, enhance process quality, and increase overall business performance. These strategic benefits could be much more valuable than mere cost reductions. Obstacles to achieve strategic values from shared services may be removed by leveraged new technologies for liquidity management that automate best practices, elevate visibility and control of operations, and help drive continual process improvements, raising business performance in a sustainable and cost-effective fashion.

A shared service centre (SSC) is an organization operating so that a company's support processes are supplied to multiple business units from the centre with decentralized coverage, either nationally or internationally. An effective SSC would be dispersed with flexibility for localized methods and yet operate as a whole, being a single entity with a standardized vision and a global plan. Final objective is to serve multiple locations, business units and localized methods using a single, shared resource centre. Establishing a SSC using this concept allows the firm to leverage central technology and local expertise to deliver services at significantly reduced costs while addressing the complexity of issues in each location (potentially in different countries). This will enable a rapid, multi-country deployment and the outcome will be lower operating and transaction processing costs, much more effective resource allocation, and standardized processes, policies, and procedures to ensure the compliance and improved customer relations.

2. TACTICAL AND STRATEGIC ADVANTAGES OF SSCs

The **tactical** advantages of a SSC include that it enables a company to implement platform approach to liquidity management that can be leveraged across the enterprise. That platform would integrate existing transaction systems,

eliminate silos of information, reduce redundancy of efforts – both vertically within each business unit and horizontally across all business units, and balance processing tasks and workloads across business units, the staff and other resources, which is needed and shared across all internal customers. There are values beyond pure cost savings. The advantage is in the ability to achieve top class quality in liquidity management, as well.

The **strategic** advantages of a SSC include promoting consistency, common discipline, and best practices across a business, no matter how far-flung and diverse its operations; enabling the companies to invest in world-class technologies for visibility and reporting and ensuring their optimal use enterprise wide. It is not only an essential requirement for cost-effective compliance with Sarbanes-Oxley and other regulatory mandates, but also to meet shareholders' expectations for ever-higher levels of corporate performance. A SSC can act as dispassionate audit system, feeding objective views back into the business in order to drive continually improving performance.

Advances in broadband and wireless communications, data integration, analytics, automated business rules and workflow software have helped the evolution from co-located services handling routine tasks, such as payroll and travel & entertainment, to the best practices-based SSC-s, handling value-adding services in strategic areas such as global customer management and management of cash in-flows and out-flows. These transactional processes encompass numerous operational areas, from sales and customer service to collections and payments processing. The effectiveness of cash management is reflected in numerous corporate performance metrics, from day sales outstanding (DSO) to revenue recognition to customer satisfaction, and include, for instance, a more consistent application of deductions policies for disputed invoices or the ability to aggregate payment flows. Surpassing a tactical and opportunistic reducing of transactional and operational costs, it may result in much larger dividends, but also requires more planning, time and efforts, to focus on sustained strategic benefits such as improved controls, visibility and business performance, ensured regulatory compliance, as well as enduring competitive advantage. The order-to-cash cycle involves credit management, order quality assurance, dispute prevention, inventory transaction reconciliation, deductions management, invoice presentment, collections management, cash application/auto-cash processing, and cash forecasting. Disturbances in any of these processes could cause revenue leakage, delayed payments, write-offs, material weaknesses and lost business through angry customers. New technologies applied in SSC-s can **add value** above all in the following main areas:

1. **Strengthening controls** – Consistent controls and auditable processes are necessary particularly in the areas such as accounts receivable, collections, and inventory. Moreover, Sarbanes-Oxley now insists on all public companies having them. Instead of disjointed and disparate ERP systems and other

applications, with centralized processes the automated workflow technologies applied in SSC-s and the automatic application of business rules enforcing enterprise policies and procedures and raising employee productivity can ensure consistent controls and practices enterprise-wide, based on common data, rules, and assumptions. For instance, business rules could be employed to automatically validate charge backs, deductions and invoices meeting pre-determined parameters while flagging those that do not, thus leading to reduced revenue leakage. Centralizing information across all relevant systems and departments either in real or virtual manner is vital for the financial data and decisions to be documented and auditable. Metadata i.e. data about data and other technologies can be leveraged to show exactly who has touched what data, when and why. Concerning flexibility pertaining to internal customers, even formal control has to follow business changes and be modified and customized for specific needs of each business unit. SSC-s provide a flexible technology platform for enterprise-wide liquidity management, as changes can be made once and then propagated automatically across all business units, departments and pertinent processes.

2. Raising visibility – A greater and deeper ongoing visibility across disparate systems and processes can be achieved by a SSC, concentrating reliable and timely information in a single spot, and providing single standard source for accurate business pulse checks and the application of consistent and common metrics. Comprehensive management dashboard views can be leveraged to aggregate and present easily digested data on all transactions, projects, budgets, charges and expenses in real time; corporate score carding can be used to measure progress against objectives; online reporting can accelerate and simplify the dissemination of critical information; and exception- or threshold-driven alerts (web, wireless, etc.) can be employed to direct the attention of decision makers to developing issues and help galvanize action. The cumulative effect on business visibility and the economies of scale can justify the company's investing in advanced technologies that perhaps could not been justified per separate business unit, including the technologies for error root cause analytics, customer behavioral metrics, internal efficiency metrics and the like.

3. Enhancing business performance – New technologies and best practices not only help streamline processes, thus allowing the companies to do more with fewer resources in less time, but process automation coupled with strengthened controls lead to substantially fewer errors and exceptions, higher quality results and improved overall performance. Leveraging firm's data in real time for the purpose of improved decision-making also has a positive effect on performance, showing clear where processes break down and which customers experience difficulties with invoices and payments, so that analytics can then be leveraged to objectively uncover the root causes of these breakdowns and problems. The resulting knowledge can be fed back into the business to enable the continual process improvements and further performance increases.

The SSC approach also optimizes business support processes (usually those functions that are transaction or information intensive, but are not a core component of business services) and consolidates them into either a central location or regional centers, supporting multiple business entities. A successful SSC will require well-educated, multicultural workforce, excellent Internet-based support system, established and embedded policies, and an international approach with a global plan to foster enterprise-wide collaboration. An increase in data transmission speeds the flow of information between corporate divisions, subsidiaries and partners, enabling companies to respond quickly and liberating managers, especially financial ones, from the routine production of information, allowing them to add real value through analysis and interpretation of financial data. The online collaboration tools can help to minimize operating and transaction processing costs, provide support in decision-making and execution and more effective resource allocation, and improve internal and customer relations, data flow, localized customer service, and a central repository of information for detailed reporting and analysis.

The benefits of a shared services model can be enhanced by leveraging liquidity management investment across multiple business units. With the consolidation of these functions, a SSC is actually a stand-alone business for serving internal customers within the enterprise. Since various internal customers have different organizational cultures, systems and processes evolved over time, the main challenge is to determine what, how and where to standardize in order to leverage commonalities, achieve economies of scale, and drive maximum value.

3. ADVANTAGES OF ACCOUNTS RECEIVABLE SSCs

The credit crisis had an impact on cash flow and liquidity that has brought trade receivables management to the focus of corporate finance. Receivables may be typically the largest asset on a balance sheet and thus the largest source of funds for a firm. One of the most important developments in changing collections and credit management function from a purely back-office cost centre to a strategic component of the front office has been the migration toward SSC-s or regional centers of excellence. Implementing standards and best practices across this function can bring the companies significant improvements in cash flow, reductions in bad debt, and decreased DSO, as well as optimizing profitable customers' relationship while mitigating risk across the portfolio. Creating a SSC is similar to outsourcing the collection and credit functions to a group within your own company by taking these activities from those business units, which may be even in-country or in-region, and moving them to a centralized unit with the sole focus on those functions. The best practices efficiently deployed in SSC-s include using proven technology solutions developed specifically for all aspects of the order-to-cash cycle. Covering various regions requires language skills and local area knowledge. The collection strategies in

different industries may be similar. For instance, in most industries it is advisable to start the collection activity before the due date and then follow up with the customer later if the payment has not been made. It may also be effective to initially contact the customer via email, so that this part of the planned workflow can easily be automated and save resources in terms of employee hours. Then, if necessary, an employee can follow up the email with a phone call. It is the best method to segment customers into groups regarding how you are going to collect from them, and then assign these groups to particular teams, who may excel in specific areas, such as high risk or collections from the government or large retailers.

It is very important to employ specialized credit and collection technology systems allowing the consolidation in one format and integration of data from all multiple, disparate systems which a SSC team member would otherwise need to access multiple times a day, which would lead to great inefficiencies. It is necessary in order to group and segment the customers by type effectively; to be able to talk to the customer about his entire outstanding in just one phone call; to interface easily data of an acquired or merged entity; to view the total exposure for any customer across all the businesses supported by the SSC; to assess risk properly across customers, regions, industries or currency; to manage the order hold and release process and each customer credit line, maximizing the potential of each customer relationship. This also enables: substantial cost savings; creating a standard corporate policy and standard sets of procedures and measurements; leveraging a full-time equivalent (FTE) to do more work than in a distributed environment: and having real-time view of the key metrics, such as the number of calls made, cash collected, disputes resolved, outstanding A/R balances by bucket.

Case Study: How Henkel has decreased past-due A/R and centralized its O2C operations [1]:

Background: Henkel is a German-based company organized into three unique operating sectors, including: laundry and homecare products, cosmetics and toiletries, and adhesive technologies. This manufacturing and technology company has about 52,000 employees worldwide and uses shared service centers located in Connecticut, USA, and Manila, Philippines, which are responsible for managing its North American business activities.

Structure: When Henkel of America started its pursuit of locating an automated solution, its collections environment was decentralized and comprised a team in excess of 70 individuals. Even 15 separate systems housed credit operations information and the majority of processes and communications were manual.

Problem: As a global MNC with a number of different locations, Henkel found that it was unable to gain the visibility desired into key information required to

perform cash forecasting and risk analysis surrounding the O2C life cycle. As information was located in 15 disparate systems, credit and collections, employees were receiving a disjointed view of data and customers, which in turn hindered the efficiency and accuracy rates at which transactions could be processed and settled. Henkel's credit and collections processes were entirely manual, which meant there was greater possibility for costly inaccuracies to arise that could potentially be associated with human error. The processing of data by hand is a highly tedious activity requiring the attention of a large number of staff members and monopolizing valuable time that could be spent on supporting more goal and revenue driven activities. These factors made the firm reach a point where business growth could not efficiently be facilitated without adding employees to process the increasing quantities of transactions. Reporting was another area that needed improvement, as Henkel did not have the level of detail or real-time view into information it needed in order to make the best possible business decisions and forecasts.

Solution: Specific requirements that Henkel put forward included: a quick implementation timeframe that would not interfere with "business-as-usual" activities, seamless integration with its ERP system, process automation, real-time visibility into data, a consistent approach to collections, significant ROI and lastly, sophisticated reporting capabilities. Henkel chose a specialized shared services provider, using an efficient credit and collection system.

Henkel's benefits were: decreased past due account receivables by 20 %, return on investment (ROI) achieved within two months, centralized operations, an organized workflow, and reduction in full-time equivalent (FTE) by 45 %.

4. ADVANTAGES OF ACCOUNTS PAYABLE SSCs

Centralization, consolidation, standardization, automation and improved regulatory reporting are most important drivers for the implementation of SSC-s. Accounts payable (A/P) SSC-s are usually set up to reduce transaction costs by more efficient, standardized and automated operational processes. In order to integrate internal functions with external suppliers to work together, creating a supplier-organization-customer network delivering value to the firm's shareholders, a wider view of the end-to-end financial supply chain is needed, as well as the alignment of goals and coordinated managing of operating margins, working capital requirements and supply chain cycle efficiency between the A/P SSC, procurement and treasury, in order to prevent possible conflicting objectives of these three functions.

Companies ought to set up mutually consistent and complimentary performance measurement criteria for various business functions. If the sales team is only measured on their sales target, A/P SS team solely for efficiency, and treasurers

on the basis of optimization and investment of cash flows and working capital, the firm as a whole will not be able to achieve sustainable competitive advantage. A balanced scorecard approach may help to combine the firm's financial performance with internal key performance indicators for A/P SSC-s.

Case Study: A comparison is made between a shipping company and a pharmaceutical company [2], both having a mature A/P SSC having been operating for five to six years. Their annual financial statements for the past four years showed that some of their cost indicators have come down, specifically cost of goods sold (COGS), general administrative (G/A) expenses, and net interest expense (NIE), but it was not enough to relate it back to a SSC strategy without tracking it against the operating margin.

The shipping company is a conglomerate group with container/shipping line as the main business, operating in 150–200 countries. It moved to a SSC because it:

- Provides a lower cost platform to reduce overall operating costs, what is necessary to compete with firms from emerging economies.
- Drives much higher efficiencies by pooling resources and processes.
- Improves the quality of the work.
- Increases productivity and timeliness of activities.
- Facilitates the change of IT platforms, as it is easier to implement a change in just one location.
- Drives improvement of processes across the organization.

One of the entities acquired in early 2000s already had a SSC, which helped in adopting the model for the rest of the company. The financial organization opted for Asia as its base for shared services, where six centers are supported out of three countries. These locations provide limited backups for each other depending on the type of activities supported from these locations, e.g. A/P processes are not high priority, time-bound processes, and any disruption to A/P activities can still be managed from the same location a day or two later. A bottom-up approach described as “lift-shift-standardize” was used for identifying relevant processes from specific business units to put them into a SSC. The processes were lifted from decentralized locations, put into a SSC, and then standardized and automated through process reengineering and enterprise resource planning (ERP)/SAP rollout. SAP has acted as the enabler for streamlining and standardizing processes. A global SAP rollout is currently in progress and is expected to be completed in a 3–4 year timeframe (by 2013).

The pharmaceutical company has a history of organic growth, as well as through merger and acquisition (M&A) activity. While planning the drug development related activities, in a partnership it predominantly focuses on marketing and selling drugs, and operates across various locations in Europe and North America. The company identified areas where shared services should excel:

- Processes standardization.
- Implementation of effective controls and governance.
- Delivery of a fit for purpose and cost effective service.

A/P SSC model was considered in UK when the company decided to expand its business in Ireland. Instead of setting up a new finance function, it decided to use the existing set up in UK for supporting the A/P activities for Ireland, too. With the A/P SSC as per the existing business model and the pricing structure, it is possible to have substantial growth in a new country/market without the requirement for setting up significant back office infrastructure and incurring massive expenses/expenditures for supporting new business.

Observations

When looking at the financial figures in terms of how the two companies measure the SSC's success, no empirical evidence was found connecting the success/advantages of A/P SSCs to either the income statement or balance sheet, or the cash flow statement. In both cases, the A/P SSC, procurement and treasury objectives were in conflict with each other. For instance, operation efficiency as a metric for a SSC, trying to reduce the operational cost and improve efficiency of payment processes, made some A/P SSC-s actually expedite payments - as soon as they receive the invoice, they process the payment and pay the supplier, usually before term. However, if the firm had a 30-day term on the payment, then the SSC should not pay out for 30 days, not to lose cash from its books. The procurement side will want to make bulk purchases in order to receive a discount, which requires a large sum of money upfront. In spite of the advantages of the discount in the short-term, it works against the treasury's objective of keeping cash on the books due to the credit crisis. These three divisions do not communicate to each other nor have a coherent strategy for working capital or operational expenses, although at a general level, they report into the chief financial officer (CFO). Based on such current status, there are ten options to gain competitive advantage and increase the benefits from already operating A/P SSC-s [2]. Firms can choose to:

- 1) Continue with the existing evolution of A/P SSC-s by standardizing and automating end-to-end purchase-to-pay (P2P) cycle. The competitive advantage of following this strategy is limited as competitors can easily imitate the A/P SSC model and standardize/automate their processes.
- 2) Create an integrated framework consisting of internal A/P, procurement and treasury functions and external suppliers' network, to align the operating margin, WCM and SCM strategies of the firm. The benefits of higher operating margins, lower NIE and integrated supply chain networks would be reflected on the return on capital employed (ROCE) for the firm. It is similar to the current state, but brings those three

functions closer together through common shared objectives, such as: operating margins, NIE, WCM, and ROCE.

- 3) Use the existing skill-set, capabilities and core competency of A/P SSC staff for driving M&A growth and integrating newly acquired business to the existing business model. Quite often M&A's fail to deliver the deal value due to implementation and integration issues. Using the A/P SSC skill-set and existing processes for post-merger operational integration would lead to the financial success.
- 4) Up-skill its existing A/P SSC staff to provide more augmented services. Fundamentally, continue with the existing model, but provide additional values in terms of helping out with statutory and regulatory reporting, risk management, vendor selection and identification of lowest bidder, and consistent management information and reporting.
- 5) Implement just one element of the framework and track the performance of the A/P SSC through COGS, G/A, cost of credit and NIE, instead of implementing the complete integrated framework.
- 6) Operate SSC-s as business centers rather than cost centers. A/P SSC-s should implement a sophisticated pricing model based on transactions volume/usage and price their services back to the business functions. This would help A/P SSC-s track their value added to the business and also help them identify key business functions where there is more opportunity to reduce the transaction costs through continuous process improvement initiatives.
- 7) Integrate A/P SSC goals and objectives with only the WCM or SCM strategy, instead of implementing the fully integrated model. Integration with WCM would imply the A/P SSC needs to work closely with the treasury function, while integration with the SCM strategy would imply the A/P SSC would need to work closely with procurement and business functions.
- 8) Introduce the concept of a service marketing mix for designing, promoting, pricing and distributing the A/P SSC-s services. Companies normally do very well in terms of a marketing strategy for customers, but they do not do it so well for SSC-s and internal customers. This approach would help to generate awareness about the A/P SSC's capabilities to support business function and will also help to gather the business function's service requirements from the A/P SSC.
- 9) Use the A/P SSC as a knowledge management centre for P2P cycle. There is an enormous amount of knowledge available in A/P SSC-s, such as customer and vendor information, as well as ERP applications for the P2P processes. This information could be used for advanced data analytics to evaluate opportunities for vendor rationalization, total expenditures per business function/product per annum, and driving vendor/supplier negotiations.

- 10) Move to low cost locations every three to four years to continuously keep their costs down, as the cost benefits provided by some of the initial SSC locations (e.g. Dublin or Warsaw) have eroded over a period of time and new locations have emerged (e.g. Philippines and Budapest). The decision, however, would need to be evaluated for costs saved, cost of co-ordination and cost of migration. The decision to move should be taken only if the benefits outweigh the migration cost.

Instead of traditional silo based A/P SSC / procurement / treasurer functional strategies, the firm integrated, multifunctional A/P SSC strategy would rely on financial measure, operational efficiency, WCM and SCM, as basic components.

5. THE PAYMENT FACTORY MODEL OF A SSC

The centralization of payments, driven by the need for an improved visibility and control of inflows and outflows, represents one of the main trends among corporations today, regardless of their size, business or location. One of its most common models is setting up a payment factory, based on a centralized payables process improving visibility, control and negotiating power with bank partners. The traditional set-up is the real or centralized payment factory, where a limited number of people manage the payments and payables processes for a specific region. The second type, enabled by new information network technologies, is the virtual or decentralized payment factory, where the roles and responsibilities are retained at the level of the subsidiary but the entire organization uses one central system for managing payments, bank connectivity and relationships. It depends on the organization culture and structure of the company whether the entire payments process for the whole region or continent will be managed by a dozen of people in a SSC with centralized execution and control, or there will be hundreds of users in a worldwide, decentralized payment factory model. Payment factory means one system for all payment types (e.g. treasury, supplier, and payroll), banks, balance and transaction reporting, flows (i.e. inbound and outbound), and other corporate to bank exchanges (e.g. deal confirmations and status reporting), with different implementations: using local bank accounts, managing bank relationships, or being integrated with an in-house bank.

Today there is a number of driving factors encouraging firms to adopt this centralization model. Although cost savings is still important, wider benefits are now recognized including compliance, security (without uncontrolled touch points within payment processes), business process improvement, and higher operational efficiency (based on a pre-validated, approved workflow that can be deployed across the organization). It means whatever type of payment, whichever affiliate is involved or whatever ERP system the affiliate happens to use, everyone uses the same workflow and steps for approval and validation before payment is sent to a bank.

Since payments are performed using local electronic banking systems, companies depend on their capabilities, and with certain e-banking systems, it is possible that the person keying in the payment is also able to approve that payment. Corporations usually start with payments and the opportunity to collect all bank statements, adding e-bank account management (with payments exceptions and investigations) and e-invoicing. The payment factory model also provides status reporting and the electronic exchange of messages when a corporate wants to place an enquiry and get a report on a transaction.

Despite numerous benefits, the complexity of establishing a payment factory is it could have many interfaces because it has to connect to the ERP system, as well as the payroll system and treasury management system, and it has to handle all incoming information in multiple formats and potentially different statement formats. Therefore, when setting up a payment factory, it is important to involve (beside the technology vendor) all relevant parties, such as internal ERP systems team and the firm's partner banks, with a robust international support structure on a 24/7 basis, right from the beginning of the project.

The payment factory creates opportunities for improving working capital management, such as processing direct debits in a standardized way, because they provide a higher degree of certainty about the time and amount of payment collection, but it is a complex instrument to manage because every country has its own direct debit formats and rules. Initiatives such as SEPA support this trend, streamlining the direct debit instrument across Europe. From the aspect of financial supply chain management, it is important to give suppliers insight into when and how they will be paid and not being able to provide this information can become a competitive disadvantage. For this purpose, a part of the payment factory can be exposed to suppliers in an extranet model, so that they can see exactly when they are going to be paid and where they can extract remittance information.

6. THE BENEFITS OF THE PAYMENT FACTORY MODEL

Most important benefits of the payment factory model [3] are that it:

- 1) meets security and compliance requirements**, owing to the Control of human interaction on payment flows; the principle of segregation of duties; secure back-end connectivity; secure bank connectivity model (such as SWIFT and domestic protocols, with all processes properly documented); standardized audit trails across the banks and payment instruments; process and system documentation available for internal audits and compliance procedures; centralized user, user profile, and password management;

- 2) **mitigates operational risk** by reducing the probability of errors and human interaction in the process to a minimum; moving away from paper-based workflows; building in validations, such as duplicate checks and mandatory field validations; and centralized change management;
- 3) **improves visibility** on cash position and over cash flows, setting up a best practice workflow, as it aggregates account and transaction statements at a group level; increases update cycles; utilizes data from the source rather than data processed by subsidiary, which can be tied into overall treasury management; improves the quality of data through checks on completeness and correctness at source, and control of outbound flows increases accuracy of forecast;
- 4) **reduces costs**, because it reduces cost of banking fees; avoids cost of replication of changes over multiple systems; reduces number of systems, introduces consistent front-end for users, and limits training requirements; removes hidden costs of e-banking tools (and industry research calculates the cost of each e-banking system to be € 20,000 per year); and increases productivity of operations, such as STP, usage of templates, and centralized operations without multiplication of systems and interfaces;
- 5) **harmonizes processes and systems**;
- 6) **provides an independence from banking partners**, and choosing them; increases bargaining power (such as the focus on value-added services and least cost routing); to switch a bank in a serious financial crisis or if the firm's credit line with one of the banks is cancelled, and to replace proprietary interfaces, takes longer then expected: without a multi-bank payment factory – from 6-12 months, with a payment factory – one to three months, and if a backup-plan is built into the payment factory – one to five days;
- 7) **has built-in flexibility to deal with recent industry changing events and new trends in the market**, such as Sarbanes-Oxley Compliance (SOX), Single Euro Payments Area (SEPA), the Payments Services Directive (PSD), corporate access to SWIFT, check to ACH conversion, and electronic invoice presentment and payment (EIPP); and the agile infrastructure can respond to new external requirements, benefit from new market trends, and needs shorter time to roll out new services to all business units;
- 8) **facilitates growth of the organization**, through the scalability of processes and systems, such as rapidly increasing transaction volumes; supporting decentralization of decision authority as well as centralization of processes, such as the set-up of shared service centers; integrating newly acquired businesses; and increasing productivity of repetitive processes;
- 9) **increases days payment outstanding (DPO)**, due to the Strategic relationship with vendors; paying in time but not too early, as it

automatically manages cut-off times and manages future dated payments; providing visibility on status of the payment; and improving the quality of remittance information; and

- 10) **decreases days sales outstanding (DSO)**, due to improved reconciliation of transaction statements, and a flexible support of direct debits, allowing for improved collection strategy, such as better forecast of incoming flows, while country-specific schemas are hard to implement without a central solution.

7. CONCLUSION

Although organizations accept easily the cost reduction aspects of shared services, they should now also take the opportunity to make the move from a SSC as a cost leader to a value generator, by delivering an added value to multiple internal customers. The SSC implementation of a platform for liquidity management, based on a solid technology and best practices, will enable them to improve theirs as well as the performance of the entire enterprise. Driving compliance, competitive advantages and shareholder value over the long term will be achieved by unlocking significant amounts of working capital, eliminating process inconsistencies and errors, avoiding counter-productive customer disputes, elevating employee efficiency to entirely new levels, and continually enhancing products and services.

Unlike earlier looking at the profit and loss statement as the indicator of the success of the company, the financial and credit crisis shifted the focus on cash and liquidity management. Centralizing the treasury activities, as in a SSC-s model, requires operating on a centralized platform. Treasurers need to know exactly their short-, medium-, and long-term obligations and cash demands at any given moment in time, and have a good grasp of their cash inflows and the ability to properly schedule outflows. A centralized view gives the treasury visibility and transparency needed to manage liquidity successfully. It will mean also more efficient FX management, better interest rate management, and improved commodity hedging capacity.

New information technologies have allowed corporate treasurers to bring together payments, receivables and other functions as well as to centrally manage disparate information from various sources and understand what the company's risks are. The most important value of SSC-c nowadays is not cost savings, but enabling centralized intraday transparency, necessary for an efficient, effective, and successful cash and liquidity management.

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**FINANCIAL SUPPORT AND CAPACITY BUILDING OF
SME's IN SERBIA FOR DEVELOPMENT FUNDS
ABSORPTION**

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Abstract

Contemporary theory and practice of small and medium-sized enterprises shows that the success of their business and development greatly depend on the system of non-financial and financial support. Part of the development capacities for the successful establishment, and also for sustainable and successful business, these companies can provide through the system of institutional and financial support. One problem that appears in the possibility of using a system of support for SME development is that, in the period of establishing, they often choose independent activities and independent work, and rarely choose activities as a part in the supply chain of larger companies or for inclusion in networks and clusters. The consequence of this approach is that it does not realizing synergy effects from the activities of partnerships. From this reason is necessary to strengthen their capacity and the capacity of institutions to support SME development for more efficient absorption of funds and resources. The aim of this paper is to analyze existing systems to support business and development of SMEs in Serbia and synchronizing the activities of various entities in this system.

Key words: Small and medium size enterprises, financial and non-financial support, development capacity

JEL codes: O16

INTRODUCTION

Contemporary business conditions in the dynamic and unpredictable business environment are major challenges for both large companies and for small and medium sized enterprises. A particular challenge is the negative impacts of the global economic crisis, which is due to globalization, rapidly spread to all national economies. In such conditions, entrepreneurship is essential for the processes of market adjustment and keep the competitive position, and expectations of small and medium enterprises to accelerate the development of national economy are higher. Entrepreneurship as an important development resource that puts the spotlight on innovative behaviour, determine

the overall economic and social development of each country. The important role of SMEs and its increasing contribution to overall growth and economic development is reflected in many indicators related to the participation of SMEs in total number of businesses, employment, total turnover, gross value added, foreign trade activities and the like. The development of the entrepreneurial economy based on knowledge and innovation and creation of strong, competitive and export-oriented SMEs is a necessity.

The low level of competitiveness of Serbian economy is a basic limitation of effective involvement in international business flows. Current activities on improving the business environment have given some results, but they are not yet fully adapted to the needs of rapid development of market economy.

The Republic of Serbia in recent years made significant progress in developing a functional framework to SMEs support [1, p. 4-10]. While the framework exists, implementation of support is still not adequately implemented. This led to some problems in access to appropriate forms of support to SMEs and to insufficient focus on SMEs with innovative and export potential, which are able to increase employment.

1. CAPACITY BUILDING OF SMEs

Despite the high inventiveness, flexibility and mobility of small and medium enterprises, especially in the early years of his life recorded a high mortality. Some are facing bankruptcy and are being liquidated because of a wrong choice of field engagement, and some because of unresolved assumptions and strengthen successful business. One of the biggest problems is reflected in the system, organization, coordination and synchronized activities of the institutions that should provide support to the development of these enterprises. Quality system to support the successful operation and development of SMEs requires well solved the problem of organizing and self-organization of this group of enterprises. This refers to the connection of the industrial, export clusters, value chains, connection within the business and technology centres and to link these companies in business associations, cooperatives, chamber system, and more. Reach practice in the world shows that, for successful business and strengthening the SME sector is extremely important cooperation, but in our conditions it is not enough represented and entrepreneurs do not show interest.

Development of entrepreneurship and small and medium business assumes the following general and specific requirements:

1. Market institutions, which should ensure the free functioning of commodity markets, capital markets and labour markets;
2. Rule of law, which should provide adequate regulation and ensure the effective implementation of laws;
3. Civil society, which emphasizes respect for human rights and freedoms;

4. Economic development and market conjuncture, which determines a new needs, i.e. demand to be met by expanding existing and establishing new enterprises;
5. Development of entrepreneurial infrastructure, which refers to the follow ups to the company, in terms of freight transport, energy transfer, access and transfer money, transfer of information and the like. Also, it is refers on infrastructure building in terms of education entrepreneur in the profession and for conducting business, advising on the establishment enterprises, establishment of incubation centres, institutions for mediation in securing the initial capital, reduce risk and cost of establishment and the like.

Bearing in mind the importance of the sector of small and medium sized enterprises, very important issue is to strengthen their capacity to absorb development funds. This activity is relevant to:

a. State should provide the institutional framework and provide financial support to business entities to run business and for business growth.

b. Institutions (national, regional, local) that are focused on developing and improving the economy, have the task to strengthen the competence, knowledge and social networks with related institutions for the effective performance of functions of education, assistance and service for independent entrepreneurs and SMEs in their establishment, growth and development.

c. Entrepreneurs and small and medium enterprises, whose management must be focused on the strengthening of resources, especially human and other intellectual property, to ensure the process of innovation and development of adequate programs for product development, process, technology, for which it will seek financial support.

Promotion of entrepreneurship has a vital role in improving the competitiveness of small businesses and improving situation in terms of employment. So there are numerous programs of the European Union defined and implemented for this purpose. The EU experience shows that the best way for the development of entrepreneurship and SMEs should be in accordance with an integrated approach, which has three hierarchical levels [2].

- Strategic level (policy definition of the relevant state authorities),
- Institutional level (establishment and operation of a set of support institutions),
- The level of enterprises (SME).

Above mentioned levels made pyramidal structure to support SME development in which the *strategic level*, understandably, is located at the top and is reserved for the state. *Institutional level* is in the middle and represents the link between policy-makers and SME development. The third level of the participants is *SME sector* - a number of micro, small and medium sized enterprises and their associations. This structure is coherent only if there is mutual coordination and cooperation [3]. In most developing countries, including Serbia, there is a problem in all three levels. Even when governments

do not aim high priority the development of SMEs, support for private sector development and provision of infrastructure are items that are particular in focus of their attention.

2. THE ROLE OF DIFFERENT INSTITUTIONS IN SERBIA IN SMEs SUPPORT

2.1. The Role Of State

The state should create a business environment for growth and development of SMEs. In addition, the existing level of development of society and economy of a country is a determinant of business growth and development of SMEs. The structure of the economy of a country is also important for the development of small business. Dynamic development of production sector is crucial because it is the basis for the development of the service sector, in which a significant role belongs to SMEs. For the development of this sector is important the existence of large enterprises, about which is gather small businesses as sub-contractors and business partners. Significant constraint to development of SMEs makes legislation and characteristics of the system of taxation. In order to develop, the government should solve next problems: conditions for obtaining loans, reducing the tax burden, quality of inspection services, reduce administration, legal system efficiency, stimulating exports of SME sector and many others. All of these moments require continuous improvement of the various laws.

The role of government in Serbia is primarily in creating quality of legislation related to the establishment and development of SMEs and the creation of administrative preconditions for the establishment, operation, growth and development. Reasons why it is important to promote the so-called administrative environment for SME development are the following:

- The need to simplify procedures for the establishment (registration) of the company and obtain certain permits for construction, exports, imports and the like;
- The need to shorten the time required for the establishment / registration of enterprise;
- The need to lower operating costs that are necessary for the establishment / registration of enterprise and prevent administrative corruption.

2.2. The Role of State Institutions

Considering the great importance of SMEs they have in the contemporary socio-economic development of each country (especially for employment, innovation, balanced regional development, etc.) an indispensable role of the state that will establish, direct and control the institution to support the development of entrepreneurship and SMEs. Establishing, managing and

developing successful business is difficult and risky job that requires a lot of knowledge, resources and effort. Government of market oriented economies developing a system of institutional support for SME development, because of the rules of the free market, small companies (because they are small - with limited resources, personnel and knowledge) in an unequal position compared to large enterprises. These institutions operate at:

1. National level (ministries and government agencies),
2. Regional and / or local level.

The need for the existence of these institutions comes from the problems that come because of the complexity of the business environment. Complex economic conditions sometimes have elements of the crisis (high inflation, rising unemployment, lack of liquidity businesses, decrease the value of real wages, ie. low purchasing power of population, etc.). Also, strong constraints can be seen in the lack of capital, underdeveloped financial systems, limited in manpower and experience, the inability to develop competitive advantages and others.

Therefore is important to develop a system of institutions, among which there will be coordination and cooperation in policy, and implementation of various programs at the national and local levels. Also, it is necessary to strengthen the capacity of these institutions - human, financial and development cooperation with foreign institutions.

In addition to financial support, also is relevant non-financial assistance from government in development of entrepreneurship and SMEs. This assistance can be in terms of organization of production, service and other elements of management (planning, management, etc.). The government helps by organizing lectures, seminars, educational training for managers and employees, through establishing information centres, consulting centres to a variety of business problems, providing assistance in connection with financial institutions in the country and abroad. Also, the government should create opportunities for various forms of business associations and other organizations, acting in field of support of innovation and competitiveness of the SME sector. The state should develop programs and activities to support innovation in the SME business, either internal business processes, or products / services that are recognized as the market demands and accepted by consumers and other stakeholders.

2.3. The Role Of Local Authorities

As already emphasized, the role of government in terms of SME development is to create a positive business environment, primarily through legislation, promotion and implementation of national program support and infrastructure to assist SMEs. Development of existing and establishment of new SMEs should to contribute to the increase of GDP, exports and employment and to facilitate accelerated socio-economic development. In addition, government action to create the general conditions and support for SME development and the

support of local self government is also important for the development of SMEs. Local self government bodies in municipalities and cities should play a significant role in encouraging the development of SMEs. Local authorities can contribute to the promotion and implementation of programs to support and build the infrastructure to support SMEs and thus make a significant contribution to their development.

Flexibility and efficiency of business operations has its repercussions on the intensity and changes of the local community, and the living standard of its population. Local self government should be, in the broadest sense, is struggling to care for companies that already operate in its territory, but also for the establishment of new, that will empower local communities with capital and knowledge, which will mean more funds for infrastructure and social standards. Local development policy should be use some positive experiences of regional policies in developed areas of the world and acts to:

- be attractive to companies, primarily by creating adequate business environment, both in physical terms (construction sites, industrial and other zones, etc.), and in terms of relationship with citizens. Therefore, the local self government has to allocate some funds for the development of certain activities, and also for the realization of the potential economic, social and cultural development of communities;

- Initiate the creation of innovation and introduction of new technologies in traditional activities and also encourages the improvement of competitiveness. This is especially true of local communities that have a strong concentration of economic-technological complex;

- If the local economy prevailing economic structure characterized by the use of traditional knowledge and outdated forms of decision-making system, there is a risk of economic recession. New communications technologies require a different entrepreneurial environment, knowledge and skills. In this situation, the further economic development depends on fundamental structural changes, retraining of unemployed workers and attracting international business particularly in new sectors / activities. This process is important to human capital, including the intellectual capital of the company;

- In conditions of growing competition local self governments should act to strengthen its image and developmental benefits. Through combination of urban, contemporary development policy and economic development, local government has the ability to create market advantages and new development opportunities.

Local communities need to set up development centres to deal with supporting the development of SMEs in terms of aid in determining the development of programs (projects), as well as providing information about them to interested stakeholders. Local communities need to invest in their establishment and functioning, in order to realize the quality of their support in order to increase efficiency and competitiveness of SMEs. These centres should be initiators of new economic activities and the promoters of the idea of business

networking, exchange of technology, improvement of technical infrastructure, including the commercial (business) incubators, clusters, technological or industrial parks and other similar associations.

It is necessary to raise awareness of local authorities (government) to support the economy and its pro-active role. Accelerated regional development is not possible without the action of local authorities (government) in terms of improved service quality of local businesses and citizens, simplify procedures and creation of infrastructure conditions, and even different funds to support the SME sector.

2.4. The Role Of Think Tanks (Policy Centres)

In the area of institutional infrastructure policy development, should emphasize the role of the *Policy Centres* or *Think Tank Centres* that focuses on the development of entrepreneurship and SMEs. Policy Centres or Think Tank Organizations have an important function in creating public policy in developed democratic countries. Think tanks is "... institution, corporation or group organized for interdisciplinary research (technological or social problems) [4, p. 6]. These organizations are also called "factories" of thinking. Otherwise, the Think Tank Organization can be also consulting group of experts that undertakes research and provides advice, especially for the government.

Think Tanks are usually non-profit, independent organizations which through seminars, conferences, workshops and publishing various publications influence the political decision-making process. Think Tanks expand its policy research on various issues and problems in society. Their areas are: scientific research, research for the purpose of government (legislative, public safety), research for individual companies (group), research for certain political parties and others.

As the founder of Think Tank organizations appear intellectuals, academics, governments of some countries, political parties, companies, consultants and researchers, as well as various local and foreign donors. Founders based on their goals, affecting the work of the organization, research, growth and funding organizations, but also have influence on the choice of institutional form of Think Tank Organization. The basic concern of the Think Tank Organizations is maintaining independence in their research and realizes the impact to the area and users of research.

Schneider [4] lists three different types of Think Tank Organizations: academic, for-profit and non-profit. They have three development phases. In the first, there is very small number of full-time researchers (one or two people), a large number of associates, and sources of funding are not entrenched. If you want to continue development and transition to the second phase (large number of permanent researchers from 5 to 10, a relatively stable sources of funding, greater specialization of researchers in certain areas), these organizations need to develop their managerial and financial systems to make them more efficient and

effective. The third developmental stage is characterized by organizations that have their own action, provided the title or the most prestigious in the field of its activities and to achieve significant social impact [5].

Financing of Think Tanks is different. Independent Think Tanks can't completely rely on various state funds. Depending on the founders, customer research, and other moments, the sources of funding these organizations are [6]: 1. Private foundations (e.g. the Open Society Institute); 2 Different government agencies or entrepreneurial funds (e.g. USAID, British Know-How Fund); 3 State Foundation; 4 International organizations (World Bank, International Monetary Fund, etc.) 5. EU funds (structural funds, the framework for funding R & D). The largest number of such organizations does not have a single source of funding. Most funding is directed to cover the costs of research, and problem is covering the fixed costs (administration, rent, phone costs, internet, etc.). To cover these costs, these organizations can go to:

1. Association with academic institutions (universities, colleges, academies of sciences);
2. Association with a for-profit organizations (consulting, financial institutions, commercial enterprises), and
3. Reducing the number of employees, engaging volunteers for administrative tasks, employing researchers as needed for individual projects [7].

Think Tanks are mediators between the government and the public. They are the voice of the public in the policy process and affect the democratic development of the society. Their independent research into these processes brings new ideas and innovative solutions in the interest of citizens. As a product of these organizations, in addition to reports, publications, research, considered and staff who serve as advisors to the government authorities for the area which used to be specialized. The biggest beneficiaries of Think Tanks are policy makers, the media, the public - civil society, universities, business sector, trade unions and others.

3. INSTITUTIONAL FRAMEWORK FOR DEVELOPMENT AND SUPPORT OF SME SECTOR

The institutional framework for developing and supporting the SME sector, develop each country according to its strategic and economic objectives, and this framework is composed from a set of different bodies and institutions, from national to local levels. These institutions are public, because they are organized by state. Also, there are institutions that are semi public because they organized by state in cooperation with other institutions, banks, foundations and the like. Otherwise, these institutions are usually non-profit. The success story of these institutions presupposes a continuous dialogue and exchange of information between the SME sector and state institutions. This will allow state institutions to better and more quickly identify all the key issues and priorities of

the sector. Some SME associations should be organized for representing the interests of the SME sector in the government departments and so to be a partner of state in continuous dialogue.

Government measures must be taken in due consideration based on the real needs of SMEs, since in this way benefits are achieved for both parties, to develop the SME sector and to promote national (economic) policy. Fostering the competitiveness of SMEs means to support innovation in business, in which different institutions can provide different contributions: from the education of entrepreneurs, managers and other employees, to the grant schemes for innovation by relevant ministries.

3.1. National Agency for SME Development

Agency for SME Development of Republic of Serbia is a non-profit, professional organization established by the government, in order to monitor and coordinate activities that will encourage the development of entrepreneurship, establishing new enterprises and improving the competitiveness of the sector of SME with other state institutions. Agency for SME Development at the national level has the following features:

- Creating an enabling environment for growth and development of SMEs in cooperation with relevant ministries and other government agencies;
- Creating and maintaining databases on the SMEs sector, and institutions to support their development, and database of development potentials and untapped resources and opportunities for SME development;
- Monitoring the implementation of the principles of the European Union Charter for Small Enterprises, and implementation of National strategies for development of entrepreneurship and SMEs;
- Participate in the creation of legislation and creation of institutional infrastructure for the establishment and development of SMEs;
- Direct non-financial support for SMEs (consulting, information, networking companies, facilitating access to funding sources);
- Education function i.e. training services for entrepreneurs and managers of SMEs;
- To assist SMEs in new technologies adopting and support their innovative activities (IR connectivity sector, universities and SMEs);
- Collaboration with the National Bureau for Employment in the function of assisting the unemployed in education and training for self-employment, the provision of necessary funds for new employment, to stimulate employment in certain activities;
- Cooperation with international organizations to implement the special incentive programs and projects;
- Cooperation with universities, centres and organizations for the entrepreneurs, organizations for education and improving the competence of the entrepreneur.

3.2. Regional Agency for SME Development

As a measure of support for SME development is the establishment of regional agencies for the development of small and medium enterprises which have the task to give information and advisory services, and training programs directly or indirectly by the qualified business consultants of the SME sector. Agency also carried out and different training for the unemployed in order to enable them to establish new SMEs. In this regard, these institutions provide information about legislation and measures of economic policy, information relevant to starting, organizing and conducting financial assistance in terms of finding funding sources, assist in research and introduction of technology, as well as assistance in contracting with large companies and government agencies and providing other specific types of assistance to entrepreneurs and SMEs.

One of the tasks of these agencies is to establish and create an environment that will empower the establishment of new and development of existing SMEs. Creating a desirable environment means that the regional agency for SME development must be an active participant in finding real and long-term potential for the economy and development, establishing an interactive relationship with key local stakeholders. Regional agencies should provide information in different areas: business planning, management of SMEs, marketing, legal regulations, potential local and foreign strategic partners, government programs to support SME support programs in the form of grants, technology transfer, sources of finance, trade fairs at home and abroad, and information regarding the harmonization of regulations and methods of working with the EU.

Regional agencies should also provide business advice and help with registration and activities, ways of applying for credit, making business plans, then how SMEs develop their business through the establishment of cooperation with similar companies in the region and abroad. Developing capacity for long-term sustainable development of SMEs through the creation and implementation of projects that can help increase the efficiency of these enterprises, competition in the domestic and export markets, quality of business, internationalization, implementation of information technology, as well as raising awareness, promoting and initiating various instruments for the business cooperation and networking of SME sector with similar companies and foreign partners, are key functions of regional agencies. Therefore, regional agencies, in cooperation with other stakeholders in the region, should help SMEs to solve business problems and raise the level of competitiveness and increase efficiency of operations, but also to provide all the necessary preconditions for increasing the number of new shops and SMEs.

3.3. Development Fund

National development fund was established by state governments with different business goals. Among others, stand out as follows:

- Encouraging economic and balanced regional development;
- Improving the competitiveness of the domestic economy;
- Encouraging the development of artisanship and service industries;
- Encouraging employment;
- Encourage the development and dynamics of capital markets and others.

Development Fund, as well as financial institutions develop a variety of programs: investment loans, working capital, independent craft shop, lines of credit, term loans for temporary working capital to promote competitiveness and liquidity of the domestic economy, micro-credit for people who have lost their jobs, credit programs Support for Beginners (start-up), a program to encourage investment and employment in underdeveloped areas and others.

Requirements for the loan with the accompanying documents are submitted to the administrative staff of the Fund, which processes them, assess the creditworthiness of investors, as well as the entire investment project. Loan purpose is different:

- Loans for the establishment, starting a business and development of small and medium sized businesses and independent shops;
- Investments in new programs, the reconstruction and modernization of existing plants, as well as funding working capital;
- Loans for independent production, craft shops and service industries;
- Lending programs that provide improved competitiveness of domestic economy;
- Investing in programs that ensure the implementation of innovative technologies, etc.

After considering the Commission's Board of Directors, the Board makes a decision on loan approval.

3.4. Guarantee funds

Guarantee funds are financial institutions that are established with the aim to facilitate access to necessary financial resources of companies and their owners and managers for growth and development. Specifically, their task is to guarantee the loan or, as a rule, part of the credit granted by banks to small and medium enterprises, entrepreneurs and other business entities. Part of the loan to be insured may be different and move generally in the range of 50-80%. Guarantee Fund guarantees to creditors - banks that loan will be repaid. In this way, by providing guarantees to creditors, the guarantee fund as financial, government institutions facilitates SME access to bank loans.

Users of guarantee fund are banks with which the Fund has concluded an agreement on regulation of mutual relations in the business of giving guarantees. In order to stimulate and encourage the development of SMEs

carried out, it is important to provide a network of commercial banks with which the guarantee fund cooperates and concludes contracts on business cooperation.

Guarantee funds are negotiating with banks to calculate the borrower a lower interest rate for the portion of the loan which is covered by credit guarantee. In this way these funds are additional support for SME development and private entrepreneurship. The problem of access to small business capital required to finance can be facilitated and / or pending action of the guarantee funds. Bearing in mind that SMEs cannot provide adequate collateral required by commercial banks, they are totally disabled because it denied a loan. Guarantee funds, as public institutions, are an important link between entrepreneurs and banks. Usually operate on the principle of clients application submission (entrepreneurs or SMEs) to approve the loan guarantees. The Fund has a professional services and staff who analyze the financial justification of investments for which credit is sought, and they basically decide whether to approve loan guarantees. If provide a guarantee, a customer applies for credit with partners - banks with which the Fund has a business. In this case, it is essential that financial institutions have confidence in the guarantee fund.

3.5. Agency for Export Promotion of SMEs

Agency for export promotion of SMEs – SIEPA - was established with the aim to contribute to improving business conditions and increase competitiveness. Its export development programs can be implemented with various international organizations and programs. The point is that through these institutions, provide incentives (grants-donated or on loan on favourable terms) for enterprises that are export-committed. In addition to these programs, this agency implement programs and market research services of external consultants, assistance for participation in international trade fairs, product design, product testing and registration, introduction of quality systems, the visits of foreign buyers, visiting foreign markets creating promotional materials. These programs are focused on improving the marketing activities of export-oriented SMEs. In order to foster the development and promotion of the most successful companies, the agency consolidates systems grants annual awards (for example, the best exporter for the best new export product, the conquest of new markets) in terms of big companies, but also in the SME sector.

SIEPA is also able to achieve the function of helping foreign investors to start business and to connect them with local businesses. In addition, these agencies provide useful information and advice on the participation at home, especially in foreign markets.

3.6. National Employment Service

National Employment Service can play a positive role in the development of entrepreneurship and SMEs. Its basic function is the mediation between employers and unemployed persons, and implementation of measures and actions for so-called active employment policies. The aim of its activities is to improve the efficiency of employment, and ensure efficient use of all available human resources for economic and non-economic activities, as well as provide a contribution to accelerating the process of getting a job.

National Employment Service is able to encourage entrepreneurship development by providing subsidies for self-employment of unemployed persons. In its activities National Employment Service is directed to co-finance market viable and socially acceptable programs. Also, these Service is organizing various training programs for vocational training and retraining the workforce to the demands of the market.

4. OTHER INSTITUTIONS TO SUPPORT SME's AND THEIR FUNCTIONS

Support institutions - business incubators, innovation centres, industrial parks and technological-parks have proven to be effective instruments to assist entrepreneurs in starting their businesses, and enterprises in the initial stages of its life cycle. These institutions help them to "survive" during start-up period when they feared most at risk from the collapse of the market.

Business support institutions may be national, regional, public-private partnerships, subsidized private agencies and companies. In this way, these institutions can be categorized as: entities that provide services to SMEs, entrepreneurial organizations, nongovernmental organizations focusing on SMEs and research institutions.

Entities that provide services to SMEs are usually non-profit organization specialized in consulting services, services providing information, providing training services (training) of SMEs that already operate or are in the foundation. These are usually centres of business support, business information centres, business incubators, science / technology parks, innovation, research and technology centres.

Provision of advisory services, information services based on the following principles: 1 providing services as close as possible to the client and the most efficient manner; 2 close contact with entrepreneurs, including a visit; 3 partnerships with local, regional, national and European actors.

Institutions that offer, among other things, business incubation services are [8]:

- Classic Business Incubators
- Business and Innovation Centres (BIC) [9]
- Innovation Centres
- Incubators without walls
- Industrial Parks

- Technology centres
- Export Zone
- Science (technology parks)

4.1. Business Incubator Centre

In contemporary conditions, there are a large number of limiting factors of small and medium enterprises. These factors are both internal and external. Given the need to overcome numerous barriers to the development of entrepreneurship in order to stimulate the improvement of business performances existing small and medium enterprises, business centres are establishing in Serbia. At this moment there are 21 active incubators in Serbia. This form is characterized by a prefix - "business incubation", as well as interactive development process which aims to encourage entrepreneurs to start their own business, and support already established SMEs to develop their business processes, innovate products and improve overall business performance. Word 'incubation' means the development of a stimulating environment for the realization of entrepreneurial ideas.

Business incubators [10, p. 121-130] have occurred in recent decades in the world, first in developed countries. In some countries created a network systems business incubation centres (incubation centres and technological / industrial / business parks) to facilitate development of small and medium enterprises, regional development and national economic development. The development of these business systems supported by the instruments and resources of local communities, states and others. Establishment and operation of incubator centres, and then entrepreneurs gathered in them, aided by the resources of various foundations, business associations, scientific, educational and research institutions.

The bottom line is operationalizing development strategies in different countries, their regions and sub-local areas, by helping entrepreneurs, small and medium enterprises, providing the necessary conditions and resources (physical, financial, intellectual).

Business Incubator Centre is organizational and functional units which should: 1) shall prepare and review various entrepreneurial initiatives, 2) provides certain resources to develop business entrepreneurs who are in it ("tenants business incubators") and 3) creates the conditions and became independent "tenants of business incubators" for the successful development and continuity of operations after a period of care and help provided.

The advantages of business incubation centres, among others, are reflected in various forms of support economic development: successful mastering of technology, improving relations with the business environment, reducing costs and business risks, developing innovative business culture and the like.

4.2. Cooperatives

Cooperatives is one of the oldest forms of long-term, linking of smaller companies (producers) to cooperatives, as an entity united by co solve common business problems of small enterprises. Solving problems in business and contribution to more efficient operation are the key objectives of the cooperative association. Association to help resolve the various constraints, contribute to achieving more efficient procurement of inputs, more organized appearance on the market with products in the biggest offer, get better terms in negotiations with large systems and exporters, organized appearance to foreign markets and the like. Cooperatives Association means that the work reinforce and protect, and that without losing the independence of its members. In developed countries, there are very successful cooperative forms of small manufacturers, who solved their business problems arising from small (limited) resources, low economic power and other development constraints.

4.3. Clusters

One way to encourage local and the regional development is to encourage the formation of clusters. The initiative for the formation and development of the cluster must come from enterprises (SMEs). However, it is not always enough. Therefore, the State should substantially assist in providing the conditions for cluster development, such as [11, p. 107-119]:

- Creating a stable macroeconomic environment;
- Development of transport and market infrastructure;
- Development of research and development institutions,
- Professional consulting,
- Knowledge Base;
- Credit insurance and others.

In the aim of balanced regional development, cluster development has an important place in economic policy of each country. State institutions, development agencies (national and regional) and local authorities, keen to assist the development of clusters and achieve economic benefits. Governmental support can be in the form of laws that encourage cluster development, tax relief and incentive funds, but also in many other ways (professional teams for support and monitoring of clusters, providing training of employees in the cluster).

Regions that have developed highly specialized industrial clusters record economic growth, which tracks the growth of living standards of their populations. Because of that, local authorities are interested for cluster development. According to that, they can develop specific measures to support clusters in their area.

State support for cluster development, mainly involves the lifting of restrictions and limitations, facilitating financing and active support for cluster

development. When deciding which of these incentives to use, or combine them, one should bear in mind the situation in a particular area. This is what measures shall be taken by the public sector affected by environmental factors and factors within the cluster. It is necessary to consider all factors and on the basis of their analysis to make decisions. Of course, in all this is extremely important cooperation of SMEs as cluster members, authorities in the area, the various agencies and associations, and NGOs.

CONCLUSION

Economic progress and development of the Republic of Serbia demands the development of a competitive economy based on knowledge, new technologies and innovation. In achieving this goal, an important contribution to economic and social development are expected from entrepreneurship. Achieving this goal requires a coordinated action by all entities for financial and direct support to SMEs at all levels. At the *strategic* level there is a need to stimulate the development of environment for SMEs development, which includes government policies that promote entrepreneurship and SME sector, the obligation of the local community to facilitate SME access to markets, technological and financial resources and stimulate investment, create a political climate conducive to business development. At the *institutional* level, there is a need to establish and strengthen infrastructure to assist SMEs, which is reflected in the provision of information on how to start a business, how to find partners, access to financial resources and credit guarantees, support innovation and cooperation between small and medium enterprises. At the *enterprise-level* there are a need for access to enterprise development which includes the strengthening of entrepreneurial and managerial skills, securing external, consulting services, promote access to technology transfer, quality system development, the internationalization of small and medium-sized firms.

In most developing countries, including Serbia, there is a problem in all three levels. Even when governments do not aim high priority the development of SMEs, support for private sector development and provision of infrastructure are items that are particular to focus on their attention.

Forming, managing and developing successful business is difficult and risky business that requires a lot of knowledge, resources and effort. Moreover, because of the law of the free market small businesses in an unequal position compared to large enterprises, government market economies developing a system of institutional support for SME development. In addition to financial support is relevant and so non-financial assistance to help countries develop entrepreneurship and SMEs. This assistance can be in terms of organization of production, service and other elements of management (planning, management, etc.).

The institutional framework for developing and supporting the SME sector, develop each country according to its strategic and economic objectives,

and compose a set of different bodies and institutions, from national to local levels. These institutions are public in character, because they are organized by state. Also, there are institutions that have semi-public characters which organize the state in cooperation with other institutions, banks, foundations and the like. Otherwise, these institutions are usually non-profit. The success story of these institutions presupposes a continuous dialogue and exchange of information between the SME sector and state institutions. This will allow better and more quickly identification of all the key issues and priorities of the sector by state institutions.

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**RISK MANAGEMENT AND SMALL AND MEDIUM
ENTERPRISES**

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Abstract

An enterprise performs its activities within micro-, macro-and internal environment. The characters are subject of these environments and their consequences are many times in contradiction to defined enterprise objectives. Nowadays, an enterprise is facing the following risks: globalization, loss of reputation, shortening of a product life cycle, new technologies, catastrophic events (natural catastrophes, catastrophes as the impact of man-made activities) and different economic and non-economic risks. All this says about “downsizing of entrepreneurial world” and “acceleration of the development”, those threats existence and operation of an enterprise. The risk management process should be implemented within every managerial decision in an enterprise. There are defined in the paper some basic principles applied in an enterprise based on the international risk management standards as well as some scenarios relevant for any enterprise with proposed activities to mitigate financial and other negative consequences of emerging risks.

Keywords

Risk management, enterprise risk management

JEL codes:

G.32

An enterprise performs its activities within micro-, macro-and internal environment. The characters are subject of these environments and their consequences are many times in contradiction to defined enterprise objectives. The specific items are generally called risks. The risk is quantified as the multiplication of likelihood and the consequences of the specific event. There is optimal level of risk (generally) is a compromise between the amount of risk and return/ invested capital.

Intuitively this assumption is clear but the problem in practice is to answer/solve following questions:

- How to establish optimal level of risks?
- Is there only one level or is there a hierarchy of enterprise risks ?
- How to evaluate/quantify risks and their consequences ?
- Is there a set of relevant/irrelevant risks and under which criteria to define them ?
- How to proceed to establish organizational structures responsible for/focused on risk management?

Nowadays, an enterprise is facing the following risks: globalization, loss of reputation, shortening of a product life cycle, new technologies, catastrophic events (natural catastrophes, catastrophes as the impact of man-made activities), different economic and non-economic risks active in interaction between an enterprise and its environment.

Risks mentioned above are complex, while specific situation of an enterprise can be characterized by political, social, technological, technical and other features. All this says about “downsizing of entrepreneurial world” and “acceleration of the development”, those threats existence and operation of an enterprise.

RISK AND RISK CULTURE

There are many definitions of risk. In the article we use the definition from [1, p. 20] - effect of uncertainty on objectives. Currently developing approaches to risks - the risk perception as a negative phenomenon to targeted risk-taking from a passive attitude to risk to a proactive, intuitive risk management to a systemic approach. Risk perception as a negative phenomenon does not develop an entrepreneurial culture in the company, which is determined by the strategy. The business culture is based on a risk aversion and investment does not allow full development of business activities, which are implicitly linked to the risk. Passive and silo risk approach means that the enterprise and its components react by taking measures to the risk ex post. After the occurrence of risk specific measures to minimize/eliminate it are applied. The usual (silo) approach is the applications associated with isolated solutions – e.g. marketing deals with „their own risk“ and production deals with "their own risks" alternatively. The approach explicitly defined is based on the postulation to enterprise risk management as a whole (also holistic approach). Strategy, competencies, methods of evaluation, monitoring, communication channels and competencies are distinct. Intuitive approach to risk management is based on an decision maker experience. The system approach has the ambition to tackle not only the risks anthropogenic (human activity-dependent) as well as natural hazards with application of quantitative methods.

The statistical survey performed in the field risk management applications [2, p.15] was carried out in 2009. The objective was to answer the following questions:

- Is there a framework of risk management in a company, and if yes, what kind ?
- Do you take the organization framework of risk management as an opportunity ?
- Who is responsible for risk management in various organizations ?

The survey interviewed a total of 89 organizations in Czech Republic. The results have shown that 76% of respondents manage the risk intuitively; 43% is processed to identify risks, using set systems (36%) contingency plans (33%) and is designed for a specific person for risk management (24%). Risk management in business was 79% perceived as a source of competitive advantage. The establishment of risk management department was preferred by big enterprises and for small enterprises external specialists were applied.

In another survey, carried out in Slovakia in 2009 [3, p.2] was found that 96% of organizations believe that there is a potential to improve quality of risk management within a company. About 50% of the questioned organizations recognize that risk management will increase their competitive advantage. The survey conducted among 500 top managers showed that the slowdown in economics has created a need of greater awareness concerning enterprise risk management. About 2% of them plan to reduce investment in risk management and 61% plan not to invest in time period of 12 to 24 months. An overall framework for enterprise risk management is still missing, and responsible structures in the Slovak enterprise management risks are not adequately connected and operate without a link to the wider business strategy. Effective enterprise risk management provides benefits: easier disclosure of key risks, improvement of the company economic performance (99%), greater level of assets protection (98%), improvement of decision making process (98%) and greater compliance with the regulations (98%).

Risk management has become very important phenomena in the last period; there are different methods and approaches to its implementation. The professional level of risk management can be described in the Slovak republic as very diverse. Banks and insurance companies are on the top. They have organizational structures – departments responsible for the agenda and the subject is internationally coordinated. In banks and insurance companies there is also applied concept of Business Continuity Management (BCM). In large non-financial enterprises there is risk management applied mainly in finance (competency of financial department), technology (competency of production department) and other risks (other departments). The most common in a small and medium enterprise there is a department responsible for health and security at work (BOZP) – the reason is based on the law. Some SME solve this obligation via outsourcing. Also based on the specific bill there are some enterprises forced to implement procedures and structures within emergency management (agenda SEVESO). The risk management in shareholding companies is managed by board of owners and supervisory board.

RISK MANAGEMENT STANDARDS AND PRINCIPLES

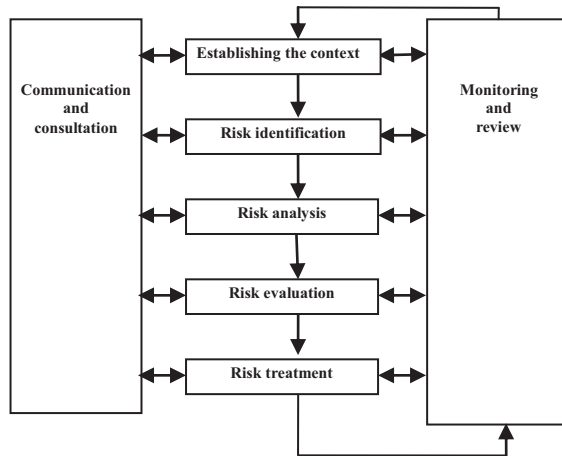
The most famous standards are:

- Risk Management Standard IRM 2002

- AS/NZS 4360:2004
- Enterprise Risk Management – Integrated Framework – COSO: 2004
- ISO 31 000:2009 Risk Management

The risk management process based on the latest standard is:

Fig. 1 Risk Management process [1,p 20]



The risk management process should be implemented within every managerial decision. The decision with high impact on an enterprise strategy should be a part of risk management process.

Risk management framework deals with organizational arrangements to implement risk management into an enterprise. Therefore its application means to change culture of an enterprise – the change means adoption to all organizational processes. The objective is to modify responsibilities, competencies and motivation of all decision makers in a company.

The basic principles applied in an enterprise from international risk management standards are:

- Risks in an enterprise have their risk owners
- An enterprise culture should support risk management process, what increases its competitiveness
- There should be link/relation between enterprise strategy and risk appetite
- Risk management is formalized via applied methods and institutionalized via relevant organizational structure
- There should be implemented early warning systems in an enterprise
- Enterprise risk management (risk appetite) is oriented to risk/return optimization; risk is an integral part of the decision making process.

Within the risk management framework the specific assignment of roles/their objectives is performed:

- Board – approves risk appetite (amount of risks accepted by an enterprise), approves and update enterprise risk management strategy and risk passport and approves the organizational structure of risk management for enterprise
- Chief executive officer (CEO) – determines risk appetite of an enterprise, defines strategy in relation to the defined risk appetite and creates conditions for effective operation of risk management bodies within an enterprise
- Chief risk officer (CRO) – defines risk management tactics taking into account strategy, manages structures responsible for risk management and communicates with all relevant structures within an enterprise.

RISK MANAGEMENT APPLICATION IN AN ENTERPRISE

Within the framework of business continuity management an enterprise should consider the following risks (their modification depends on the type of business, localization of an enterprise and other specific items of micro and macro environment). It follows (see lit. [4, p.3] – modified):

- Management of significant reduction of employees
- Management of evacuation of the company
- Management of unexpected loss of electricity, gas and water
- Management of unavailability of oil and fuel
- Management of loss of telecommunication infrastructure
- Management of loss or disruption of IT systems
- Management of loss or disruption of key suppliers

Management of significant reduction of employees – this situation can happen in case e.g. pandemic flu. The enterprise should identify critical activities and on its basis to define minimum number of employees to operate them. Within the framework of analysis is defined the flow of material and are identified competencies in the decision making process and other tasks, that are relevant with performance of critical activities of the company.

Management of evacuation of an enterprise – within this task it is necessary to identify sufficient number of persons responsible for evacuation activities, elaboration of plans, communication plans. The relevant bodies are not only employees but also important customers and suppliers. Within the evacuation is also important to establish remote control centre to fulfill all basic objectives – personnel, material, communicational and financial.

Management of unexpected loss of electricity, gas and water – loss of electricity must be analyzed especially from a time period point of view and its impact on the critical activities and necessity to identify measures for recovery. Within this objective is important to identify human recourses and to define equipment that support critical activities and will be not operating during the loss of electricity. Within this period it is useful to identify secondary effects as the consequences of loss of electricity (e.g. water, computer systems, financial systems, petrol stations). The loss of water can be crucial in a specific technological process therefore it is vital to identify alternative possibilities as well as secondary effects of unexpected losses.

Management of unavailability of oil and fuel – for critical activities there must be defined conditions of crises period, identified back-up deliveries and their initialization.

Loss of petrol and fuel will support measures like (possibility to work at home), rationality of existing fleet execution (sharing of vehicles and planning of cruises) and also public transport can be important source of transport capacity for entrepreneurs.

Management of loss of telecommunications infrastructure – the most important is to secure alternative support for various services - internet, mobile communications, fixed lines, video conference. Telecommunication infrastructure is an very important item of internal and external communication with key customers and suppliers and therefore it is important to identify these subjects and to propose alternative communications systems (provider, data carrier).

Management of loss or disruptions of IT systems – many activities are based on framework 24/7. This creates a problem of functionality of computer systems and it is mixed with the objective to identify assets that are a part of the critical enterprise activities. That way the problem of back-up (hardware, software) and problems with data security are vital for entrepreneurial activities of an enterprise.

Management of loss or disruption of key suppliers – key supplier is a supplier, whose position on the market is strong or its amount of supply creates significant danger for continuity of business activities in case of not holding agreements. Because of that there must be identified back-up suppliers.

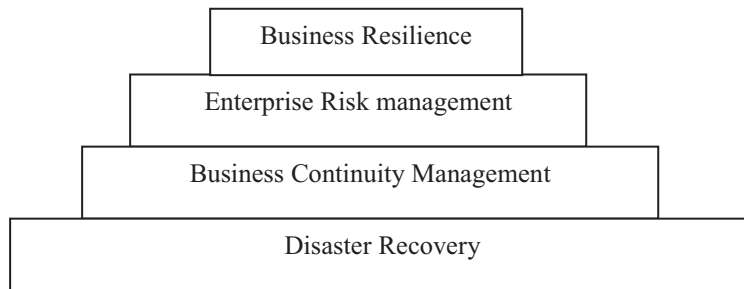
CONCLUSION

According to AON [5, p. 1] the main features of risk management in the near future will be:

- Enterprise risk management will be focused on managing opportunities in addition to threats
- Chief executive officers will become more involved in risk management and the solutions in addition to managing costs
- More companies will appoint Chief risk officers.

Risk management is the part of managerial activities and it is the philosophy of how to improve competitiveness of an enterprise via application in its business culture.

Fig. 2 Hierarchy of risk management



Disaster recovery is a concept of implementing sources to mitigate negative consequences of a disaster.

The main objective of enterprise risk management is to increase value to owners via managing risk within an enterprise. The idea is that risk can be seen as a threat as well as opportunity.

Business continuity management involves managing the recovery or disruption of business activities in the event of a business disruption and management of the overall programme through training, exercises and reviews, to ensure continuity plan(s) stay current and up-to date. [6, p.41]

Business resilience is a theoretical framework to manage all kind of risks via application of different tools and methods.

Small end medium enterprises are faced to risks. Their position is venturesome as well as their business – therefore it is essential for them to manage risks to survive. There is a hierarchy of approaches in the figure that deal with the subject of the paper.

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**ACCOUNTING POLICIES AS A PREREQUISITE
OBJECTIVE PRESENTATION OF FINANCIAL
STATEMENTS**

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Abstract: According to traditional theory, the company seeks to maximize profits. However, managerial economics can not ignore that there are alternative models of firm behavior and achieving favorable results. The paper wants to put to the forefront the importance of accounting policies and their institutional framework during the preparation of financial statements, and then the use value of such reports for internal and external customers. On this basis, we will try to confirm the thesis that the accounting policies are an important factor in the quality of financial statements and show that accounting policies can have an impact on the financial position and performance of business operations through short-term and long-term time dimension, to the effect of the application of accounting policies in the area of fixed assets depreciation, inventories of raw materials, provisions and revenue recognition and receivables write-offs.

Keywords: accounting policy, international standards of financial reporting, financial statements, fair presentation

JEL codes: M 41

**1. FRAMEWORK FOR THE PREPARATION AND
PRESENTATION OF FINANCIAL STATEMENTS**

Financial statements are prepared for a variety of users for the purpose of making business decisions. Potential users of financial statements are investors, employees, creditors, suppliers and other creditors, customers, governments and their agencies and the public. In order to harmonize the financial reports the Committee for the International Accounting Standards is a work of the criteria

that the financial statements should be prepared in accordance with a coherent and applicable basic principles.

With this aim, the Committee (IASC - International Accounting Standard Committee), and today by the International Accounting Standards Board (IASB - International Accounting Standard Board) published a *Framework for the presentation of financial statements* 1989th year which was adopted by the IASB 2001th year. It should be noted that the Frame is not standard, but is useful as an introduction to concepts related to the presentation of financial statements, assists in developing standards and helps accountants, auditors and users of all standards. The purpose and status of the Framework is to assist in the preparation and presentation of financial statements and providing a consistent application and interpretation of standards. In point 3. cites that a small number of cases may lead to disagreements between the Framework and some IAS. Then give priority IAS, with the provided that these differences will eventually be less and less. Scope of the Framework include:

- ✓ objectives of financial statements,
- ✓ qualitative characteristics of financial statements;
- ✓ definitions, recognition and measurement parts of which are financial statements, the concepts of capital and preserve capital value.

The objective of financial statements is to provide information on the financial position, performance, changes in financial position of companies that are the basis for making business decisions. Should take into account that the financial statements do not provide all the necessary information for decision making, because they represent past events.

Qualitative characteristics of financial statements are understandability, relevance (significance), reliability, fair (honest, true) presentation, which provides transparency, it is more important than legal form, neutrality, prudence, integrity and comparable [1, p. 84].

Limitations of important and reliable information are:

- Timeliness (time limit, ie. reporting should be timely to not lose the importance and reliability),
- cost / benefit or the balance between costs and benefits, and
- the balance between qualitative characteristics.

Recognition of the elements of financial statements is done if:

- it is likely that some future economic benefits or inflow and outflow from the company, and
- the item has a cost or value that can be reliably measured.

Measuring the elements of financial statements shall be election of the following basis for measurement:

- ❖ historical cost,
- ❖ current cost,
- ❖ sales (marketable) value,
- ❖ present value.

Concepts of capital and preserving capital involve the concept of financial capital, as measured by nominal monetary units and is synonymous with net assets or equity companies, and the physical concept, which involves the legal capacity to produce a certain number units of product per day.

The accounting policies that an enterprise should determine, allow comparability. The company shall record transactions and business events so that the accounting policies adopted, is consistent with the qualitative characteristics of relevance and reliability. Otherwise, the frame, it can be said, that provides the basic elements and guidelines for the determination and disclosure of accounting policies.

2. CONCEPT AND SIGNIFICANCE OF ACCOUNTING POLICIES

In an effort to achieve the objectives of the company managers have a well managed and constantly make decisions, whose consequences and results are expected in the future. For this process need quality information, which is mostly obtained, from the accounting department. The processing and finalizing the accounting information can be used alternative procedures and policies, that depend on the goals of business policy and management companies. The concept of accounting policies first appeared in America in the fifties, as a function of promoting računovodstvene profession.

Professional organization of accountants, in accounting policy, is formulated as a "specific principles and methods, which the management has chosen to display the real financial position, changes in financial position and operating results and that are in accordance with generally accepted accounting principles" [2, p.146].

Accounting policies are the specific principles, bases, conventions, rules and practices, applicable entity in preparing and presenting financial statements [3, p. 255]. Accounting policies are determined in accordance with appropriate standards or interpretations applicable to a particular item, which is done through the records of a specific business event or transaction. Application of the adopted policy is required, whenever the effect of their application materially significant. The company adopted an accounting policy should be written, such an internal act.

Based on research carried out in Bosnia and Herzegovina, showed that 96, 88% of companies applied accounting policies, and only 3.12% said they might apply. During this research has not shown that in Bosnia and Herzegovina, there are enterprises that do not apply accounting policies, but found that they are not sufficiently implemented, it shows the data of Table 1.

Table 1. Implementation accounting policies

Option	% of share
Yes	23,08
No	30,77
Maybe	46,15

To users of financial statements could be interpreted a certain position and understand their meaning, these reports should contain additional information about the changed methods and techniques of presentation of certain items, and additional analytical data. The accounting policies adopted, which are in accordance with International Accounting Standards (IAS), also should be disclosed in financial statements. According to IAS compiled financial statements intended for external users, such as current and potential investors, government institutions, customers, suppliers, banks - creditors, citizens and others. Financial statements must be such, that users can understand and use information, for making economic decisions.

The accounting policies enable recognition of the position in the underlying financial statements, when the International Accounting Standards, other than basic methods of valuing assets and liabilities, given the possibility of using alternative procedures. In Table 2. is shown institutional framework of accounting policy and balance [4, p.84].

Table 2. Institutional framework of accounting policy and balance

CRITERIA	COUNTRY		
	USA	B&H	GERMANY
ACCOUNTING POLICIES	Accounting policies	Accounting policies	Balance Policy
INSTITUTIONAL FRAMEWORK	IAS Laws	IAS Laws	Laws

Regardless of which policies are applied, it is essential that there is a choice, because of the policy goals to be achieved.

3. INFLUENCE OF ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

The financial statements have a certain form that is prescribed balance sheet schemes. The objective of financial statements is to provide information about a company are a large number of users to make important business decisions [5, p. 19]. However, the value of balance sheet positions of influence the choice of accounting policies and policy evaluation. The quality of financial reporting plays an important part material content. A key factor in quality, in this case, are the accounting policies. They are to a considerable extent, and policy evaluation, it can affect the value of the position of the financial statements. The quality of financial statements, therefore, should be viewed with a formal, but it is the material aspect [6, p. 123].

Figure 1. Quality factors of financial statements

Quality factors of the financial statements	
Formal – balance schemes	Material – accounting policies

To achieve the quality of substantive content, it is necessary to comply with the accounting principle of continuity, consistency, prudence, causality, the principle of individual assessment and identity balance sheet items. Various bodies to create and publish standards, but also accountants and auditors, must take account of the balance of conflicting information from the qualitative characteristics of financial statements. Information should be timely and reliable, because the delay can be reduced importance. However, the rapid publication, regardless of importance, can present unreliable information, which can be the basis for the wrong business decisions. To make the information helpful in the process of decision making, they must meet certain quality criteria. Conceptual framework, laid down the basic criteria to be met in order to achieve quality.

The quality of accounting information is divided into two levels, primary and secondary. The primary quality is determined by the relevance and reliability of accounting information. It is relevant information, which is characterized by the value prediction, feedback, and timeliness. This means that the relevant information relating to a future time, corrects or confirms previous expectations, and users were presented in the right time. Reliable information is the one that is free of errors and sidedness, respectively, which is presented fairly. Information must also be proven.

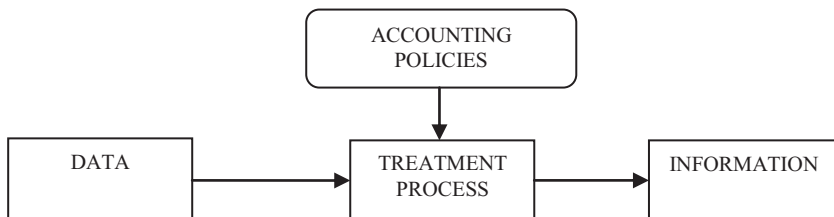
The secondary level of quality is considered based on the comparability and consistency. In order to assess some economic phenomenon, it is necessary to observe the relative relations, ie in relation to a relevant basis of comparison. Only then can argue about the similarities and differences, and make determined by a business decision. The quality of accounting information should be considered is the aspect of limitations, which appear in the process of their formation.

John A. Caspari back in 1968th the value of information is defined as an additional profit, which may gain or loss, which can be avoided if certain information is used. This economic concept implies, that information should be produced, beyond the point where marginal cost equals the marginal benefit. The value of information is the benefit produced by the information minus the cost of producing it [7, p. 27]. Coefficient information can be determined as the quotient of the effect of the use of information and cost data collection and presentation of information. In situations where the cost of acquiring information is lower than 1, it is not advisable to act effectively in this area, that it is rational to act when the coefficient is greater than or equal to 1 ($K \geq 1$).

On the basis of accounting principles, determined to bring accounting standards, and that's accounting standards are the basis for selecting and applying accounting policies. In this context, these requirements are an important factor in selecting accounting policies, and thus the quality of financial statements.

The accounting policies have an important role in the process of data processing, preparation of information that is basic financial statements. In determining the material content, accounting policies directly or indirectly, affect the quality of information that is presented to users.

Figure 2. Location of accounting policies in the accounting process



In this sense, management should develop and implement accounting policies, which will provide information that are:

1. important and necessary to the making of economic decisions,
2. so that reliable financial statements:
 - a) represent faithfully the financial position, financial performance and cash flows of the entity;
 - b) reflect the economic substance of transactions, other events and conditions, and not just a legal form;
 - c) neutral and impartial;
 - d) based on prudence;
 - e) complete in all important aspects [8, p.3].

It should be bear in mind that the cost / benefit analysis is often not applicable to all accounting information. Cost efficiency can be a criterion in the selection of management accounting information, and in preparing reports that are required by legislation, it is not the determining criterion.

3.1. The selection and disclosure of accounting policies

Accounting policies are an integral part of the accounting standards, or general accounting regulations. This regulation may determine the specific professional association or legal documents. In doing so, define the starting principles and scope of the allowable alternative accounting policies, which can be applied in the processing of accounting data. Generally speaking, the accounting policies are substantially influenced by professional associations or legislation, a selection of them and apply, within a given framework, individual undertakings. Therefore, the responsibility for their selection and application can be viewed at two levels:

- at the state level and
- at company level.

At the state level, or the wider community, are determined in accordance with the general economic and political goals, it is possible, ie, permissible accounting policies. In developed countries, they are presented in the form of accounting standards and their adoption is provided by professional organizations. They are also the framework for the selection of accounting policies at the level of individual enterprises. For the selection and application of accounting policies at the firm level is in charge of management. This choice should be in accordance with certain principles and objectives of business policy.

In selecting accounting policies, management must have a basic knowledge of accounting, in order to understand all aspects of an application (selected) accounting procedure. At the same time, knowledge and experience in accounting employees can be extremely valuable. In this process it is necessary to bear in mind, to choose the methods and procedures that will be most realistic in the circumstances to show the financial position, changes in financial position and business performance. In this regard, the question is, what are the optimal accounting policy. The answer is not possible to unambiguously determine because it depends on many factors such as the set business targets, the existing institutional framework or restrictions, etc. The following table presents data on the opinion of respondents, about which the most important factors influencing the creation and selection of the optimal accounting policy in their companies.

Table 3. Participation of individual factors on the creation and selection of the optimal accounting policy

Factor	% of participation
set business targets	33,33
existing institutional framework and constraints	10,67
provisions arising from the Standards and Interpretations, and the relevant instructions for use	33,33
criteria for recognition and the concept position evaluation of financial statements	22,67

Management may, in making their own court, to consider other, more recent closures of other professional bodies, which use the same or similar conceptual framework to develop accounting standards. In the process of preparing regulations or decisions on accounting policies and estimates, the Director shall appoint a commission, which is composed of managers of individual business functions and professionals. The following data are shown in which segments are considered to be significant participation of management in the selection of accounting policies:

- 11.21% of respondents considered significant participation of management in presenting policy proposals and estimates regarding the position of capital commitments for loans, investments in other companies, the capitalization of borrowing costs, research and development costs, etc.,
- 18.69% of respondents believe a significant part of management when proposing policies and methods of assessment of raw materials and spare parts, finished products and goods, criteria for the harmonization of the value of obsolete inventory and the method for calculating the consumption of materials, determining the net value that can be implemented, etc.,
- 14.02% of respondents considered significant participation of management in assessing the useful life of property, plant and equipment, suggesting a normal capacity, to propose standards, estimates the amount of waste and estimate the level of work in progress, etc.,
- 26.17% of respondents considered significant involvement in management assesses collectibility of accounts receivable, adjustments for inventories of finished goods, with estimated costs of sales, etc.,
- 18.70% of respondents believe that all managers, accountants explains the requirements of IFRS and IAS, as well as with other statutory accounting - financial and tax regulations and other regulations, determine which positions should the accounting policies and estimates and give other information,

- 11.21% of respondents believe a significant part of management when designing and making rules and decisions.

After the election, the company needs to make a decision on adoption of accounting policies and estimates, or simply to adopt the ordinance with appropriate explanations, elaborations and applications. The accounting policies adopted for any company should, in accordance with the specifics of your business to determine how it will cover and present: the recognition and amortization of tangible and intangible assets, research and development costs, investments in real estate, financial instruments and investments, leasing, stock recognition, capitalization of borrowing costs, construction contracts, revenue recognition, impairment, value adjustments, donations, business combinations, related items, consolidated and separate financial statements, and other areas of interest for the company depending on the nature of activities.

Table 4. The most important areas of application of accounting policies

Area	% of frequency
the recognition and amortization of tangible and intangible assets	14,44
research and development costs	5,78
investments in real estate	7,58
financial instruments and investments	8,30
leasing	4,33
stock recognition	10,47
capitalization of borrowing costs	2,53
construction contracts	6,86
revenue recognition	11,19
impairment	7,22
value adjustments	3,25
donations	4,70
business combinations	2,17
related items	1,44
consolidated and separate financial statements	2,89
other areas of interest for the company depending on the nature of activities	6,85

Based on data from the previous table, we came to the conclusion which areas of the companies are usually regulated by the adopted accounting policies which also determine the manner of their presentation and coverage.

3.2. Assessment the position of financial statements

From financial statements are required to fairly and objectively inform the internal and external customers all the information about the condition and performance of enterprises. However, no accurate balance, because on the reality, authenticity and reliability the most impact has assessment, or evaluation

of assets, liabilities, revenues and expenditures, because there are different approaches to estimate from purchase to fair value. In other words, the financial statements can be realistic and fairly presented, only if the position of the financial statements fairly assessed. This assessment is not problematic in the initial recognition, because the initial evaluation is done according to the criteria for expenditure of purchasing. The problem arises in the evaluation upon initial recognition. IAS and regulations permit the use of different management methods. In the valuation of assets can be used different approaches, such as: acquisition cost (historical cost), current expense (cost), replacement cost, market value, the reevaluated value, realizable value, net worth that can be realized, the recoverable amount, present value, fair value. The percentage share of certain approaches to the valuation of assets is evident in the following table.

Table 5. Approaches to asset valuation

Approach	% of representation
acquisition cost (historical cost)	32,47
current expense (cost)	9,09
replacement cost	2,60
market value	19,48
the reevaluated value	5,19
realizable value	1,30
net worth that can be realized	2,60
the recoverable amount	1,30
present value	15,58
fair value	10,39

Liabilities can be evaluated at purchase cost, current cost, present value, the value of the settlement and the fair value.

Table 6. Valuation of liabilities

Method	% of frequency
purchase cost	58,33
current cost	6,67
present value	20,00
value of the settlement	6,67
fair value	8,33

Based on the tests, we concluded that the most prominent application of accounting policies in the area of fixed assets and depreciation of 33.70%, in revenue recognition and receivables write-off of 31.52%, in inventories of raw materials 25%, and in the provision 9.78%. The following tables will show which of these areas, respondents felt that the application of accounting policies are the most represented in the short and long term.

Table 7. Application of accounting policies in the short term

District	% of the representation
fixed assets and depreciation	21,33
stocks of raw material	30,67
provisions	8,00
revenue recognition and receivables write-offs	36,00
other	4,00

Table 8. Application of accounting policies in the long term

District	% of the representation
fixed assets and depreciation	35,14
stocks of raw material	18,92
provisions	9,46
revenue recognition and receivables write-offs	32,43
other	4,05

Research has shown that the application of accounting policies has not the same effect in the long and short term. In fact, research has found that 94.80% of respondents felt that the impact of accounting policy is evident only in the short term 94.80%, while only 5.2% thought that he was evident in the long term.

When assessing the balance sheet positions, and preparing and presenting financial statements, one of the principles and assumptions is the precautionary principle, by which the gains should not be overestimated, and the losses do not underestimate. Based on this principle, assets are estimated by the rule stated, at cost or net selling price, depending on what is below. However, applying this principle should not be underestimated maliciously assets and income, or overestimate the obligations and expenditures, because it creates latent reserves and hidden losses.

Latent reserves occur when the active balance positions underestimated, ie the next year is transferred proportionally small fraction of the cost or when the passive position overestimated, so that a portion of the proceeds transferred to future periods. onversely, the hidden losses resulting overstatement of assets and underestimation of liabilities. Latent reserves by prof. Schmalenbach occur in the event of excess depreciation due to accelerated depreciation, valuation of inventories at lower prices, posting investment in expenditure, under-estimating the work in progress, debt write-offs, etc.

To the same effect leads to overestimation of liabilities, and the most common cases are: provision of costs for risks such as guarantees and similar, charges may be time to divide (accruals) [9, p. 122]. In contrast to latent reserves, ie, hidden profits, a result of policy evaluation can be hidden losses, as a result of overestimating asset position or underestimating the responsibilities position.

CONCLUSION

Accounting policies do not create the operating result but the choice of different methods of operating result possible "move" from one accounting period to another. Based on research carried out in Bosnia and Herzegovina showed that over 96% of companies applied accounting policies. The most important factor in creating and selecting the optimal accounting policy is considered to set business targets and provisions arising from the Standards and Interpretations, or relevant instructions for use. Areas in which the most commonly applied in accounting policies during the capture and presentation are: recognition and amortization of tangible and intangible assets, inventory and recognition of revenue recognition. Assets are usually valued on the basis of purchase cost, as liabilities. Therefore, we conclude that in the short period of time effect significant changes in accounting policies exist, while the long time effect of changes in accounting policies do not exist. Because of all this we can say that the accounting policies, regardless of the term, an essential prerequisite for the objective of financial reporting.

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**POSIBILITES AND CHALLENGES OF FINANCING SMALL
AND MEDIUM SIZED ENTERPRISES (SMEs) BY ISSUING
SECURITIES ON SERBIAN FINANCIAL MARKET**

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Abstract

Small and medium sized enterprises (SMEs) are an important ingredient for stable and equitable growth in any national economy. Small and medium sized enterprises need financing to fund operating needs, short and long run investment objectives, expansion projects and capital structure adjustments. These entities usually are unable to finance projects with internal funds because their turnover and profit levels are limited. There is a number of potential sources of finance to meet the needs of small and growing business (existing shareholders, family and friends, business angels, banks, factoring, leasing, venture capital, etc.) This work is attempt to answer the question: is it possible to find funds for this activities by issuing securities on Serbian financial market.

Keywords: Small and medium sized enterprises (SMEs), financial market, securities

JEL codes: G10, G19 ,G29

1. INTRODUCTION

Small and medium enterprises (SMEs), which are very different and vary from traditional family-led businesses to high-tech and fast growing companies, are the engine of economic development. Their comparative advantage is that they are flexible and can quickly adapt to change and to meet market demands. SMEs are particularly important as part of the supply chain of multinational companies MNCs (1), and essential in the process of transition from agriculture-dependent economies to industrial and service-oriented economies. They are very important in the creation and launching of innovative products and technologies to market. It is evident that for majority of SMEs at the start of operations it is difficult to identify funding for home businesses, its development and marketing. A large number of data and analysis indicate that the SMEs to a greater extent rely on internal financing and that the probability for SMEs to obtain a loan in developing countries relative to medium-sized is one-third smaller and in comparison with large companies more than twice smaller. Also, in developing countries other sources of financing SMEs such as leasing and factoring are less available. The main concern of SMEs in the sector of advanced technologies such as nanotechnology and biotechnology is how to survive “Valley of death”, i.e. period between the research phase and the phase when the product can be found on the market. Access to finance is crucial in this regard. Typically, and perhaps the best known company that started out as SMEs, is the international software industry giant Microsoft: starting a business supported by the family and friends, with the development of products that could offer a wide market, opened the door to new and wide sources of funding.

Of 21 million companies in the European Union, 99% are SMEs. They contribute to the overall GDP of the EU from 60% to provide over 80 million jobs. This means that the SME sector employs two-thirds of the total number of employees in the private sector in the EU (2).

2. SMEs IN THE REPUBLIC OF SERBIA

The small and medium enterprises and entrepreneurs in the total number of enterprises accounted for 99.8% (from 315,365 businesses in the enterprise sector was 314,827 enterprises, of which 226,241 entrepreneurs account for 77.7%). This sector in 2009 represented the most efficient segment of the Serbian economy because employees generated 66.7% and 67.8% of turnover non-financial sector of the republic. It is estimated that in 2009 the sector contributed 1 / 3 in the gross domestic product (GDP) and 42.3% in total employment in the Republic of Serbia (3). The economic crisis in 2009

adversely affected the sector SMEs because the number of employees compared to 2008 decreased by 7.2% and drop in gross value added (-11.2%) was higher than the decline in large enterprises (-4, 8%). At the same time there has been a fall in turnover (-14.7%), loss in productivity measured by GDP per employee value, falling profit margins.

In the previous period Republic of Serbia has made progress in implementing the SME development policy, particularly regarding the conditions for starting a business and a stronger financial support from the state. From public sources provided the incentive funds for lending to beginners in business, unemployment, underdeveloped communities, innovators, and the financing of business internationalization of SMEs, cluster development and infrastructure business incubators. Programs of the Ministry of Economy and Regional Development for credit support to start up businesses, as well as for unemployed, under favorable conditions of market, are implemented. Key role in providing credit support under more favorable conditions held a Development Fund of the Republic of Serbia and the Agency for Export Insurance and Financing. For better and faster start up, state support for the setting up of business incubators in 14 municipalities are significant. The banking sector was providing a similar range of banking products, but the main problem remains the high cost of capital. In the Republic of Serbia there are still no specific financial institutions that would support development of SMEs under more favorable than the market conditions.

Despite progress, there are still numerous obstacles to the rapid development of the SMEs sector. This primarily refers to the informal economy, the overall fiscal abstraction, particularly the large number of so-called hidden taxes, lack of public procurement, affordable sources of funding, their narrow range with a high price, monopolies, difficulty collecting payments, excessive paperwork and inadequate tax administration relationship, complicated and costly administrative procedures. In this sense recommendations of the World Bank for standardizing and simplifying regulations are significant (4).

Table 1 SMEs business conditions (5)

BENEFITS	IMPEDIMENTS
A good geographical location, free trade with the CEFTA countries, Russia and Belarus	Insolvency
Credit lines of the European institutions	High bank interest rates
Cheap labor	Tax burdens
Rich natural resources	Slow obtaining a certificate of quality
	Insufficient promotion in major markets
	Technological backwardness
	Bureaucracy

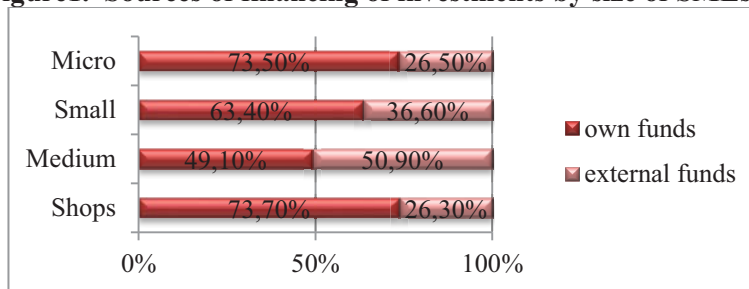
3. PROBLEMS IN FINANCING SMEs

One of the most difficult constraints is access to the more favorable sources of funding. The most prominent problems in financing small and medium enterprises are:

- High cost of capital, as a consequence of the high business risk. Unlike the U.S., where they widely use method of determining the credit rating of small and medium enterprises (6), determining credit worthiness and credit standing of SMEs in the Republic of Serbia is a major problem.
- Lack of long-term sources of financing, primarily for long-term investment. This is particularly important bearing in mind the technological backwardness of SMEs. The average age of machinery, equipment and high-tech tools in the Serbian economy in 2009 was 29.5 years, and in the SME sector was 24 years.
- The unavailability of comprehensive data on operations, adequate investment and business plans and data management experience and results.
- A short history of business, as a prerequisite for the establishment of confidence of potential investors.
- Rigidity of legislation, other than banks, does not allow formation of alternative credit institutions, such as guarantee schemes (guarantee funds, venture capital funds, micro-credit lines).
- Absence of established investment funds in financing SMEs.
- Lack of adequate collateral, such as movable and immovable property, often unable to place a mortgage due unregistered property, unstable situation in the Land Registry, the difficulty in establishing and collecting pledges.
- Lack of expertise and knowledge of SMEs owners and management of domestic and foreign sources of funding.

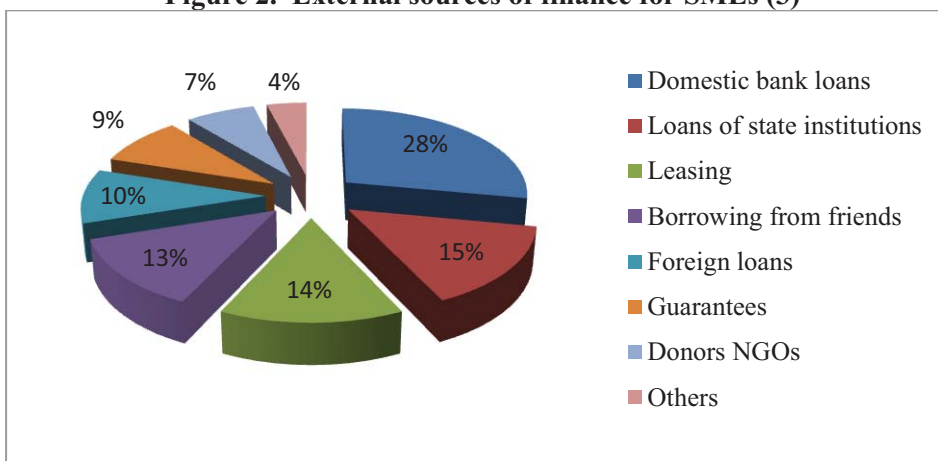
Reliance on own sources of financing, as a typical phenomenon in SMEs, are primarily because of lack of adequate external financing sources, and not of the internal financial strength. Although, according to the 2009 survey, third of SMEs relied on the external financing sources of investments, which is much better than five years earlier, when the external resources used only by 19% of surveyed companies, the situation is still far from satisfactory. Only one in five respondents had used external sources funding for current operations.

Figure1. Sources of financing of investments by size of SMEs (3)



From external sources, in spite of numerous obstacles such as high interest rates, fees and difficulties in obtaining security instruments, bank loans are the most common (28%), while a smaller volume of state fund, leasing, foreign loans, guarantees, grants are used.

Figure 2. External sources of finance for SMEs (3)



4. SOURCES OF FINANCING SMEs

Characteristics of SMEs change as their business develops. One of the conditions for business growth is providing sources of funding to support this growth. It is generally accepted that SMEs have different optimal capital structures and accordingly different stages of their funding from different sources. Access SMEs to finance is still largely limited. The backbone of financing the SME sector was represented by the Development Fund of the Republic of Serbia, whose incentives are realized through a credit line of the Ministry of Economy and Regional Development on individual programs. Bank loans are still very expensive and often exceed the interest rate of 15%, and are inaccessible to most of the SMEs concerned. Soft loans of the European Investment Bank and European Bank for Reconstruction and Development and other European institutions, are insufficient for meeting barely six percent of the development needs of the sector. Also lack adequate micro-credit and guarantee funds at the regional and local levels, as well as other sources of funding appropriate to the real possibilities of this sector. Progress has been made in the provision of subsidies and guarantees, but funds for microcredit are still insufficient, while the venture capital is still underdeveloped (7). Securing additional funding sources is possible with exit of SMEs in the financial markets. SME financing is more challenging during the financial crisis triggering a clear question of alternative sources of financing, especially SMEs with growth potential.

There are a number of potential sources of finance to meet the needs of a growing business:

- 1) Existing shareholders and directors funds ("owner financing")
- 2) Family and friends
- 3) Grants and Soft Loans
- 4) Clearing banks (overdrafts, short or medium term loans)
- 5) Factoring and invoice discounting
- 6) Hire purchase and leasing
- 7) Merchant banks (medium to longer term loans)
- 8) Venture capital
- 9) Business angels financing
- 10) Equity finance

Entities may use internal funds to finance expansion needs. They use retained earnings portions of income not distributed as dividends. Public offices may provide subsidies, grants or fiscal benefits to investors who meet specific criteria and follow some guidelines (investing in economically disadvantaged zones, hiring local job seekers and paying employment taxes). Grants are normally made to facilitate the purchase of assets, jobs or for training of employees. Soft loans are normally subsidised by a third party so that the terms of interest and security levels are less than the market rate. SMEs also finance their operations by applying for fixed-term bank loans, overdraft agreements or credit lines. Such types of borrowing are facilitated by financial institutions such as banks, private equity firms and asset managers. Mezzanine debt is a loan finance where there is little or no security left after the senior debt has been secured. To reflect the higher risk of mezzanine funds, the lender will charge a rate of interest of perhaps four to eight per cent over bank base rate. Finance can be raised against debts due from customers via invoice discounting or invoice factoring, thus improving cash flow. Hire purchase agreements and leasing provide finance for the acquisition of specific assets such as equipment and machinery involving a deposit and repayments over some period. Technically, ownership of the asset remains with the lessor whereas title to the goods is eventually transferred to the hirer in a hire purchase agreement. Listed entities can raise funds by selling equity shares to investors on securities exchanges, and equity investors take the risk of failure like other shareholders. Non-listed firms acquire funding through private stock placements to institutional investors such as banks or insurance companies. SMEs also may issue hybrid finance products to fund operations (convertible bonds and preferred shares). Venture capital is a form of "risk capital". In other words, capital that is invested in a business where there is a

substantial element of risk relating to the future creation of profits and cash flows. Risk capital is invested as shares (equity) rather than as a loan and the investor requires a higher "rate of return" to compensate him for his risk. This type of capital is usually meant for investing in the young and unknown companies with high growth potential, but with a great commercial uncertainty. Venture capital includes everything ranging from seed capital to late stage investment capital with the inherent feature that allows a direct impact on the business by investors. As a shareholder, the venture capitalist's return is dependent on the growth and profitability of the business. This return is generally earned when the venture capitalist "exits" by selling its shareholding when the business is sold to another owner. The main sources of venture capital are venture capital firms and "business angels" - private investors. Business angels are wealthy, entrepreneurial individuals who provide capital in return for a proportion of the company equity. They take a high personal risk in the expectation of owning part of a growing and successful business. Business angels are important but still under-exploited as a source of capital for new and growing business ventures.

5. FINANCING BY ISSUANCE OF SECURITIES

The basic role of financial markets in the RS should strive to be the same as in countries with developed capital market, i.e. that the financial institutions, instruments and a wide range of financial services, make efficient allocation of financial resources from those who have a deficit to those who show a surplus, to allow them easier to meeting and faster transaction processing in a simple manner and with the least possible cost. Efficient financial markets are absolutely vital to ensure adequate provision of capital and economic growth, increased profitability and efficiency of business operations. The financial market provides a transparent and quick overview of achieving rates of return in relation to invested assets and leads to a kind of "cleaning" of a system of inefficient businesses. The financial market also mobilize domestic financial savings and allow its direction in the economic and financially most successful companies, and enables acquisition the company that performed worst by the more successful companies to their revitalization. Also, the financial markets provide potential investors direct investment in securities, as opposed to indirect investment through commercial banks (8).

The financial markets encouraging the public business as quotations, reports on completed trading, data on business enterprise with whose securities are traded, as well as other information affecting the price of securities on a daily basis are published in many magazines and publications. Developed markets stimulate competition, provide solvency of the financial system, allowing easier entry of

foreign capital (foreign investment), which is especially important for countries with a deficit of necessary financial resources.

The capital market provides long-term proprietary fund companies through primary selling shares, allowing the company to increase its own permanent capital. Corporate financing via capital markets, regardless of the percentage share of such funding in the total volume of financing, has several advantages: allows additional external raise funds for the development and financing of growth companies, allows to create the optimal financial structure, and achieving balance between debt and equity sources, allows to raise funds at more favorable financial conditions, increases the efficiency of management, improving the image of corporations and so on.

The owners of successful private SMEs enterprises, as soon as funding becomes insufficient internally for further development, may expose the company to the public (going public), to create conditions for external financing. Often this process is initiated by investors who have invested money to restore it as soon as possible. The main requirement to become an open company is to have big ambitions, and to estimate with certainty that it will have high growth in the future. The company does not have to be in the field of high technology, but must have potential for significant future growth in large and expanding markets. In this issue is particularly prevalent problem of determining the initial price of reasons which had not been exposed to market evaluation. A special problem is the determination of initial rates in countries where it has only started developing the capital market, so there are no quotations of similar companies whose rates would be indicative for the company that first comes to market. However, a lot of advantages going out in public has some disadvantages: the company must adapt to the conditions prescribed by the competent regulatory body, which creates additional costs, is required to form the board must adopt certain accounting standards, the public must expose confidential information from many of its operations, it becomes exposed to pressure investors.

The financing of SME development usually takes place in several stages and from different sources, with the phase offset to the company, as a rule, the debt exceeds the equity financing sources:

1. Seed capital - provided initial funding to support research and development of initial concept before a business reaches the stage of project implementation (start-up phase). At this stage the company is typically financed through a loan, convertible bonds or preference shares (9).
2. Start-up capital - financial resources provided to enable companies developing products / services and to cover the initial cost of companies marketing, but there is still no commercial sale.
3. Other early stage capital and financial resources are focused on companies that have finished stage of development of products /

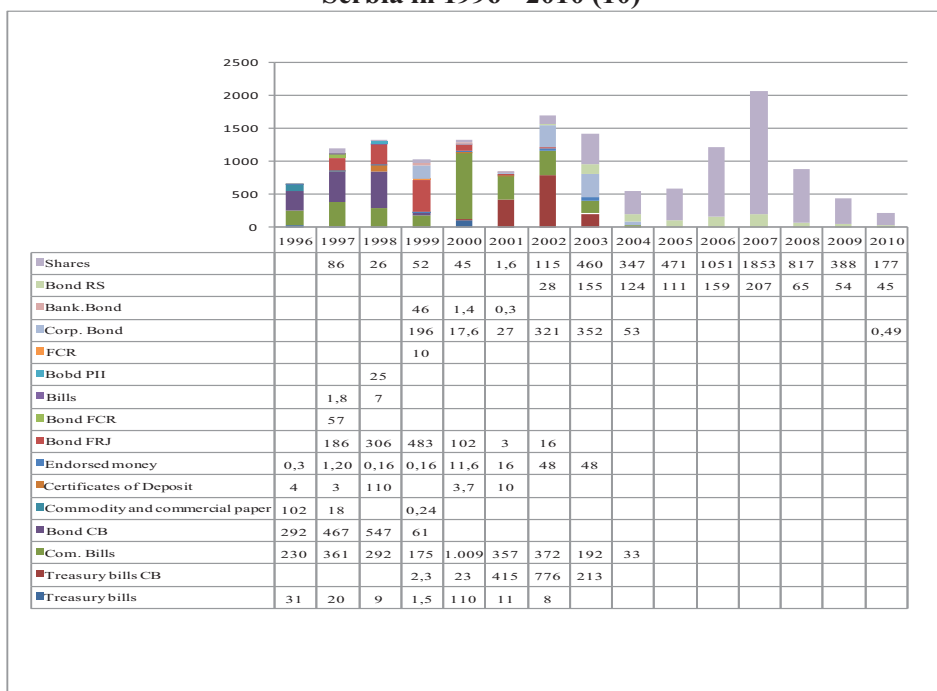
services and they need resources to start commercial production and sales.

4. Expansion capital - funds intended to support the growth and expansion of the company. This form of capital is most often used to increase production capacity, market development and to provide additional working capital.
5. Late stage investment capital - usually the last round of financing prior to the release of the company on a stock exchange-stage of mezzanine financing popular in the United States. Funding at this stage is mostly for marketing, procurement of working capital and further product development.
6. Issuance of Equity - obtaining shares owned by the company or corporation in the form of a number of ordinary or preference shares.

Figure 3 shows that in the period 1996-2010 on the financial market of the Republic of Serbia 16 types of securities were issued. More than 5 types of securities were issued in the period 1996-2004, and most of them in 1999th (11 types of securities). From 2005-2009 it was traded only with two types of securities (stocks and bonds RS). After a five-year period, in 2010 appears a public issue of bonds.

Total turnover of commercial paper (through which the company acquired through lack of funds, which was of particular importance for companies in the first-stage of development) in the period 1996-2000 amounted to 2,067 billion. DEM, and from 2001-2004 stood at 954 millions EUR, which in total nine-year period from 1996-2004 makes a turnover of approx. 3,4 billion DEM, or approximately 2,2 billion EUR. The highest traffic in commercial papers were achieved in 2000 (1,009 billions DEM). Collection rate commercial papers was almost hundred percent (except a few sporadic cases), which primarily can be explained by the transparency of the financial market. Since 2004 market share is dominated and rose to 2007 of 534%, i.e. grew at an average year rate of 107%. 2007 turnover of shares significantly decreased, and the decline in the period 2007-2010 amounted to about 50% annually.

Figure 3. Turnover in securities in the financial markets of the Republic of Serbia in 1996 - 2010 (10)



Despite the negative tendency, expressed primarily through a decline in turnover and reducing the types of securities traded, history shows that there is a potential and a positive experience and that the re-affirmation of the different types of debt and equity securities may re-establish different market segments. In particular, it will be of benefit to the SME sector, where he could obtain the missing funds and consolidating its financial structure.

Legislation is not the limiting factor in the Republic of Serbia. Specifically, under the current law on securities in the Republic of Serbia can issue debt securities (short-term or long term) and equity securities. Debt securities issued by domestic entities and foreign legal entities may be denominated in foreign currency, but domiciled legal entities should obtain prior approval of the National Bank of Serbia. Securities, as a rule, issue as a public offering, with the publication of the prospectus for issuing securities and a public invitation for subscription and payment of securities. Also, there are exceptions to the obligations of the prospectuses and trade public offering. Thus, approvals for the issuance of securities is not necessarily if the issuance is for persons whose number may be lower than 100. Also, there are exceptions, and by type of investor, so without the approval of the prospectus for the issuance of securities may be made the issue and offer of securities to known buyers, and among other professional investors, which considerably simplified the process of obtaining capital. Professional investors are, under the Serbian Law on Securities, banks headquartered in the Republic, international financial institutions, the

International Bank for Reconstruction and Development, International Development Association, the International Finance Corporation and European Bank for Reconstruction and Development, insurance companies for the management of investment and pension funds, broker-dealers firms based in Serbia.

A special contribution in financing SMEs can provide investment funds, including funds in particular risk / venture capital and equity (equity fund). This option is enabled by law since 2006, when the Republic of Serbia adopted the Law on Investment Funds. Investment funds, together with other institutional investors, are particularly involved in providing long-term sources of financing the purchase of debt or equity securities issued to SMEs, which would provide funds for long-term and intensive development of SMEs.

CONCLUSION

Small and medium enterprises, which may be very different and vary from traditional family-led businesses to high-tech and fast growing companies, are the engine of economic development in many countries. Nevertheless, it is evident that for the majority of SMEs at the start of operations is difficult to identify funding for the initial business, its development and marketing. Despite progress made, there are still numerous obstacles to the rapid development of this sector in the Republic of Serbia. SMEs financing is more challenging during the financial crisis actualizing the issue of alternative sources of financing, especially SMEs with growth potential. Obtaining additional funding sources for SMEs is possible by going public on financial markets issuing and selling securities. Despite its imperfections, the laws of the Republic of Serbia are not insurmountable limiting factor of financing by issuing and selling financial instruments, as equity and debt. One of the first and perhaps most important step in this process lie in initiating and motivating stakeholders, notably SMEs and potential investors, with the involvement and professional support by authorized agents. So the journey of a thousand miles begins with the first step.

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10. Graph by author – according to the Belgrade Stock Exchange

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**SIGNIFICANCE OF SMALL AND MEDIUM ENTERPRISES
IN MODERN FINANCIAL SUPPLY CHAIN MANAGEMENT**

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Abstract

Small and Medium Enterprises (SMEs) are major participants and have an important role in Financial Supply Chain Management (FSCM). This paper examines the definition and advantages, the requirements, current and future trends of an effective FSCM. It includes cross-organization and cross-functional collaboration, establishing business priorities, driving costs out of the supply chain, and improving working capital along the FSC. The benefits of greater dematerialization and automation across the supply chain do not mean only improved efficiency and cost savings, but also creating the ideal environment to introduce value-added services, such as e-invoicing. FSCM is discussed from various perspectives: of the bank and the customer, as well as of the buyers (who need to improve efficiency and end-to-end purchase-to-pay processes and reduce cost and cycle time, while their strategic banking partners can help them meet these challenges) and suppliers (concentrating on the order-to-cash processes and facing many of the same challenges as the buyers, such as the need to reduce expensive paper-based administrative processes).

Keywords: working capital management, automation, dematerialization, trade finance

JEL codes: G30 Corporate Finance and Governance – General

**1. INTRODUCTION, VARIOUS PERSPECTIVES AND
DEFINITIONS OF FSCM**

Financial supply chain management (FSCM) has been recognized as an important concept and element of much wider SCM discipline for a decade and half. Information network technology, its decreasing costs, and changing business practices both inside the buying organizations and outside in relation with supply chain partners have contributed to the growing number of firms determined to convert its conceptual opportunities into deliverable benefits and take advantage of the potential savings from taking a FSCM approach as the focus of their cross-functional business improvement program. The complexity, risks, and costs associated with long distance SCM have increased, relying more on low-cost sourcing countries for sourcing and contract manufacturing, and more key SCM-related processes outsourced or off-shored to third parties.

The best way to manage business complexity is to take an end-to-end process management approach, focusing on the efficiency of physical and financial flows across the chain as well as the fundamental causes of late delivery, negative cash positions, and poor working capital management (WCM). Encouraging cooperation not just across traditional company functions, such as sales, finance, and procurement, but across most of external supply chain partners, the focus is now less on redistributing cost and risk down the chain, and more on taking cost out of the entire chain while improving the efficiency of the supply chain system for all parties. FSCM does not cover only the flow of cash between businesses along the supply chain, either in the form of a payment between buyer, broker, carrier, agent, and supplier, or in the form of finance from a bank, financial institution or a supply chain partner willing to lend through an early or extended payment. It means, moreover, the exchange of assets and liabilities within the WCM cycle – again across the entire supply chain, as well, including cash and bank debt, account payables (A/P), account receivables (A/R), and the movement of stock or inventory.

Although the essence of FSCM is the management of working capital and financial flows, it also encompasses the management of information across the chain as well as the documents and data that support these flows, such as purchase orders, advanced shipping notices, invoices and payment approval processes, necessary to manage efficiently ever more complicated physical flows. The convergence of physical and financial supply chains around increasingly electronic information flows, and an improved transparency and visibility across both chains have come into experts' focus recently, in the period of global economic and financial crisis.

One of important aspects of effective FSCM is the migration of paper flows to a more efficient electronic environment. Electronic invoice presentation and payment (EIPP) processes and purchase-to-pay dematerialization projects should enable it. Thus, one can understand FSCM as the management of purchase-to-pay (P2P) or source-to-settlement (S2S) processes within buying companies, and

the management of order-to-cash (O2C) processes in a supplier firm. FSCM is sometimes used interchangeably with the term supply chain finance (SCF), although it basically consists of SCF and dematerialization, as the automation of P2P/O2C processes. Since FSCM is about improving process efficiencies and reducing costs not just for the buyers but the suppliers, logistics, and distributors, too, automating all or part of the end-to-end P2P and O2C processes is vital.

Nevertheless, it is not just moving to electronic purchase orders and invoices, but leveraging electronic information to create real-time visibility and business intelligence across the chain to improve control and risk management, supported by the banks.

From an earlier bank's marketing perspective, term FSCM was used to re-position a number of traditional banking services to its corporate customers, typically the large buyer or import organizations, including products from trade, payments, insurance, and foreign exchange, that were re-branded as an integrated set of services to support end-to-end supply chain processes rather than as standalone products. This stressed working capital related and risk management services for the buyer companies. Nowadays, working capital optimization has to be seen in the context of the efficiency of the entire supply chains and for the benefit of all key players, not just the large buying firms. The treasurers' focus has moved from cash management in a largely domestic supply chain context, to the multiple cross-border relationships and extended supply chains with low cost sourcing countries, as sourcing and manufacturing processes have been increasingly outsourced to geographically remote parts of the business or third parties.

2. THE BENEFITS AND ADVANTAGES OF FSCM

The problem with FSCM is the difficulty to forecast its absolute savings potential, even more its payback timeframes, as well as the investment required both in terms of capital and senior management efforts needed, necessary organization readiness, and a dependency on a number of important stakeholders within and outside the firm. Beside cost reduction and improved WCM, there are benefits from online visibility, risk management, and tighter controls.

The growing significance of FSCM has shifted the focus from reducing the costs for the buyer, typically at the expense of the supplier or the service provider. Instead of pushing cost down the chain onto weaker parties, it has become more important to drive inefficiencies and costs out of the chain and for the benefit of all partners, creating a "win-win-win" scenario. FSCM should provide cost reduction, better risk management, service improvement, and richer management information from a buyer and supplier perspective. Instead of selling point solutions within trade, payments, and lending functions, banks need much more

consultative approach to it. They have to understand low cost, strategic and direct sourcing, managed and outsourced services, globalization and extended supply chain management, developments in Internet-based technologies, P2P process redesign and dematerialization, compliance, global trade and supplier relationship management, and collaborative WCM.

Therefore, **FSCM benefits** are:

- 1) *Cost reduction and improved efficiency.* In physical supply chain management (PSCM) large importers and exporters have worked hard with their logistics partners to drive out cost, accelerate cycle times, improve and automate information flows and better manage risk. Direct costs associated with bank and insurance fees, finance costs and excessive working capital, either buffer cash reserves or funds tied up in accounts receivable or accounts payable, form a significant portion of the final unit cost. The aim of FSCM is to reduce this ratio for the financial supply chain as a whole.
- 2) *Improved WCM along the FSCM.* A buyer's attempt to improve own working capital position by extending payment terms would affect the efficiency of the overall chain and the liquidity of the supplier, who may need to borrow more working capital, likely at higher rates than he would have had to pay. It means higher costs for the supplier, who will try to pass them back to the buyer in the next round of price negotiations. Gains from a better working capital position could be eroded if the early payment discount is significantly higher than the buyers' cost of finance or capital, because the net benefit for the company and the overall supply chain should be maximized.
- 3) *Better risk management,* as low-cost sourcing, contract manufacturing, off-shoring, managed services, and outsourcing have all increased the complexities involved along the chain. The risk of bottlenecks and disruption and incurring unforeseen costs are greater in cross-continent and global supply chains. The growing incidence of natural disasters resulting from climate changes, terrorist acts, embargoes, fraud, money laundering and economic volatility all adds to the risk profile of a global supply chain. Compliance requirements are getting tougher for both importers and exporters alike. OFAC, Green-lane status in the US, Sarbanes-Oxley, Basel II for banks are examples of compliance related initiatives that need to be taken seriously and require investment.
- 4) *Improved services and visibility across financial and physical supply chain processes.*
- 5) *Tax efficient SCM,* enabling multinationals to re-engineer SCM responsibilities and processes in order to optimize customs duty, corporate, and VAT liabilities.
- 6) *More effective SCM,* because instead of including finance and treasury into the SCM process at the beginning (around risk mitigation) and at

the end (around the payments) has been changed by treating both PSCM and FSCM as an integrated project.

- 7) *Moving from manual, paper-based processes to electronic documents and financial data exchange management*, working best when there is benefit not just for the buyer but also for the supplier and the supply chain services providers including the banks.

3. BUYERS' VERSUS SUPPLIERS' VIEW OF FSCM

As international supply chains become longer and more complex, the risks and costs inherent with the fulfillment increase and an efficient management of information across the FSC gets vital for getting goods to market early and at the lowest cost. The focus of SCM is shifting from the physical processes and logistics costs that are visible and easier to track towards FSC-s and the less visible costs hidden in payments, risk management and WCM processes. Beside the P2P process from the buyer's perspective, a holistic SCM approach recognizes the challenges faced by suppliers, trying to improve their O2C processes, while banks tend to improve supply chain efficiencies for all parties by reducing risk and the average cost of finance for the chain. It is a combined perspective of the buyer and supplier regarding FSCM that should provide a set of solutions necessary for the best and desired "win-win" scenario.

International trade practices and processes change as firms move away from letters of credit (LC-s) to open account (O/A), source goods direct from low cost sourcing countries (or have established managed services or production facilities that take advantage of lower labor and operating costs), and use the benefits of cheap, functionally rich, networked technologies. In order to eliminate expensive trading intermediaries, many large importers have buying offices "in country" and work closer with strategic banking partners with local offices and regional expertise. In spite of vastly reduced unit costs, companies take a more sophisticated approach to the calculation of total fulfillment cost, which includes all logistics, working capital and finance related costs. Instead of the sourcing practice of moving everything to the lowest cost providers, the value of a more strategic and long-term low cost supplier partnership is realized.

The traditional, adversarial, cost-down approach of an aggressive buyer (insisting on reducing costs for the buyer, typically at the expense of the supplier) is being replaced by the concept that there are greater business benefits of working more collaboratively with suppliers to help them improve efficiency, reduce costs, and gain access to cheaper or finance in an O/A. This may result in part of the savings being passed back through lower prices or improved services. Outsourcing parts of the firm (such as A/P and A/R) to a managed service provider offshore, specialist external parties or business process outsourcing

(BPO) providers, helps reduce costs but adds to the complexity of the supply chain and the flow of cash and information across it.

Since physical supply chains are optimized through streamlining and automation in order to reduce costs, savings become harder to realize. As the focus shifts to FSCM opportunities, the reduction of 1–2 % of total costs of fulfillment becomes critical to keep a competitive edge. Cooperation among suppliers, buyers, and their banks by the use of data exchange platforms could result in the savings of 2–3 %, using a mixture of pre-shipment and post shipment/post invoice acceptance models plus potential savings on cutting transaction costs by taking paper out of the system. The firms have to decide whether they: build out existing ERP systems to extend to their supplier communities and manage data flows across their portal; or use the platforms created by logistics organizations or industry specific B2B marketplaces as well as evolving ASP platforms provided by niche systems/service providers; or consider banking platforms as the ideal conduit for this information and related services, such as SCF. Most buyers do not want to be faced with proprietary platforms expensive to integrate with and difficult to disengage from, but seek what is best for their geographically diverse supplier base.

The role of banks in FSCM is to bridge a gap between the WCM objectives of suppliers, who want to get paid quickly and minimize days sales outstanding (DSO), and buyers, who would delay paying as long as possible, extend and optimize their days payable outstanding (DPO). They can achieve that by offering structured financing products, trade and credit instruments securing the necessary credit protection, which would provide suppliers with liquidity and minimize their sourcing costs (through cash discounts or early payment of their suppliers), reducing thus the impact of DSO being extended. Since the bank allows the supplier access to funds tied up with debtors and available at a margin of interest based on the buyer's cost of borrowing against the supplier's, the buyer's credit risk is potentially a limiting factor, which can be offset by the access to various financial markets. Transaction information and pricing will indicate where the real source is. If it is a powerful creditworthy buyer, its financing costs may be lower than a supplier's, so the bank could offer reverse factoring or payables finance.

The accounting treatment of trade payables on balance sheets is such that to the majority of buyers it is an imperative that the nature of their balance sheet does not change or, if it does, that the move reflects any extension of DPO as trade credit taken only and not as a bank debt. The heading covering the recording of a liability taken under a payables proposition usually remains unchanged if the funding organization purchases from the supplier its receivable due on the buyer, unless otherwise determined by the regulations or the buyer's auditor. If the underlying contract between the buyer and supplier remains unchanged, as in

case when a receivable is sold, the recording of the liability remains in the same liability class irrespective of whether a discounted consideration has been paid by the bank to acquire an asset, which is settled by the buyer upon its usual maturity. In the current liquidity crisis, most buying firms consider how to extend their DPO-s and need these structures to assist their suppliers to access funds at interest margins that might be lower than those they command in their own right.

The accounting coverage of inventory management is interested in the place where stock is retained and stored, its ownership, the timing of taking the stock from the storage/distribution centre of the supplier or buyer to the point of sale, self-invoicing and settlement of the trade. When the buyer tells the supplier to hold the stock ordered and finally gives up the deal, it may be incredibly costly for this one to liquidate it, as it might be out of season or for some other reason. In order to maintain a balance of power between the buyer and supplier, a partnership approach is necessary regarding maximizing the balance sheets benefits and minimizing the credit risks on both sides. The buyer should not leave suppliers over-burdened with the costs of inventory management, as they generally do not have the balance sheet strength to carry stock and/or debtors at an optimal cost when compared to a larger, buying firm, and the cost of carrying an asset on a supplier's balance is typically 100 % plus higher than on the buyer's.

Banks have started to work with buyers in helping (particularly smaller) suppliers improve efficiency of their O2C processes (and thus raise profits), based on the buyers' commercial logic that if they help suppliers reduce costs, they could expect some of these savings to be passed back to them through lower unit prices. The exporters also have the need to reduce expensive paper-based administrative procedures, move from paper-based systems onto electronic platforms, and improve WCM through prompt or early payment from the buyers.

4. CHANGING ROLE OF TRADE FINANCE INSTRUMENTS

LC as a trade finance instrument is still used in various regions for legal and local compliance reasons, but there is a movement (particularly within intra European and Asia to Europe/North American trading relationships) towards O/A, because LC is an expensive and restrictive tool and there is more trust between buyers and their strategic suppliers. The high-cost of LC may be explained by discrepancy rates, often in excess of 65 % [1]. While exporters are faced with increased costs for the goods forwarded on a collection or even O/A basis when the LC previously offered is lost, for importers the discrepant LC means a "pay or not pay" decision to be made or delayed until goods arrive. In that way "dealing in documents" within an LC environment replaces "dealing in

goods” and throughout the process of negotiation discrepancy costs are incurred from both a tangible (cost) and intangible (time) aspect.

Many a buyer overlooks the opportunity to simplify the LC arrangement to gain the critical data required to make the “pay or not pay” decision for the goods purchased. LC is also a ready-made payables finance instrument when term is used and the issuing/advising bank discounts its own obligation to pay once compliance with the instrument has been achieved by the supplier. In the case of an O/A transaction, the buying firm takes on the role of the advising/issuing bank by taking over the document and compliance checks, traditionally managed by the bank under a LC, thus avoiding the discrepancies with a LC, but having higher internal processing cost and greater credit risk. It could be shared with a bank, offering data matching, financing, risk mitigation, and reducing the related processing costs to both.

Buyers now benefit also from either bank and non-bank solutions allowing them to send O/A purchase orders via managed data network to the supplier, who can transform it into an invoice and other documents to satisfy the buyer’s requirements and dematerialize them at his office or deliver them to the bank for processing i.e. imaging. The electronic or imaged data are available for all parties via an open or closed network, so that an informed “pay or not pay” decision can be made quickly by the buyer, enabling follow-on finance opportunities, such as post-shipment or post-invoice acceptance finance, to be made available to the vendor. As the bank re-intermediates within the O/A transaction through visibility over the purchase order, knowing and/or taking instruction from the buyer about document checking requirements, it can partly replicate the LC documentation checking process for the benefit of both parties, not subject to UCP500/600 or uniform rules for collections, but according to the buyer’s demands.

Due to a risk of counterparty performance both in O2C and P2P processes, the buyer needs an assurance that goods ordered will arrive on time, in the quantity and at the price agreed, while the supplier needs assurance that it will be paid on time and in full. If something goes wrong, they will consider remedial actions and probably settle any disputes in timely manner to ensure the goods can be taken into stock and the supplier paid a mutually agreed sum. They have to agree upon the appropriate trading instrument – a LC, a collection, or an O/A with protection of a standby LC/guarantee, or credit protection by insuring the buyer’s settlement risk through the insurance or derivatives market. In the Uniform Customs & Practice 600 (UCP600), a powerful supplier dictates terms of LC to his small buyers, and may agree to longer settlement terms if a LC is issued by the bank he is comfortable with i.e. if the payment and credit risk of the issuing bank are acceptable. Otherwise, he will ask the advising bank to add confirmation, guaranteeing payment by the confirming bank if the issuing bank

fails, and transferring any jurisdictional issues from the issuing bank country to the country of the confirming bank.

If the documentation required by an issued LC is delivered and found to be compliant, the buyer can ask the negotiating/confirming bank to discount his obligation to pay under UCP600 with a discounted cash amount being paid early to the supplier. The advantage of extended credit terms taken by the buyer and cash drawn by the supplier (with the underlying discount costs that can be built into the overall unit sale price of the goods sold) is that the transaction could stay (with the endorsement of the local auditor) on the balance sheet of the buyer as a trade credit taken and not as a bank debt. The disadvantage is that the buyer will need to have a sufficient credit standing with its banks to enable the necessary credit lines to be established, thus enabling the LC to be issued.

Another key cost factor for establishing and monitoring this instrument is the lapse of time that occurs from opening the LC to ultimate settlement of it (which may be lengthy and, as such, may need a substantial quantum of credit line required, with costs being proportional to this). A further issue is the cost of checking this paper to ensure compliance with it i.e. the documents required are completely compliant and in order.

Collections may be regarded as a halfway house between a LC and O/A trading. The supplier forwards all relevant documentation to its bank, which sends them to a bank in the country of the buyer. Documents will not be released to the buyer unless it agrees to pay for them. All the transactions are covered by Uniform Rules for Collections 522. The supplier benefits from a secure, inter-bank document handling service with documents only being handed to the buyer upon settlement. He will also know whether documents have been accepted or otherwise and, through controlling documents, should be in control of the underlying goods. If the buyer chooses so, small document discrepancies can be viewed and accepted without incurring, potentially significant costs associated with discrepancies around the LC. Finally, the buyer does not need a credit line with a bank for a collection, unless it is a usance one with the bank's aval added.

Like a usance LC, a collection can have an extended term payment attached to it by using a bill of exchange. The buyer can accept the documents and be required to sign a bill of exchange, having the capability of becoming an acceptance credit through the bank adding its aval to the signature of the buyer, which puts the bank into the position of the buyer if the buyer does not pay the bill on the due date. The benefit for the supplier is that he can access cash early, by requesting discounting of the avalized bill. The benefit for the buyer is that he can obtain the necessary number of days credit required to complete cash conversion cycle, which may be in excess of the supplier's usual terms. LC-s and collections have similar features to payables finance and reverse factoring

instruments as the buyer gives the supplier the ability to access cash through a bank with the buyer being able to take extended term credit if required. The difference is a limited credit arbitrage position in the scenario large supplier and small buyer, given the supplier will probably have a stronger credit rating than the buyer will.

Standby LC-s and guarantees are similar and provide the seller credit protection from a buyer defaulting on a purchase obligation. They are covered by their rulebooks USP98 and ICC458. The similarity ends if the supplier and buyer trade under O/A terms with these instruments kept in reserve until a time when they are required, which could be never. However, the buyer's bank has to issue the instrument, writing a credit line on the buyer (to his customer), who will be paying for the cost of credit provision and probably happy to cover this cost in order to gain extended credit terms and a solution that is not as formal as a LC or a collection.

5. CREDIT INSURANCE, RECEIVABLE AND PAYABLE FINANCE SCHEMES

Credit insurance is priced on credit limits established by the insurer on each buyer separately and its domicile. It generally covers credit default and political risks prohibiting the settlement of export transactions. What it does not cover is commercial disputes between the parties and 100 % of the credit risk. Reporting of the trades between the supplier and buyer are lodged with the insurer on a regular basis as a necessity from a monitoring and control of risk aspect.

Many banks have developed finance schemes for large suppliers selling receivables due on a portfolio of buyers to them. The suppliers practically act as the bank's agents in collecting the sums due from the buyers and will usually assign the receivables to the bank together with the protection of the credit insurance policy. Unlike factoring, typically looking at a seller of receivables on a going concern basis, in this kind of receivables finance there is an advance rate on the book value purchased, building attrition into them, so that advances are generally up to 80 % of book value. Nevertheless, with a receivables purchase a bank could look to finance 100 % of the current book value after deduction of non-performing assets, based on a going concern basis, with disputes etc. being for the account of the seller. The receivables purchase schemes have the potential to be taken off the balance sheet, can be cross-border and subject to one local master agreement covering a number of countries, while factoring does cover cross-border trade but the agreements are usually different and linked to the country of the seller. Financing can be up to 100 % of invoices presented dependent upon documentation and the credit insurance is usually provided by a third-party organization rather than as an integral part of the package. Both

receivables finance and factoring enable the supplier to access cash earlier and give the buyer the ability to extend payment terms should the supplier wish to agree with them, but they do not cater for the exchange of data across a platform from the origination of a purchase order to dispatch of goods and the ultimate approval of invoices.

Large selling companies can make arrangements with their banks about distributor finance schemes, requiring a bank's global network of offices, individual credit lines being established for each distributor looking to take extended finance either within current trading terms or with an increase in the terms offered by the supplier. If a scheme is successful and limits are put into place, the buyer has a choice of what instrument he uses to enable extended terms to be taken (e.g. usance LC, usance collection, or an avalized bill of exchange).

Most buyers have become much more interested in their suppliers' financing in respect to:

- *Suppliers' liquidity*, being under pressure in case of vendor-managed inventory and extended payment terms, despite they improve buyers' working capital ratios. In the increasingly O/A environment, it is not easy for suppliers to get financing, so the buyers have to encourage their banks to intermediate and provide suppliers financing.
- *Helping them reduce the cost of finance*. If this is arranged already in the pre-shipment stage, before approving the invoice, there is a variety of payables financing or reverse factoring instruments available to provide early payment facilities to eligible suppliers.

Though similar, confirming business finance has existed in Latin countries for decades, recent technology development facilitated it. Rapid online document presentation, reconciliation and dispute resolution systems mean more efficient invoice and payment approval processes, which in turn enable suppliers to see approval status and potentially cash-in their receivables earlier. There are three main drivers for payables finance i.e. SCF schemes from buyers' perspective:

- some buyers are genuinely keen to build and maintain strong relationships with their strategic suppliers and they see online visibility of the approved invoice, i.e. payment date certainty and access to flexible and cheaper finance, as a real value-added service for their suppliers and something that will strengthen long-term relations;
- some buyers see this as an opportunity to reduce the cost of finance for their suppliers and to use this as a lever in unit pricing negotiations and for extending payment terms;

- the potential of this service as a source of income for the buyer or his managed service partner; Internet visibility of the approved invoice, payment date certainty and cheaper finance are seen as a benefit some suppliers may be prepared to pay for in the form of a subscription fee, expecting their banks to share some of the interest margin charged.

A current trend is an increasing role and number of supplier finance schemes, with five elements: the platform itself, buyer systems integration and enablement, supplier enablement, supplier financing, and cross-border payment and settlement. Some banks provide all five services. Some customers prefer to use either their own platforms or a third party platform from service providers, and some of them want to move to a multi-bank platform in time to ensure all their banking partners and suppliers can access a single platform and single service. Some suppliers may value the visibility aspect of a SCF scheme, i.e. early notice of invoice approval but do not require early payment because they already have access to additional working capital. Others may be inhibited from taking part in it due to not knowing how much they can draw under a scheme because of existing banking or factoring relationships, some of them regard the marginal interest savings as insufficient given their current cost of finance, and some are just skeptical about buyers' motives and want to preserve their independence.

With plenty of cheap credit, these schemes may be less interesting, but with the credit crunch and downturn in world trade, the appeal to suppliers of such schemes is likely to increase, not only to suppliers wanting cheaper finance, but those with better credit ratings, too, because they see them as an attractive source of flexible and off-balance sheet funding and particularly at quarter-end see such schemes as useful from a balance sheet management perspective.

Payable finance services are becoming a part of the A/P process, using multi-bank and multi-buyer/supplier platforms. Integrated supply chain finance services mean buyer-driven, event-based financing based on key triggers, such as purchase order acceptance, shipment notice, inspection completion, shipment status, and invoice presentation etc. uploaded electronically into banking systems and assimilated into a borrowing based lending instrument akin to the traditional asset backed loan arrangement are emerging as the next wave of SCF solutions.

6. FSCM PROGRAM REQUIREMENTS AND ITS IT PLATFORM

Setting up a successful FSCM program requires:

- 1) establishing business priorities within an organization and the cross-functional processes that support them, such as reducing unit costs of

- sale, as well as finance-related costs, which typically account for between 4–8 % of total fulfillment costs;
- 2) effective cross partner and cross-functional collaboration, with board i.e. senior management sponsorship, and getting the treasurer, CFO, CPO, and supply chain director to share common objectives and work effectively as a team;
 - 3) creating a FSCM program office for coordination of all activities;
 - 4) applying step-by-step approach, focusing first on SCF, electronic invoicing, specific points along the chain (such as global trade management or look across the chain at compliance or creating better visibility), or centralization of A/P and A/R functions offshore or with managed service outsourcing partners; and
 - 5) automation and dematerialization of processes.

While many big buyers have automated enterprise resource planning (ERP) systems, installed to create efficiency in the organization, they still receive tons of paper from great majority of their suppliers. As matching purchase orders, goods received notes, certificates of inspection and invoices can take around 55 days to complete, if you have terms of 60 days, and it takes 55 days simply to make sure all the documents are in order, there is not much time to consider financing options within the existing paper-based environment. Denmark government agencies agreed to only accept invoices if they were provided in an electronic format. Savings so made in the public sector is estimated at around € 750 million a year [2].

FSCM imposes the migration of paper flows to a more efficient electronic environment, with electronic invoice processes and P2P dematerialization projects. Supply chain solutions need to be supplier focused (on the O2C side) with a minimum change necessary, to encourage suppliers to take-up, and not just buyer focused P2P solution. The buyer's benefit is getting one format, while the advantage to each supplier is they do not have to change anything.

A collaborative approach of all parties in the FSC is necessary to make sure data throughout the process can be stored, re-used and passed on in standard, automated formats in order to drive efficiencies. The SWIFT Net Trade Services Utility (TSU) is a good example of an industry initiative based on a common infrastructure and formats. The TSU is a central data matching and workflow engine that uses standardized reusable computer-readable data elements from commercial documents to increase automation and data checking. It matches commercial data at the origin of the transaction, the purchase order, which results in fewer discrepancies later on, thereby enhancing automation and dematerialization, plus increasing the timeliness of access to funds for the corporate. It receives data from one bank and matches it against data received from the counterparty bank, generating reports to both banks observed.

By automating the purchase order right from the start, one can automate every other document in the supply chain, e.g. goods received notice can also be created from the same information. By offering web-based portals, the buyer could ask the supplier to look at the invoice straight away and approve it. Major car manufacturers and their suppliers formed a closed-user group and created an electronic data interchange (EDI) solution. Since buyers cannot meet the requirements of every supplier with proprietary solutions, such solutions should be avoided, and non-proprietary solutions that benefit both buyers and suppliers should be developed.

7. CONCLUSION

FSCM embraces WCM, supplier financing, process automation, greater visibility, as well as global trade, information, and risk management. Its critical enablers are modern networked technologies, business intelligence, and collaborative working practices both within the organization and outside with financial supply chain partners. To manage the purchase-to-pay process effectively, the buyers should not expect the reduction of cost, including finance, only for them, but across the whole supply chain for all parties. It includes the drive towards low cost sourcing countries, automation and dematerialization of documentation, for both supplier and buyer, as well as the introduction of new financing opportunities, where suppliers can benefit from cheaper finance based on the buyer's credit profile. It is especially important in the period of recession and global economic and financial crisis.

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**INTRODUCTION OF BUSINESS STANDARDS IN ORDER
TO OVERCAME BARRIERS CONCERNING FINANCING
OF SMALL AND MEDIUM SIZE ENTERPRISES**

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Abstract

Situation on global market highlighted the need for small and medium companies to take more and more care in fulfilling demands of their customers/buyers. These demands induced change in company strategies as well as integration of different standards in one integrate management system (IMS), which should create environment capable to fulfill customers' demands. Most important of all, this would enable application of internationally accepted standards for IMS as SRPS ISO 9001, SRPS ISO 14001, OHSAS 18001 etc. Many reasons were taken in account regarding need for small and medium companies to develop IMS, most of all need to overcome barriers concerning financing of small and medium companies with help of the IMS.

Keywords: integrate management system of management, small and medium companies, QMS, HACCP, OHSAS

JEL codes: G10, G19 ,G20

1. INTRODUCTION - SMALL AND MEDIUM ENTERPRISES

In the process of globalization of world markets small and medium enterprises (SMEs) are able to fight for the position of a critical element in the development of national economy. SMEs are the engine of economic development, thanks to its characteristics such as flexibility, easier implementation of new management

trends and better communication within the company. SMEs development is imperative for all countries seeking to adapt its economy to new market conditions. According to many experts and economists SMEs are synonymous for the private sector, and thereby promote the private ownership and entrepreneurial skills.

One of the advantages of SMEs compared to large companies is their power of adaptation to market needs and demands of other external factors. In addition to adaptability, all necessary functions in accordance with the requirements of a business and reproductions of these kinds of companies have been developed.

Sustaining SMEs and creating conditions for better position in the market created the need for continued in proving of the quality business and for increasing productivity and skills of each employee in order to achieve business excellence as theirs operational imperative. The term “Business Excellence” means achieving excellent market position and companies making products and services at world class level.

To meet this requirement all business or core functions must be consistent with defined policies and goals of the company. There are a number of concepts to achieve business excellence. The best is application of the concept of integrated management systems (IMS). This approach requires joint efforts of all structures in the company which complies strictly in accordance with pre-defined business goals. The most common reasons for highlighting these needs, in addition to the desire for profit, are creating favorable conditions for survival in the market, for which is essential to satisfy needs and expectations of products / services.

2. TERM OF INTEGRATED MANAGEMENT SYSTEM AND ITS MAIN CHARACTERISTICS

The term “integrated management system” as a new paradigm of management means a new approach to managing business system that is capable of rapid adjustment to the demands and changes in modern and globalized market, which requires:

- Continuous monitoring of competition and the rapid acceptance of the reality of the situation;
- Overtaking the competition by creative work in a real system;
- Quality as part of business strategy (it has to become part of business strategy);
- Continuous improvement of mutual relations within the organization and integration of organization and environment, and
- Creation conditions for implementation of modern solutions in management.

Integrated management system is established through the commitment of the organization management, as one of the key conditions required for the implementation of standards, raising awareness of the importance of planning processes and business process improvement which creates conditions for success. Recognition of all stakeholders, their understanding and execution, are

the way towards achieving that ultimate goal of establishing a quality and functional integrated management system.

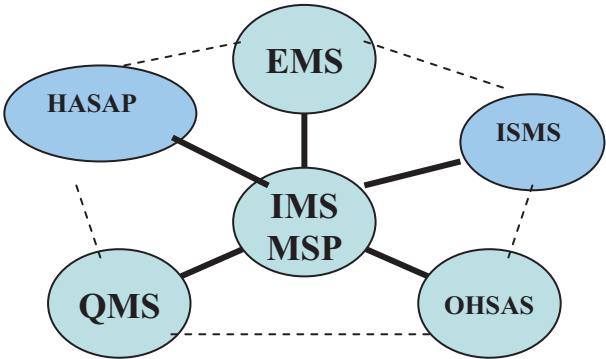
The mission of such an integrated management system is to: 1) ensure the creation of awareness on the importance of user requirements and other stakeholders at all levels, 2) identify the processes necessary for integrated quality management 3) effectively carries out the process.

As the need to integrate two or more different management systems is evident and appears in various forms of integration. The most common forms of integration include the implementation of integrated management systems (IMS) that includes a number of international standards. The most common standards are: the quality management system (QMS Quality Management Systems), environmental management (EMS - Environmental Management System), security management employees (OHSAS - Occupational Health & Safety) and food safety HACCP (Hazard analysis and Critical Control Point).

Modern business environment increasingly emphasizes the need for a secure and safe system operation, for which adequate security of information and informational systems are needed, as well as integrate safety management information system (Information System Security Management ISMS) (1-4). List of integration of such systems of management does not end with these four standards, but is extended depending on the requirements and needs of organizations and markets. (Figure 1)

Process of integration is an extremely delicate moment for any organization, primarily due to the influence of fear and uncertainty of something new. The best way to overcome any doubts is a clear goal and desire to overcome initial doubts with the new ideas and beliefs by observing multiple benefits of the existence of such a system, which will lead to a more perfect and efficient management system.

Figure 1: Schematic integration of multiple standards



Based on analysis of key factors influencing the development of integrated management systems can be pointed to three key factors:

- The need to create a framework for the application of recognized standards of management - ISO 9001, ISO 14001, OHSAS 18001, and so on;
- The possibility of improving the overall characteristics of the company;
- provide an integrated scheme for independent review of integrated management systems.

The integration of different management systems in SMEs is growing need in the management process of that organization. Today, the success of an organization is no longer measured only by achieved profit but also by other parameters, such as level of satisfaction of needs and expectations of products users, satisfaction of interests of employees and society as a whole and so on.

Usage of the concept of IMS provides enterprises with some special privileges such as the possibility of attracting investment, improvement of the company image, risk protection and so on. Critical evaluation of success in terms of implementation of IMS is the effectiveness of process, developed within the SME as a result of continuous improvement system.

Requirements of external stakeholders are increasingly forcing the organization to manage different systems of management. This requires an expansion of responsibility, which leads to greater complexity of the organization. Integrated management systems can be considered a cross connection between the various standards which have a number of similarities and common activities (policy, planning, documentation, evaluation, etc.).

3. REQUIREMENTS OF INTEGRATED MANAGEMENT SYSTEMS

Integrated management systems capable of rapid adjustment to the demands and changes in the modern and globalized market require:

- improvement in business quality and increase in productivity and knowledge of each employee,
- achieving business excellence (as one of the key requirements to be fulfilled SMEs);
- monitoring of competition and rapid acceptance of the reality of the situation;
- overtaking competitors through creative work in a real system;
- that quality must become part of business strategy;
- constantly promote the integration of organization and environment;
- creating conditions by applying modern solutions in management (5).

Therefore an integrated management system has been established through the commitment of management in implementation of the required standards, raising awareness of the importance of planning processes and business process improvement which creates conditions for success (6).

Recognition of requirements of all stakeholders, their understanding and fulfillment, are the way to realize the final goal i.e. the establishment of a quality and functional integrated management system. The basis of collective action are contained in the IMS records management, managing external documentation, records management, code review, training, internal audits, management of inconsistencies and corrective and preventive measures.

4. APPLICATION OF INTEGRATED MANAGEMENT SYSTEMS IN DOMESTIC SMALL AND MEDIUM ENTERPRISES

Improvement of characteristics of the company is one of the key reasons why small and medium enterprises (SMEs) need to develop an integrated management system (IMS). Most important, this is the way to create a framework for the application of recognized international standards for management systems that are subject to independent verification (ISO 9001, ISO 14001, OHSAS 18001, ISMS 27001...). The application of quality management is a starting point for the arrival of other standards for the management of elements of the business, and the ultimate goal is to achieve business excellence. With domestic SMEs, use the concept of IMS is not sufficiently represented.

Requirement to be informed about movement in all areas covered by standards highlight the need for permanent flow of information's regarding quality, environmental impact, improving working conditions, business excellence and so on. Hence the need for engagement of business services such as: Chamber of Commerce of Serbia and the Serbian Agency for SME Development, local government, and the associations of entrepreneurs.

The most important state support is in the following segments: legal and legislative framework, the promotion and financing implementation of the concept of IMS applications in SMEs.

In order to facilitate adjustment to new market demands small and medium enterprises must be directed toward standardizing their business processes. Standards enable business enterprises to be more efficient and better for all employees in the company and its partners. Thanks to the standardization, customers have security when purchasing products or services. Also, SMEs can benefit from standardization of their business processes, because it's characteristics for them to be a little disorganized.

5. WHAT IS THE USE OF THE INTRODUCTION OF IMS?

Benefits that can be obtained by implementing IMS to SMEs can be easily seen by analyzing the domestic market which is the way for a relatively quick improvement of own competitiveness in the global market. For local SME development IMS is the only way to achieve given objectives, such as:

- Increase the quality of their products / services;
- Reduce risk and increase profitability;

- Decrease costs by optimizing the system;
- Continuously meeting demands of customers / users;
- Providing a high level of responsibility;
- Improve productivity with a focus on achieving their business objectives;
- Provides opportunities to formalize system;
- Improve communication at all levels;
- Ensuring confidence in the manufacturing system and
- Continuity training to ensure competence and development.

Facing the challenge of ensuring synergy among management systems, SMEs quickly adapt to market changes and needs of stakeholders, changes in regulations, etc.

6. HOW TO APPLY INTEGRATED MANAGEMENT SYSTEM

Along with the requirements of the IMS, the question of its proper implementation in SMEs, which, inter alia, include changes in the SMEs, but also the development of the qualification parameters for the involved employees. For successful implementation of IMS in SMEs, there are a number of good methodologies.

For implementation of the IMS certain conditions must be provided, such as:

- Clearly stated requirements of the organization within the required IMS;
- Identify the framework of the system and continuity of improvement;
- Increase in productivity and efficiency;
- Compliance with requirements for certification;
- Easy system management,
- Analysis of specific organizations and so on.

Based on the above requirements, strategy for the implementation of IMS in the enterprise is created. First step is to create a matrix of activities and responsibilities. Documenting systems and development of appropriate procedures and instructions is associated with performing complex tasks in the further implementation of IMS.

Small and medium enterprises, as its operational imperative, must achieve business excellence. Business Excellence forces SMEs to constantly work on improving the quality of the organization operations based on increased productivity and knowledge of each employee. As an imperative of development of integrated management systems three key factors are imposed:

- Improvement the overall characteristics of the company;
- Creation of framework for the application of recognized standards for management systems that are subject to independent verification (ISO 9001, ISO 14001, OHSAS 18001...);

- Creation of an integrated scheme for independent review of integrated management systems.

7. PROBLEMS IN THE IMPLEMENTATION IMS IN SMEs

Problems in the implementation of IMS can be represented in the form of:

- Lack of integration of employees in the development of management;
- Lack of education in this field;
- Insufficient information and no knowledge of the main characteristics of concept.
- Lack of funds.

Three key issues that hinder SMEs in achieving business excellence are:

- Poor understanding of customers by the company;
- Over-reliance on basic factors of advantage;
- Low cooperation between domestic SMEs.

Solution to the inadequate application of management concepts can be found in greater engagement in the field of education and its implementation. The basic consideration during the introduction and qualification are defined as follows:

- The employee should have a good knowledge of the internal procedures the company;
- IMS should not lead to increased bureaucracy in their everyday work;
- Clear division of responsibilities must be made.

Integrated management system involves constantly improving the quality of operations to achieve business excellence. Knowledge represents a fundamental resource in modern business. Companies today achieve its products and services goals not only at the production stage, but already in the planning stage. Also, the companies today, due to rapid development in technology, are compelled to rely on research and development activities, as well as to shorten product life cycle. Application of integrated management system also allows easily access to various sources of funding:

- 11) Grants and Soft Loans
- 12) Clearing banks (overdrafts, short or medium term loans)
- 13) Factoring and invoice discounting
- 14) Hire purchase and leasing
- 15) Merchant banks (medium to longer term loans)
- 16) Venture capital
- 17) Business angels financing
- 18) Equity finance

8. CONCLUSION

Philosophy of integrated systems means that the organization is seen as a single entity acting as a conscious entity. Integrated Management System (IMS) is a management concept involving implementation of a variety of international standards: QMS, EMS, OHSAS and HACCP, which are important for the company and business environment.

SMEs, thanks to its characteristics such as flexibility, innovation, easier application of new management concepts, encouraging young people as entrepreneurs, better cooperation within the company and so on, gained great popularity in all countries that seek to improve its economy. To further improve the efficiency of small and medium enterprises it is necessary to promote more use of IMS. Small and medium enterprises in the Republic of Serbia are still not full users of the concept of IMS in their operations. It is therefore necessary to be continually informed about the quality of entrepreneurs, IMS, business excellence and the like.

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**CREATIVE ACCOUNTING:
Nature, Incidence and Ethical Issues – Some views and evidence
from Serbia**

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ABSTRACT: The term "creative accounting" can be defined in several ways. Initially to offer the following definition: "a process whereby accountants use their accounting knowledge in order to manipulate accounting information recorded in the account of business." This paper explores the nature and incidence of creative accounting practices in the context of ethical considerations. Same further explores several definitions of creative accounting, as well as potential and a number of reasons for the directors of the company to engage in creative accounting. Later, the paper discusses the various ways in which creative accounting can be undertaken and summarizes some of the empirical research on the nature and extent thereof. Ethical dimension of creative accounting is discussed in the literature, drawing on evidence from several empirical studies. In conclusion, the paper analysis offers some recommendations for solutions of problems of creative accounting.

Keywords: Accounting ethics, creative accounting, financial reporting

Journal of Economic Literature classification: M41.

INTRODUCTION

With a certain mind-numbing frequency, users of financial statements—investors and creditors—find themselves buffeted with announcements of accounting irregularities. These irregularities are called many things, including aggressive accounting, earnings management, income smoothing, and fraudulent financial reporting. While they may vary in the degree to which they misreport

financial results, they have similar effects—financial statements that serve as a foundation for important investment and credit decisions are incorrect, improper, and worse, misleading.

According to agency theory “the firm is a legal fiction which serves as a focus for a complex process in which the conflicting objectives of individuals... are brought into equilibrium within a framework of contractual relations.” [2, pp.306-360]. Within the agency framework, it is both logical and inescapable that management behavior will be self-serving. Agency can, therefore, provide a solid framework for the understanding of creative accounting behavior. However, it may provide an incomplete theoretical basis for explaining or predicting management behavior; the ethical dimension of human behavior may provide an important element missing from legalistic and adversarial agency relationships [3, pp. 97-110].

The informational perspective is a key element underpinning the study of the creative accounting phenomenon. A conflict is created by the information asymmetry that exists in complex corporate structures between a privileged management and a more remote body of stakeholders. Managers may choose to exploit their privileged position for private gain, by managing financial reporting disclosures in their own favor. The informational perspective assumes that accounting disclosures have an information content that possesses value to stakeholders in providing useful signals.

It may be difficult or impossible for individual stakeholders to discern the fact and the effect of accounting manipulation, because of an insufficient personal skill set, indifference or an unwillingness to engage in detailed analysis (the mechanistic or naïve investor hypothesis, discussed by Breton and Taffler [5, pp. 81-92]. From a market efficiency perspective such failures in understanding may not matter. Breton and Taffler point out in the conclusion to their study establishing that analysts’ perception of creative accounting devices is somewhat deficient, only a small number of effective accounting experts may be required ‘for the market as a whole appropriately to process window dressed numbers’. On the other hand, Healy and Wahlen (1999) cite studies that find that creative accounting prior to equity issues does affect share prices, suggesting that investors do not necessarily see through creative accounting. [16, p. 365].

This text is positioned within the IT perspective, reinforced the hypothesis of naive investors, based on the assumptions, first, that the financial statements actually contain valuable information content, and second, that the distortion of facts in them cannot be easily recognized by all shareholders and that their effects do not appreciate the true extent.

There is extensive literature on creative accounting, and much of it comes and studies from the United States. However, the U.S. literature provides valuable insights into the creative accounting in any country with a sufficiently developed capital market. Also, outside the U.S., there is a growing literature that deals with issues of creative accounting. It is very important, looking from a

proactive point that, based on their experience, scientists and professional accounting from this region, and explore the delicacy of the issues that are the subject of this article.

The paper is structured as follows. First, we will offer insight into specific definitions of creative accounting. Second, analyze the different motivations for its use as well as some creative accounting techniques. Continued introduction of various empirical studies that have sought to identify the nature of its existence and frequency. This document provides a quick overview of some ethical issues regarding creative accounting and the conclusion was to suggest the ways for solutions of this problem.

1. DEFINITIONS OF CREATIVE ACCOUNTING

An important impact on the bookkeeping is performed changing nature of market action. Investor pressure to increase profits and strengthen the final balance has grown like never before. This helped to ensure the presence of a healthy demand for the stock, creating space for the purchase of additional shares, reducing the need for loans from banks and helping to justify the acquisition or to strengthen a defense against predatory corporations in search of victims who will take over.

The answer to that was to develop a number of creative accounting techniques. There are standards created by the profession, through the Committee on Accounting Standards, but the legal status of these regulations was unsafe, and the Committee at the end of the decade had to be radically reorganized, because the company refused to agree with his all contradictory guidelines.

There is no single way to display your financial information. However, many accountants would be agreed that the seventies more and more alienated from the honest and financial reporting. The increase in creative accounting at least reflects the inadequacy of accounting standards. Serious problem is the willingness of auditors to withdraw the commercial pressure and to take into account the information that favors Management Company. The worst is that there are cases of complicity accountants and managers, at the expense of shareholders. It shows how the profession is changing shape, transforming into an aggressive business sector that is expanding.

Creative accounting is also called "smoothing" of income, earnings management, "smoothing" earnings, financial engineering and cosmetic accounting. The preferred term in the U.S., and as a result and in most literature on this subject is to "manage earnings", but in Europe the preferred term is "creative accounting" so it will use the term in this compilation. It should be recognized that certain accounting manipulation involves primarily the balance sheet rather than earnings management. Definitions of creative accounting may vary, and include the following:

It is a deliberate alignment fluctuation in the vicinity of "a certain level of earnings that are considered normal for a company" [1, pp.110-122.].

„Is any action on the side of management that affect the reported income and does not offer any economic advantage the organization and can in fact, in the long run, be harmful“. [27, pp. 79-94].

„Involves the repetitive selection of accounting measurement or reporting rules in a particular pattern, the effect of which is to report a stream of income with a smaller variation from trend than would otherwise have appeared“. [8, pp. 101-116]

„Creative accounting “can be equated to“ manage the balance sheet, "in the sense of purposeful intervention in the financial reporting process" [7, pp. 91-102].

In this article will discuss the creative accounting that includes the transformation of financial statements using accounting choices, estimates and other practices that allow accounting regulations.

2. MOTIVATION FOR CREATIVE ACCOUNTING

Various research studies have investigated the problem of motivation of management to engage in the behavior of creative accounting. Half a century ago, some authors has identified several motivations, including the existence of tax burden based on income, the trust of shareholders and workers by management that is able to report stable earnings and psychological expectations for an increase or decrease in projected revenue. The tax is referred to as the work of a significant motivator also in Finland and the Japanese context.

In countries with very conservative accounting systems, the effect of "smoothing income" can be especially bad due to high inventory levels that accumulate. Another bias that can be encountered is called "big bath" accounting, in which a company operating with heavy loss tends to maximize the reported loss in the year to future years acted better.

Also, we found positive effects of smoothing income expectations, securities valuation and certain elements of risk reduction for analysts. Other motivations for creative accounting discussed by Healy and Wahlen (1999) include those provided when significant capital market transactions are anticipated, and when there is a gap between the actual performance of the firm and analysts' expectations.

A variation of the smoothing of income is profit manipulation in order to align with the forecasts. Fox (1997) reports on how accounting policies in some companies are designed, within the normal accounting rules, to match reported earnings to profit forecasts. When these companies sell products, much of the

profit is transferred to future years to cover the potential costs of improving the capacity and customer support. This perfectly respectable and highly conservative accounting policy means that it is easy to predict future earnings. Company directors may hold in their hands a change in accounting policy in the form of an increase of revenue, in order to draw attention to the adverse news. Collingwood (1991) reports on how a change in accounting method boosted a company's quarterly profit figure, by a happy coincidence distracting attention from the company slipping back from being the largest company in the industry in the USA to the number two slot.

Healy (1985) examines managers' earnings manipulations motives where executive compensation is linked to income measurement. Trueman and Titman (1988) discuss managers' motivations to reduce the perception of variability in underlying economic earnings of the firm. Kamin and Ronen (1978) observe a difference in motivation between managers in owner-controlled and management-controlled firms. Owners who wish to retain control of a sizeable stake and who are therefore not interested in immediate exit strategies are less likely to be motivated to manage earnings.

Creative accounting could help in maintaining or increasing stock prices is also reducing the apparent level of borrowing, thus making the company appear to be exposed to less risk, and creating a seemingly good profit trend. This helps the company to increase its capital through new share issues, to offer its own shares to take over and to resist takeover by other companies. If managers engage in "internal redistribution" of shares of the company they can then use creative accounting to delay disclosure of information in the market, thereby increasing their chance to take advantage of knowledge of the situation inside.

It should be noted that, on an efficient market, analysts will not cheat moves cosmetic accounting. Indeed, a careful analyst will find an accounting change that pump out income as a possible indicator of weakness. Dharan and Lev (1993) report on a study showing poor share price performance in the years following income increasing accounting changes. Another set of reasons for creative accounting, which applies to all companies, arises because companies are subject to various forms of contractual rights, obligations and constraints based on the amounts reported in the accounts.

Here are the most common factors that motivate either management or organizations to engage in creative accounting:

Motivation for Creative Accounting	Explanation	Possible impacts on the Financial Accounts
Management desire to receive a bonus.	The bonus is based on profits. The higher the profit, the higher the bonus. Or, the bonus is only payable if a certain level of profits are achieved.	<ul style="list-style-type: none"> • overstate income • understate costs and expenses • assets overstated • liabilities understated
The business seeks to pay less tax.	Normally, governments tax profits, so the more profits, the more tax is paid.	<ul style="list-style-type: none"> • Income is understated • Costs and Expenses are overstated • Liabilities are overstated • Assets may be understated
The business needs additional financing; that is it needs a loan or wants to get a loan at a favorable rate.	Normally, the less risk perceived by the lender, the lower the interest rate charged by the lender.	<ul style="list-style-type: none"> • Minimize bad debts • Overstate asset values • Understate liabilities • Overstate income
The managers are involved in a management buyout or significant share purchase and seek to minimize the price they will pay for the business or shares.	When someone is buying a business or shares, they will want to pay the lowest price possible, generally the value of a business is related to its profits, so the lower the profits, the cheaper the price.	<ul style="list-style-type: none"> • Understate income • Delay income recognition • Overstate costs and expenses • Bring forward asset purchases • Increase stock levels • Understate assets • Overstate liabilities

3. TECHNIQUES OF CREATIVE ACCOUNTING

The techniques of creative accounting change over time. As accounting standards changed, the techniques that will work change. Many changes in accounting standards are meant to block particular ways of manipulating accounts, which means intent on creative accounting need to find new ways of doing things. At the same time, other, well intentioned, changes in accounting

standards open up new opportunities for creative accounting (the use of fair value is a good example of this). Many (but not all) creative accounting techniques change the main numbers shown in the financial statements, but make themselves evident elsewhere, most often in the notes to the accounts. The market has been surprised before by bad news hidden in the notes, so a diligent approach can give you an edge.

The potential for creative accounting is found in six principal areas: regulatory flexibility, a dearth of regulation, a scope for managerial judgments in respect of assumptions about the future, the timing of some transactions, the use of artificial transactions and finally the reclassification and presentation of financial numbers. Even in a highly regulated accounting environment such as the USA, a great deal of flexibility is available [21, p. 154]. Taking each of the six areas in turn:

1. Regulatory flexibility. Accounting regulations often allow a choice between multiple policies, for example, in terms of assessment (valuation) of assets (International Accounting Standards allow choosing between keeping non-current assets or the amount or form of revalued amounts and impaired previous costs). Business entities can, quite valid, change its accounting policies. As Schipper (1989) points out, such changes may be relatively easy to identify in the year of change, but are much less readily discernible thereafter.

2. The lack of regulation. Some areas simply are not fully regulated. For example, there are (as yet) very few mandatory requirements in respect of accounting for stock options. In most countries, like Spain for example, the regulation of accounting in some areas is limited: for example, recognition and measurement of pension liabilities and certain aspects of accounting for financial instruments.

3. Management has considerable scope for estimation in discretionary areas. McNichols and Wilson (1988), for example, examine the discretionary and nondiscretionary elements of the bad debts provision.

4. Real transactions can also be time-aligned to provide a desired impression of the calculations. As an example, suppose a company has an investment, carried out according to previous costs, which can be easily sold for a higher price, thus representing the rotational value. Enterprise managers were free to choose in which year will do the sale of investments and thus increase profits in the calculations.

5. Artificial transactions can be entered into both to manipulate balance sheet amounts and to move profits between accounting periods. This is achieved by entering into two or more related transactions with an obliging third party, normally a bank. For example, supposing an arrangement is made to sell

an asset to a bank then lease that asset back for the rest of its useful life. The sale price under such a 'sale and leaseback' can be pitched above or below the current value of the asset, because the difference can be compensated for by increased or reduced rentals.

6. Reclassification and presentation of financial numbers are relatively under-explored in the literature. Reclassification and presentation of financial numbers are relatively under-explored in the literature. However, the study by Gramlich et al. (2001) suggests that firms may engage in balance sheet manipulation to reclassify liabilities in order to smooth reported liquidity and leverage ratios. A special type of creative accounting relates to the presentation of financial numbers, based on cognitive reference points. As explained by Niskanen and Keloharju (2000): 'the idea behind this behavior is that humans may perceive a profit of, say, 301 million as abnormally larger than a profit of 298 million'. Their study and others have shown that there is still some minor renovation figures to get significant reference points.

4. EXISTENCE OF CREATIVE ACCOUNTING

Even though managers' motivation for creative accounting may be established and accepted at least in theory, establishing empirically that it takes place is a separate problem.

Naser and Pendlebury (1992) questioned senior corporate auditors about their experience of creative accounting. They were able to conclude that a significant proportion of all categories of companies employ creative accounting techniques to some extent. Many research studies examine a particular aspect or technique of creative accounting. All tend towards the conclusion that creative accounting using that particular technique does exist. McNichols and Wilson (1988) model the nondiscretionary component of the bad debts provision (so as to identify the discretionary element of the accrual). Barnea et al. (1976) discuss classificatory smoothing with the use of extraordinary items; their results, based on a study of 62 US companies, indicate that classificatory smoothing does take place. A later large scale study of classificatory smoothing (Dempsey et al., 1993) found that 'managers showed a propensity to report extraordinary gains on the income statement and extraordinary losses on the retained earnings statement'. Moreover, this research found that the propensity to report in this way was significantly greater in non-owner managed firms. Dascher and Malcom (1970) analyzed data over several years for 52 firms in the chemical industries sector relating to four income smoothing variables: pension's costs, dividends from unconsolidated subsidiaries, extraordinary charges and credits and research and development costs. They concluded that their results were consistent with the hypothesis that deliberate smoothing had taken place. Large provisions against uncertain levels of future loss are highly dependent upon the judgments made by

management. Healy and Wahlen (1999) cite several studies that find ‘compelling evidence’ of income smoothing via accruals in banks and insurers.

Merchant (1990) examines management manipulation of accounting information within two firms (i.e. information used in internal reporting by divisions) drawing upon both interview and questionnaire data. The research found that ‘managers acknowledged manipulative behaviors and short-term orientations’.

Black et al. (1998) examine non-current asset sales as creative accounting tools, using a very large dataset of observations from Australia, New Zealand and the UK. They find that, where the relevant accounting standards are permissive (as in the UK up till 1993) managers will exploit the potential for creative accounting via timing of asset sales. Such behaviors are curtailed once the provisions of accounting standards are tightened. However, amongst their conclusions, they observe that ‘there is every reason to believe that firms can “shift” creative accounting activity among a variety of methods’. So, even if certain loopholes in regulation are eliminated, creative accounting behavior is likely to persist.

4.1 Existence of creative accounting in Republic of Serbia

According to research conducted ended in 2010. year, as reasons or motives for faking financial statements in the Republic of Serbia, can be stated as follows [20, str. 26-27]:

The main reasons to show better financial results:

Easier to obtain capital, obtaining loans from banks at discounted prices,

Encouraging the growth of prices of stocks, bonds and other securities on the Stock Exchange and

Stimulants earnings of managers from achieved profits.

The main reasons to show poorer financial results:

Evasion of taxes, especially income tax,

Liquidation, bankruptcy, intentional collapse of the company in order to be takeover by the management,

Protection against envy competition,

Protection from hostile takeover on the stock exchange and

Protection against monopoly legislation.

Creative accounting, hairdressing balance, forensic accounting ... That's what is not written anywhere, nowhere to learn, but is put into practice often in mass quantities in the world. In Serbia, where business people are often arrogant character, this phenomenon has found fertile ground and rare are those who do not explore how far they could go. The other hand, the existing data, yearly, no more than two percent of negative audit opinions on financial statements of domestic companies. Techniques for a "hairdo", say informed, have a host. Relatively able-bodied individual can be done very precisely and in a very short time. Little is threatened stocks, increase the value of property, transfer the claim from a bankrupt company from the previous year, play around with the currency, as, for example, found in the financial statements of the Oil Industry of Serbia after the entry of Russians into the company ... As the relative ease of the technique into practice, may be the same and proven, the perpetrators and accomplices in the fraud since the rigging business balance offense, be punished.

While nearly every developed country shook at least one a case of large financial manipulation, where the audit firm slain, as the most famous case in America, when the company collapsed from the former "Big Five" Arthur Andersen on the Enron scandal or spiraling into serious problems as Deloitte & Touche in Italy in case of Parmalat, in Serbia so far has never imposed sanctions or disciplinary responsibility of a certified auditor for ethics violations or is revoked because of erroneous thinking, although the index of the auditing of the Ministry of Finance which will be issued a permit for the operation, 42 companies registered in the Chamber of Certified Auditors registered 159 licensed persons.

Analysts believe that the biggest reason why the whole thing in Serbia as it is, besides the lack of any control of audit firms, the existence of partnerships between companies and audit firms. According to current laws, the company does not have to change auditors five years. This ultimately leads to a systemic problem of the quality of financial statements, where the client pays the auditor to be made by an independent court. Therefore, the audit will look like, as required by the one who pays the same service.

Also, it is the Law on the international accounting standards, but they are poorly observed, because they are quite flexible. Given great freedom to control their own bodies regulate their financial statements and the freedom provided by creative accounting, and interpretation of the same things in different ways.

The consequences of spoofing are numerous and the system, and the basic loss of trust in financial statements. "Bank lending to the economy based on false information, investors who buy securities and wants to invest in a company with false information, shareholders are wrongly informed, where they occur at the end of the consequences of such order and the level of the entire financial system into question.

4.2 Creative accounting and/or “accounting engineering?”

Do you wonder which the connection between engineering, accounting and creation is? In the literature on accounting we meet two concepts: ‘accounting engineering’ and ‘creative accounting’. Very often they may be taken one for another, some specialists argue that they have the same meaning, but the opinion is that we should regard them as two distinctive notions up to a certain point: **their aim.**

“Accounting engineering” refers to the activity of projecting and research the so-called “technological process” while “creative accounting” is an activity based on highlighting new possibilities of modeling the information , *the aim being the same in both cases: manipulation of results by taking advantage of the flaws of the accounting rules, creating a “disguised” image of the firm.*

5. ACCOUNTING SCANDALS

Accounting scandals or corporate accounting scandals are political and business scandals which arise from the disclosure of misdeeds by trusted executives of large public corporations. Such misdeeds typically involve complex methods for misusing or misdirecting funds, overstating revenues, understating expenses, overstating the value of corporate assets or underreporting the existence of liabilities, sometimes with the cooperation of officials in other corporations or affiliates [36, Wikipedia]. An accounting scandal is corporate misuse or misrepresentation of funds typically by top management of a corporation. "Overstating revenue and understating expenses and liabilities" are the basis of accounting scandals. In public companies, this type of creative accounting can be tantamount to fraud and may warrant investigations by regulatory agencies, such as the Securities and Exchange Commission (SEC).

6. THE ETHICAL PERSPECTIVE

Ethics is the principles and standards of moral behavior that is accepted by society, “right” as opposed to “wrong” [6] which is concerned with moral obligation, responsibility and social justice of all parties involved in the decision process [30, pp. 265-271]. The term “business ethics” refers to the need to apply moral standards by professions. A profession is formed on the basis of a generally accepted body of knowledge, a widely recognized standard of attainment and finally an enforceable code of ethics that is a crucial element in forming a profession [37, pp. 153-164]. Currently, accounting ethics can be defined as behaviors in accordance with accounting principles, such as transparency, entity concept and reliability.

Companies generally prefer to report steady growth trend in profit instead of showing the variable profits with a series of dramatic ups and downs. This is achieved by running unnecessarily high fees for the obligations and the value of assets in good years so that these fees can be reduced, and thus increase reported profits, in bad years. Proponents of this approach argue that it is a measure against "short maturities", estimates the investment on the basis of results achieved in recent years. It also avoids the growth expectations so high in good years that the company is unable to provide what is expected. There is also an argument against this approach is that if the market conditions really changeable and unstable, then investors have a right to know and income smoothing may mask long-term changes in the trend of profits.

Revsine (1991) considers the problem in relation to both managers and shareholders and argues that each can draw benefits from 'loose' accounting standards that provide managers with latitude in timing the reporting of income. He thinks that the prime role of accounting is as a mechanism for monitoring contracts between managers and other groups providing finance; market mechanisms will operate efficiently, identifying the prospect of accounting manipulation and reflecting this appropriately in pricing and contracting decisions.

The literature on the ethics of bias in accounting policy choice is reviewed at the 'macro' level of the accounting regulator. This literature can similarly be applied to the bias in accounting policy choice at the 'micro' level of the management of individual companies that is implicit in creative accounting. If we consider the position taken by Ruland (1984) and compare it to Revsine's analysis, we note that Ruland distinguishes between the deontological view whereby moral rules apply to actual actions and the teleological view that an action should be judged on the basis of the moral worth of the outcome. Revsine appears to take a teleological view of accounting in the private sector, allowing managers to choose between the alternatives permitted in 'loose' standards to achieve their desired end, but to take a deontological view of accounting in the public sector where he calls for tighter standards to prevent such manipulation. We might ask whether the presence or absence of market discipline justifies such ethical inconsistency. Ruland also discusses the distinction between a 'positive' responsibility, which here would be the duty to present unbiased accounts, and a 'negative' responsibility where managers would be responsible for states of affairs they fail to prevent. As we have seen, Ruland gives priority to the 'positive'. Within Revsine's framework, where all outcomes are deemed to be impounded in the process of contracting and price-setting, the distinction is not acknowledged. The 'duty to refrain' would imply avoiding the bias inherent in creative accounting while the 'duty to act' would involve pursuing the consequences to be achieved by creative accounting.

If we take the three issues where Ruland sees the 'duty to refrain' as the more important:

(a) Relentlessness,

(b) Certainty of outcome: Revsine's arguments, as we have seen, related to the limited role of accounting as a primary care monitoring of contractual obligations.

(c) Responsibility: Revsine looks to monitor compliance with GAAP as its primary responsibility, with no limitations on choice within GAAP. This may be a legitimate approach in the U.S., but in a jurisdiction that provides unbeatable quality objective reports, as is the case in the European Union with the "true and fair standpoint." Revsine's approach is less protective.

To the professional accountant creative accounting generally seems to be regarded as ethically dubious. In the USA the then senior partner of Price Waterhouse observed: "When fraudulent reporting occurs, it frequently is perpetrated at levels of management above those for which internal control systems are designed to be effective. It often involves using the financial statements to create an illusion that the entity is healthier and more prosperous than it actually is. This illusion sometimes is accomplished by masking economic realities through intentional misapplication of accounting principles." [7, p. 78].

In Australia Leund and Cooper (1995) found that in a survey of 1500 accountants the three most common ethical problems **and conflicts of interest, dealer clients to manipulate client reports and proposals on tax evasion.**

Two studies of attitudes towards creative accounting in the United States has highlighted the differences in the attitudes of accountants on the issue of creative accounting, depending on whether it stems from abuse of accounting rules or the manipulation of transactions. Fischer and Rosenzweig (1995) found that accounting and MBA students were more critical than accounting practitioners of manipulated transactions, whereas accounting practitioners were more critical than students of abuse of accounting rules.

Merchant and Rockness (1994) similarly found that, when presented with scenarios of creative accounting, accountants were more critical of abuse of accounting rules than of manipulation of transactions. Fischer and Rosenzweig have offered two possible explanations paragraph accountants. First, the accountant can take attitude the ethics rules-based, not on the impact on users of financial statements. Secondly, accountants may be considered an abuse of accounting rules as a matter within its domain, which therefore calls into question their ethics, and handling transactions fall into the domain of management and therefore not subject to the same ethical code. Merchant and Rockness also revealed a difference in the attitudes of accountants on the issue of creative accounting, which depends on the motivation of management. Creative accounting based on clear motives of self-interest was met with greater conviction than when the motivation for improving the company.

Accountant, or another manager, who takes the view against creative accounting is facing the same pressures as any other employees. In extreme cases, refusal to comply with the practice of creative accounting can destroy a

reputation. As a company accountant who has taken a firm stand out: "It cost me my job, but I think I would not get another job that I was unethical."

Schilit (1997) reports the case of one company accountant confronted with such an issue. His employer, who deals with wholesale of food, he gave significant funds to pay for retailers to put new lines on their shelves. This is common practice, known as "slotting" (positioning), and funds are normally returned as early as the year in which they invested. In order to remain within the limits of accounting numbers listed under the loan agreements the company's president suggested that slotting costs capitalized and amortized over a period of ten years. Accountant has done some research on other practices of the company, which assured that this was not an acceptable accounting treatment. Thereafter, the identified cost savings that enabled the company just to stay within the limits that are consistent with the loan agreement and informed the auditors on this issue, in the hope "that they will play the role of bad cop to force the company to show all costs associated for "slotting". The main investor in the company has tried, unsuccessfully, to put pressure on auditors to approve the capitalization of positioning costs. Shortly after that accountants were fired for taking such position. One can detect a number of actions in this case:

- **Check that the proposed accounting method really unacceptable.** As recommended: First, try to confirm their suspicions about what they think is wrong. Some accounting practices that are legal under the new laws may seem suspicious person, not an accountant. If you boot off noise about something that is not illegal, then you've really failed and perhaps even raise the subject to libel suits.

- **Search for alternative legitimate ways to achieve the desired objective and offer you ways of management as an alternative approach**

- **As a last resort, report abuse to the appropriate authority.**

However, to give effect to implement the above action is necessary to have: well-educated accountant, continuing education in the field, well-developed system of communication with management and last but not least, the existence of state institutions where they can advise and ultimately report abuse of any nature. Of course, at this point, when it comes to Serbia, there is no adequate system of control on this issue.

7. ACTIVITIES OF THE INTERNATIONAL FEDERATION OF ACCOUNTANTS TO THE ESTABLISHMENT OF MECHANISM TO PUBLIC OVERSIGHT OF ACCOUNTING PROFESSION

International Federation of Accountants is a global organization of the accounting profession, which has more than 160 professional member organizations from 120 countries, consisting of more than 2.5 million professional accountants in public and in private practice. The mission of IFAC is to strengthen the accounting profession and the development of strong international economies [22, p. 306].

6.1 IFAC reforms designed to tackle the crisis of confidence In the Financial reporting and accounting profession

October 2002. IFAC is an independent group of experts - Group to rebuild public confidence in financial reporting (Task Force on Rebuilding Public Confidence in Financial Reporting - TF) has entrusted the task to find and propose ways to resolve the crisis of confidence in financial reporting, that identifies and analyzes the reasons that led to the decline of trust, to consider alternative ways to rebuild trust and recommend "best practices" in financial reporting, corporate governance and audit.

July 2003. vol. TF presented the report in which they expressed the view that the main causes of decreased confidence in financial reporting incorrect behavior and loss of integrity not only of the accounting profession (accountants and auditors), but also all other participants in the chain of financial reporting, in which we mean the management, steering committees, bodies for the adoption of accounting standards and regulatory bodies.

Starting from the findings and recommendations of the TF, with the aim of rebuilding trust in the accounting profession, and in order to help the profession to function in order to protect public interests, IFAC has taken actions and reforms in four areas [31, p. 240]:

- *Professional ethics,*
- *Quality auditing and development of international auditing standards of high quality,*
- *The performance of professional organization of convergence towards a single set international professional standards of high quality, and*
- *Corporate Governance.*

CONCLUSIONS AND RECOMMENDATIONS

There is an increased awareness of the problem of creative accounting in Serbia (*especially during the culmination of a crisis situation*), as evidenced by events in practice and articles in accounting and business journals. This poses a major threat to the accounting profession, in terms of their credibility and standing in the business community. It also creates major problems of litigation risk for auditors. If the government and the accounting profession in Serbia work together then the concept of true and fair view can be a key part of the solution to this problem. To achieve this it is necessary that:

- a) *There is a reduction on the range of accounting choices allowed for the same economic transaction and therefore, reducing the opportunities of creative accounting in the field of choice of accounting method.*

b) To reduce the opportunities of creative accounting as a consequence of estimates and predictions, accounting regulation should reduce the area allowed for subjective evaluations.

c) To reduce the opportunities of creative accounting as a consequence of artificial transactions, accounting regulation should encourage the interpretation of true and fair view as the prevalence of substance over form.

d) That the legislators recognize the institutions of the accounting community as the source of guidance on what accounting practices constitute true and fair view.

e) The accounting profession also needs to strengthen its ethical code so that the individual accountant or auditor is less willing to connive at creative accounting.

By contrast, if no action is taken true and fair view will enhance the problem of creative accounting because:

a) It relaxes the traditional rigidity of accounting regulation and so increases the opportunity for accounting policy choice.

b) It empowers companies to claim the right to use their own discretion in accounting policy choice rather than accepting the authority of the professional accounting bodies.

Thus the choice of how to interpret and apply the concept of true and fair view may be seen as crucial for the future credibility of the Serbian accounting profession.

But apart from the change in accounting regulations, ethical standards and codes of conduct must be properly applied in the enterprise world. Regulation without the basic techniques of law enforcement is likely to be ineffective in terms of preventing unauthorized individuals to use the practice of reporting financial statements. Challenge for the implementation of IFRS accounting in a variety of cultural contexts is likely to be particularly problematic.

Finally, creative accounting is therefore present in all countries, including our own, and according to empirical research hairdo balance and counterfeiting of financial statements is the manifestation of white collar crime which is the amount of the most extensive and leaves most negative consequences. Managers, investors, government agencies and other analysts should be aware of the risk that the International Accounting Standards in fair hands result in reliable and faithful financial statements, but the dishonest hands can easily be misused to deceive balance and giving the address to the wrong conclusions. They provide greater opportunity for creative accounting.

To be able to recognize and detect misuse of the financial statements we must first know the reasons and motives for the shaping of balance that can sometimes move in the direction of presenting more of the financial results and better property and financial position, and sometimes that is the opposite, towards presenting smaller financial results and deteriorating financial position of the property.

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**IMPLEMENTATION OF SAMPLING METHODS AND
EVALUATION OF THE TEST RESULTS OBTAINING
AUDIT EVIDENCE**

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Abstract

The main purpose of this paper is to define and list the basic characteristics of audit evidence, show the implementation of sampling methods, and evaluate the test results. In developing of an attribute sampling plan, the auditor must first define the audit test objective (population involved), sampling unit, and control items to be tested. The audit evidence should in total enable the auditor to form an opinion on the financial information. In forming such an opinion the auditor does not normally examine all the information that is available to him because he can reach a conclusion about an account balance, class of transactions or a control by way of judgmental or statistical sampling procedures.

Auditors are required to obtain sufficient appropriate audit evidence in order to draw reasonable conclusions on which to base their audit opinions. In this paper we will also illustrate factors influencing the sample size in the proceedings of tests in detail, and factors influencing the sample size in procedures of tests of control.

After the audit procedures are performed, the auditor should consider the results of sample testing, and if errors were detected they should be projected to the population as a whole, so that we can consider the effects of such errors.

Keywords: Audit, Sampling Method, Audit Evidence

JEL codes: M42

1. INTRODUCTION

Audit of financial statements of big companies with huge numbers of transactions, would not be possible if the auditors have to check every transaction, any amount and any balance. Working in that way, would require considerable time and resources. The results would be useless, so it would call into question the purpose and justification of audit at all.

The problem of providing quantity of satisfactory audit evidence is solved by appliance of appropriate sampling methods. In other words, the appliance of sampling methods in the audit of financial statements came into mind to save time and money, thereby maintaining the risk of disclosure of material false amounts in the financial statements on an acceptable level.

Appliance of sampling methods in audit of financial statements requires the auditor to have the necessary knowledge and skills, so they could be appropriately applied and used to their advantage. Audit sampling leads to the risk that the auditor expresses an opinion inadequate and therefore it is a constitutive part of the International Auditing and Assurance Standards, Standard 530 - Audit sampling and other selective testing procedures. In order to provide adequate audit evidence this international audit standard provides auditors with guidelines for the selection and application of the sampling method and manner of interpretation of its results in audit of financial statements.

2. DEFINITION AND BASIC CHARACTERISTICS OF AUDIT SAMPLING

In today's auditing environment, the auditor seldom performs audit tests on all items in an account balance or class of transactions for the purpose of evaluating some characteristic of the population. Consequently, the evidential matter is based upon the reasoning that the characteristics found in a representative sample of a population are reasonably accurate reflections of the characteristics to be found in the whole of that population.

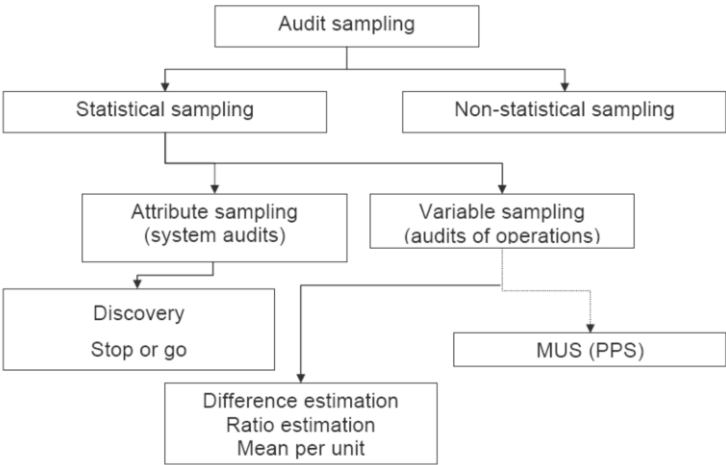
Audit sampling (sampling) means a process which includes the application of audit procedures to less than 100% of items within a class of transactions or account balance such that all sampling units have a chance of selection. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is draw [2, p. 8].

Determining whether or not a test of an account balance or class of transactions should include audit sampling depends on the objective to be achieved by the procedure. If the objective of testing the recorded amount of several items included in an inventory balance is to project the results of the test to the entire

inventory balance, the auditor should use audit sampling. On the other hand, if the objective were to test for misstatement in only those few items without evaluating the characteristics of the inventory as a whole, the procedure would not involve sampling.

Once a decision has been made to use audit sampling, the auditor must choose between statistical and non-statistical or judgment sampling. Judgment sampling is sampling without particular regard to the parameters of a statistical sample. Once again, this decision should be based on the objectives of the procedure and audit sample to be taken. A procedure calling for an audit sample with the objective of making a judgment on the whole population would require a statistical sample rather than a judgment sample. Another factor to consider would be the lost effectiveness of using statistical rather than judgment sampling. Statistical sampling would not be feasible when sampling a relatively small population. Ultimately, the auditor should rely on sound audit judgment in determining which method to use.

Figure 1. Audit sampling methods [3, p. 15]



In addition, the actual audit procedures performed on the items in the sample will be the same, whether a statistical or non-statistical approach is used. The employment of a statistical plan does not mean the auditor can alter the procedures designed to collect evidence to draw an audit conclusion. It is up to the auditor to evaluate the individual and situational costs and benefits associated with each sampling approach before making a determination.

As a preliminary remark on the choice of a method to select the operations to be audited, whilst the criteria that should lead to this decision are numerous, from a statistical point of view the variability of the population and the expected error frequency are the most relevant. The table below gives some indications on the most appropriate methods depending on the criteria. Note that in the table below

a low expected error frequency actually means an expected number of errors close to zero. Also, in the case of high variability and high error frequency (that is the most frequent case) the approach suggested is clustering or stratification of the population in the first instance.

Table 1. Choice of method [3, p. 16]

Population variability	Expected error frequency	Suggested approach
Low	Low	Variable sampling- Monetary unit sampling
High	Low	Monetary unit sampling
Low	High	Variable sampling
High	High	Clustering or stratification (plus appropriate sampling method)

Audit sampling procedures are performed in four stages:

1. Sample design,
2. Sample selection,
3. Testing (i.e. performing the audit procedure),
4. Evaluation of sample.

3. SAMPLE DESIGN

The auditor needs to consider defined detailed objective which can achieve combination of audit procedures and implementation of audit procedures with overall objective. Sample design, which may be set out in a sample plan, includes consideration of:

- Determination of audit objective(s) of the test;
- Definition of population from which the sample is to be drawn;
- Definition of sampling unit;
- Definition of results or conditions that will be regarded as errors or deviations;
- Definition of sample size.

4. SAMPLE SELECTION

This step contains determination of sample size, selection of sample and undertaking of audit procedures towards samples. Auditor should notice if the size of sample is too small, auditor can not obtain sufficient audit evidence to reach a reliable conclusion. On the contrary, if the sample size is too large, the auditor's workload increases. Thus, the efficiency of audit will be reduced.

The aim of audit sampling is to form a conclusion about the population from which a sample is obtained. It is, therefore, necessary to ensure that the method of sample selection can be expected to produce a representative sample with

each item in the population having a chance of being selected. The distinction between statistical and non-statistical sampling should be made clear before considering the methods of selection.

Representation in relation to the entire population, which is subject to auditing, is the most important factor in choosing the sample and changing the sample in auditing. Representative sample, compared to the population from which it was elected, shall be ensured if all the items from the population have equal opportunity to be included, or to enter into the composition of the sample. Representativeness is achieved by avoiding the selection bias and selection of items which are typical characteristics of the population. For a statistical sample, this will be achieved, if the items are randomly selected, so the chance for each item sample to be selected is well known. For non-statistical samples, selection of items in the sample is made based on professional assessment of the auditors. If the expected amount of error in the proceedings of the detail tests is high, it is necessary to choose a pattern, or apply testing on the entire population.

5. AUDIT SAMPLING METHODS

5.1 Statistical sampling

Statistical sampling involves the random selection of a number of items for inspection and is endorsed by the accountancy bodies. In statistical sampling, each item has a calculable chance of being selected. A commonly held misconception about statistical sampling is that it removes the need for the use of the professional judgment. While it is true that statistical sampling uses statistical methods to determine the sample size and to select and evaluate audit samples, it is the responsibility of the auditor to consider and specify in advance factors such as, materiality, the expected error rate or amount, the risk of over-reliance or the risk of incorrect acceptance, audit risk, inherent risk, control risk, standard deviation and population size, before the sample size can be determined. Statistical sampling allows an auditor's judgment to be concentrated on those areas of the audit where it is most needed. It allows the quantification of key factors and the risk of errors. This is not to suggest that statistical sampling methods remove the need for professional judgment, but rather that they allow elements of the evaluation process to be quantified, measured and controlled.

The advantages of statistical sampling are numerous:

1. The sample result is objective and defensible. Nearly all phases of the statistical process are based on demonstrable statistical principles,
2. The method provides a means of advance estimation of sample size on an objective basis. The sample size is determined by a statistical method,
3. The method provides an estimate of error,

4. Statistical samples may be combined and evaluated, even though accomplished by different auditors,
5. Objective evaluation of test results is possible.

Statistical sampling methods should be used when any of the following criteria apply:

1. Cost-benefit analyses support the additional costs and time required,
2. The sample errors or exceptions must be extrapolated to quantify for the population or a defensible expression of the test results is required,
3. The objective of the financial audit is to state an opinion on the reliability of the balances reported,
4. With the availability of computer software for sampling, they would be simpler to apply,
5. The risk of a sampling error must be quantified.

The auditor shall perform audit procedures appropriate to the particular audit objective on each item selected. If a selected item is not appropriate for the application of the audit procedure, the audit procedure is ordinarily performed on a replacement item. During the audit, you may experience a situation that has destroyed the documentation which should apply audit procedures on selected items. In this case, should apply adequate alternative audit procedures, or this item should be treated as an error.

5.1.1 Statistical sampling methods

The standards recognize these commonly used methods of statistical audit sampling:

- *Random number sampling*

This method uses sampling without replacement, which means once an item has been selected for testing it is removed from the population and is not subject to re-selection, every item in a population has the same statistical probability of being selected as every other item. Auditors can use random number tables or random number generators when implementing this technique.

- *Systematic sampling*

Systematic sampling is often referred to as 'interval' sampling, this is where the auditor will take the number of sampling units in the population and divide this into the sample size to give a sampling interval. For example 50 and having determined a starting point within the first 50, each 50-th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by

use of a random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

- *Value weighted selection*

This systematic selection method uses currency unit values, rather than the items, as the sampling population. Each individual pound is given an equal chance of selection. Since these cannot be examined, the item in which a pound selected lies is tested. Using this method, high-value items have a greater chance of being selected.

- *Stratified Sampling*

This is a technique where the auditor will split items in a sample into their various strata's. Stratified sampling is a method which consists in sorting the population into several layers usually according to the value of the variable being audited. Different methods can be used for each layer, for instance applying a 100% audit of the high-value items (i.e. no sampling), then applying a random statistical sampling method to audit a sample of the remaining lower-value items that constitute the second layer.

- *Monetary unit sampling*

Monetary unit sampling (MUS) is a statistical technique in which the sampling unit is the individual dollars that make up an account balance. Monetary-unit sample selection views the population, not as a population of accounts of different sizes, but as a population of monetary units. The size of the population is taken to be the total number of monetary units in all the accounts and each monetary unit is selected with equal probability i.e., each monetary-unit has an equal chance of selection. This is the most commonly used statistical method for obtaining samples of line items. This technique is also known as the *probability of proportion* in relation to the volume, beginning from the fact, that if an item contains more monetary units the greater the probability that it will be featured in the sample.

- *Attribute sampling*

Attribute sampling is a statistical technique where one predicts the presence or absence of an attribute in the population based on the sample results. Attribute sampling is used by auditors to determine whether a control procedure is being followed when a transaction is processed and how effective the control is. The

more effective the controls, the less detailed tests of account balances the auditor may need to perform.

- *Variables sampling*

Variables sampling is concerned with testing items which can take any value within a continuous range and is therefore used in substantive tests of details. Variable sampling is a kind of statistical sampling that can be used to reach conclusion from amounts of population. The method is primarily used in substantive testing to ensure whether the recorded amount is reasonable.

5.2 Non-statistical sampling

Any approach to sampling which does not fulfill all the characteristics set out above for statistical sampling is referred as non-statistical or judgment sampling. However, as statistical sampling also requires judgment, the term non-statistical is preferred. Non-statistical sampling methods may be used when any of the following criteria apply:

1. They are designed to be equally or more effective and efficient as statistical sampling, while being less costly,
2. An auditor encounters a well-designed, well-controlled system, good management, well-trained employees and a feedback mechanism that highlights errors and it would therefore be extravagant to spend a great deal of time performing extensive substantive tests,
3. An auditor encounters a system that is so weak (e.g. inadequate controls and/or procedures, insufficiently trained personnel) that no reliance can be placed on the system of internal controls,
4. The audit objectives are fully met by a non-statistical sample,
5. It is known that the population has no variability,
6. Examples of deficiencies are needed to support the auditor's contention that the system is weak,
7. Clues are needed as to whether to proceed with a statistical sample.

5.2.1 Non-statistical sampling methods

Non-statistical sampling methods are:

- *Haphazard sampling*

This method attempts to give all items in a population a chance of selection by which the auditor selects the sample without following a structured technique, choosing items haphazardly. To avoid conscious bias it is necessary to avoid: favoring middle items, ignoring first and last items, selection of unusual items, etc. Sometimes it is the only practical method (in terms of time and cost) of

selecting a sample from a population which cannot be accessed using a numerical sequence. Haphazard sampling is not appropriate when using statistical sampling and the auditor should always ensure that haphazard sampling is not 'doctored' in such a way that it deliberately avoids sampling items which, for example, are difficult to locate.

- *Block sampling*

Block selection is a technique which involves selecting a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. It is to be noted that block sampling should be used with caution because valid references cannot be made beyond the period or block examined. Where the auditor does use block sampling, then many blocks should be selected to help minimize sampling risk. Block selection is similar to cluster sampling, where the cluster is picked non-randomly.

- *Cluster sampling*

Clustering is a random selection method of grouping items together in clusters. The whole population is divided into subsets, some subsets being sampled while others are not. Cluster sampling can be one-stage (randomly pick a cluster and analyze 100% of the items within), two-stage or three-stage (randomly picking items in a randomly picked sub-group within a randomly picked cluster), depending on the size and complexity of the population. As a statistical sampling method must still be used, clustering may increase the sample size, and is therefore unlikely to be an efficient approach to follow.

- *Risk-based sampling*

Risk-based sampling is a non-statistical selection of items based on various intentional elements, often taking from all three non-statistical selection methods.

5.3. Statistical vs. Non-statistical sampling

Every research method is imperfect. Each method has possibly incorrect assumptions built in, and plausible alternatives invariably exist for any interpretation of data. What is required is to know these before use of such tools. Statistical sampling is appropriate whenever an auditor wishes to draw a conclusion about a population without performing an examination of all the items composing that population. Moreover, statistical sampling is appropriate

when the auditor has no prior knowledge as to which specific items in a population are misstated. The most important benefit which statistical sampling offers is the reduction, through the use of mathematical aids to judgment, of the risk of over-auditing or under-auditing.

The difference between the two types of sampling is that the sampling risk of a statistical plan can be measured and controlled, while even a perfectly designed non-statistical plan cannot provide for the measurement of sampling risk. Statistical sampling can handle large proportion of expenditure, while non-statistical can handle only smaller proportion, but in that context it is less audit work, comparing to statistical sampling. The basic similarity between the two types is that both sampling approaches require the exercise of auditor judgment during the planning, implementation and evaluation of the sampling plan. In other words, the use of statistical methods does not eliminate the need to exercise judgment. The following table shows the differences between these two approaches in terms of determination of sample size, selection of sample and evaluation of sample.

Table 2. Differences between statistical and non-statistical sampling

	Statistical sampling	Non-statistical sampling
Determination of sample size	Application of model and explicit acknowledgement of relevant factors	Application of judgment and implicit acknowledgement of relevant factors
Selection of sample	Random selection	Judgmental selection
Evaluation of sample	Application of principles of statistics and professional judgment	Application of judgment

Of course, where the incremental benefit of converting testing techniques to a statistical basis is disproportionately costly, the use of statistical sampling would not be justified despite these risks. Undoubtedly there are many audit tests where this is the case and where the use of judgmental testing is thus the only responsible course to follow. But there are also many other audit tests where there is no additional cost to statistical sampling or where the cost is slight in comparison with the benefits of the greater objectivity in determining extent, selection and evaluation by statistical means.

Statistical and non-statistical sampling techniques are mutually exclusive tools to be used as dictated by specific audit conditions. There is no difference between statistical sampling and non-statistical sampling in the execution of a sampling plan, nor does the approach affect the competence of the evidence obtained or the auditor's responses to detected errors. Selection between statistical and non-statistical sampling should be made after an evaluation of the audit objective(s) and the advantages and disadvantages of statistical and non-statistical sampling.

6. PROJECTING DETECTED ERRORS IN A SAMPLE TO THE POPULATION

The auditor should consider projecting the results of the sample to the population with a method of projection consistent with the method used to select the sampling unit. The projection of the sample may involve estimating the probable error in the population and estimating any further error that might not have been detected because of the imprecision of the technique together with the qualitative aspects of any errors found. If the performance of a pre-determined test is not possible e.g., a document is not available, alternative procedures to provide equivalent evidence should be adopted. If this is not possible the effect of assuming it to be an error (or deviation) should be considered. If a test is inconclusive alternative evidence should be sought from other tests.

There are three general types of audit tests:

1. *Risk assessment procedures* are used to obtain an understanding of the entity and its environment. They include: inquiries of management and others, analytical procedures and observation and inspection.
2. *Tests of controls* are audit procedures performed to test the operating effectiveness of controls in preventing, or detecting and correcting material misstatements at the relevant assertion level. Some examples of tests of controls include: inquiries of management and other staff, observation of the application of specific controls, walk-throughs and re-performance and inspection of documents, reports and electronic files. The audit sampling for the tests of controls is generally appropriate when the application of the control generates audit evidence of performance. The desired assertion level, based on testing of controls, is determined on the basis of the initial assessment of control risk. The difference between the assertion level, control risk and tolerance deviation rate, has no practical significance. It's easier to make estimates of the extent of deviation from the prescribed procedures, which confirm the estimated level of control risk. The lower the tolerance rates of deviation, the bigger the sample size.
3. *Substantive procedures* are used to detect material misstatements (i.e. monetary errors) in a transaction class, account balance or disclosure element of the financial statements. There are two categories of substantive procedures:
 1. Tests of details,
 2. Substantive analytical procedures.

Necessary assertion on the basis of tests of details is obtained by applying detection risk, which is based on a sample.

6.1. Expected error or rate of deviation

The auditor projects the total error for the population to obtain a global view of the scale of errors and to compare it with the tolerable error. Based on experience, other procedures and other available information, the auditor should consider whether the expected error (control deviation) is approximate to tolerance error (tolerance rate of deviation). If so, the auditor should select a larger sample. Larger sample would provide a reliable picture of the population and enable auditors to avoid further involvement in the audit process. A small sample will show the population in a worse light than it really is, and auditors will carry out additional unnecessary tests of business transactions or account balances. When the projected population error exceeds the tolerable error, the auditor should reassess the sampling risk and, if that risk is unacceptable, consider extending the audit procedure or performing alternative audit procedures.

In the case of the substantive procedures, the tolerable error is represented by a tolerable misstatement and will be an amount less than, or equal to the auditor's materiality used for the individual class of transactions or account balances being audited. In the case of anomalous errors that have not been corrected, the effect should be taken into account in addition to the projection of non-anomalous errors. Under paragraph 58 of the Auditing Standard 530, when an error has been established as an anomalous error, the auditor needs to exclude the error when projecting sample errors to the population. If a class of transactions or account balance has been divided into strata, the error is projected for each stratum separately. Projected errors plus anomalous errors for each stratum are then combined when considering the possible effect of errors on the total class of transactions or account balance [2, p. 21].

The table shows that the assurance of 90% means the sample which is two times higher than it is necessary, if the assurance of 70% would be enough. This table is based on certain assumptions and can not be regarded as universally applicable, because it is used in specific situations.

Table 3. The desired sample size for certain assurance levels and tolerable errors

The desired sample size for certain assurance levels and tolerable errors					
Desired assurance	Error tolerance as an estimate of the population				
	10	5	4	2	1
95	30	60	75	150	300
90	23	66	58	115	230
70	12	24	30	60	120
50	7	14	18	35	69

In sampling method based procedures of tests of control, projection is not required because the number of errors in the sample is simultaneously the projected number of errors for the population as a whole.

7. EVALUATING THE SAMPLE RESULTS

This step comprises of analysis of errors of samples, inference of errors of population and formation of audit conclusion. The errors or deviations detected should be analyzed and used to estimate the total error or deviation rate in the population. The risk, that the actual error or deviation rate may exceed the tolerable error, should be assessed. The auditor should evaluate the sampling results to assess whether the assessment of the relevant characteristic of the population is confirmed or needs to be revised. When analyzing the errors or deviations, their nature, cause and possible impact on other audit areas and the financial statements as a whole should be considered. If they have a common and potentially significant feature a sub-population of items possessing that feature may be identified for further testing.

7.1 Nature and cause of errors

The auditor shall consider the sample results, the nature and cause of any errors identified, and their possible effect on the particular audit objective and on other areas of the audit. If we find the existence of errors then we need to determine:

- Effect of individual failures in the financial statements, and
- Efficiency of internal control systems and their effect on the audit approach, especially if errors result from avoidance of controls by management.

By analysis of the identified errors, it is necessary to identify all items of the population, which they have in common, and then treat that part of the population as a separate stratum and extend audit procedures in that stratum.

Particular attention should be paid to the possible existence of deliberate errors and fraud, which is determined by testing a selected sample, bearing in mind their impact on the financial statements. Established errors may be representative and anomalous. Sometimes, the auditor may be able to establish that an error arises from an isolated event that has not occurred other than on specifically identifiable occasions and is, therefore, not representative of similar errors in the population (an anomalous error). To determine the error as anomalous, it is necessary to carry out additional audit procedures, which should confirm that the data error does not affect the rest of the population.

In the case of tests of controls, an unexpectedly high sample error rate may lead to an increase in the assessed risk of material misstatement, unless further audit evidence substantiating the initial assessment is obtained. In the case of the substantive procedures, an unexpectedly high error in a sample may determine the auditor to believe that an account balance or a class of transactions contains

material misstatements, in the absence of further audit evidence that no such material misstatement exist.

If the total amount of projected error plus anomalous error is less than but close to that which the auditor deems tolerable, the auditor ordinarily considers the persuasiveness of the sample results in the light of other audit procedures, and may consider it appropriate to obtain additional audit evidence. The total of projected error plus anomalous error is the auditor's best estimate of error in the population. However, sampling results are affected by sampling risk. Thus when the best estimate of error is close to the tolerable error, the auditor ordinarily recognizes the risk that a different sample would result in a different best estimate that could exceed the tolerable error. Considering the results of other audit procedures helps the auditor to assess this risk, while the risk is reduced if additional audit evidence is obtained. If the evaluation of sample results shows that a preliminary assessment of relevant characteristics of the population needs to be revised, the auditor may:

- Request management to investigate identified errors and the potential for further errors, and to make any necessary adjustments,
- Modify the nature, timing and extent of further audit procedures,
- Consider the effect on the auditor's report.

8. CONCLUSION

We can conclude that the audit process is very complex and if handled inappropriately could be wreckless for audit firms and their clients. Obtaining sufficient appropriate audit evidence is crucial in forming the overall audit evidence. Audit evidence needs to be properly documented and reviewed in order to ensure that the overall objective of the audit has been achieved.

The aim of audit sampling is to form a conclusion about the population from which a sample is obtained. The problem of providing quantity of satisfactory audit evidence is solved by appliance of appropriate sampling methods. In other words, the appliance of sampling methods in the audit of financial statements came into mind to save time and money, thereby maintaining the risk of disclosure of material false amounts in the financial statements on an acceptable level.

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**RISK ASSESSMENT PROCEDURES IN TERMS OF
STRATEGIC AUDIT PLANS AND PROGRAMS:
ASSESSMENT OF INHERENT, CONTROL AND
DETECTION RISKS**

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Abstract

This paper examines the impact of risk assessment procedures, in terms of strategic audit programs and planned audit procedures. The assessment of materiality, inherent risk and the control environment all enter into the determination of the appropriate audit strategy. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in accordance with an identified financial reporting framework.

The determination of audit strategy described in this paper is consistent with the requirements of Auditing Standard. While planning the audit, the auditor decides what level of audit risk is acceptable. Audit risk is the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated, and it is a function of three risks: inherent, control, and detection risk.

Risk assessment is one of the most critical components of an audit program. To evaluate the components of inherent risk, it is essential to make professional judgments about the financial reports, the account balances and the different types of business transactions. All that is required for understanding that there is a positive relationship between each of the components of audit risk.

Keywords: Audit, Risk Assessment, Inherent Risks, Control Risks, Detection Risks

JEL codes: M42

1. INTRODUCTION

The audit program includes a detailed review of audit procedures, which needs to be done for each segment of the audit. This means that the audit program serves as a detailed guidance to auditors, and as a basis for validity control of their work. The three essential elements of the audit plan are:

- Initial assessment of the level of materiality,
- Consideration of audit risk,
- Making of an initial audit strategy.

Materiality is considered quantitatively and qualitatively, on the level of financial reports and the level of balances. Between the level of materiality and the volume of audit evidence, there is an inverse relation. The audit risk consists of three components:

- Inherent risk,
- Control risk,
- Detection risk.

The detection risk is in an inverse relation with the other two types of risk. The auditor maintains the total audit risk on an acceptable level through control of the detection risk. As with materiality, and audit risk may be expressed quantitatively and qualitatively. Audit risk is in inverse relation with the volume of audit evidence. The auditor specifically considers (when creating audit programs), assessment of inherent and control risks, as well as the necessary evidence, which he should provide by substantial check procedures. He also discusses the:

- Time when he will check the functioning of controls and conducting substantial check procedures,
- Cooperation that he expects from the client,
- Required number of auditors for audit and involvement of other auditors and experts in the audit process.

Two alternative audit strategies can be applied for all claims in the financial statements. They are:

- Approach mainly based on the substantial audit procedures,
- Approach based on the low level of control risk assessment.

2. GENERAL AUDIT PLAN- A STRATEGY REVIEW

According to the International Standard on Auditing 300 - Planning, Item 3, the planning is being done in two phases, as follows:

- General audit plan, in which the initial audit strategy is being prepared,
- Detailed audit plan, in which specific actions of audit procedures are being planned.

The making of general audit plan is possible when the auditor gets a complete picture of the clients business.

Components of the general audit plan are:

- Planned estimated control risk volume,
- Scope of understanding of internal control systems, which needs to be achieved,
- Control verification, that needs to be done in the control risk assessment procedure,
- Planned scope of the substantial checks, which need to be done in order to reduce audit risk to an acceptably low level.

The general audit plan is not a detailed overview of the audit procedures, but the initial assessment of the auditor on the audit approach and it is based on assumptions how to complete the audit process.

We divide alternative audit strategies into:

- Approach mainly based on the substantial audit procedures,
- Approach based on the low level of control risk assessment.

2.1. Audit strategy mainly based on substantial audit procedures

The auditor chooses this approach when he due to his experience knows that controls, related to claims in the financial statements, do not exist or are unreliable. The auditor picks this strategy, when he determines that the costs of performing additional procedures for understanding of the internal control system and control verification outweigh the costs of performing are larger number of substantial checks. These circumstances could apply to claims for accounts with:

- Business transactions of modest volume,
- Accounts on which are the so-called corrective posting reflected.

According to this approach components of audit have the following sequence:

- Planned estimated control risk is taken as the highest (or slightly below this level),
- Minimum understanding of internal control systems acquired,
- Small scope (or not even that) of controls checks is planned,
- Large volume of substantial checks is planned (based on low level of the planned volume of detection risk).

2.2. Approach based on the low level of control risk assessment

The auditor chooses this approach when he is convinced that the controls, related to claims of the management, are well done and effective. This approach gives better results in coming, but in the initial audit.

According to this approach, components of the strategy review are ranked as follows:

- Planned estimated control risk is modest or low,
- Detailed understanding of internal control systems is planned,
- Extensive control checks are planned,
- Modest volume of substantial checks is planned (based on modest or high planned acceptable level of detection risk).

When all listed factors are evidenced, we begin with making of a general audit plan that includes:

- Types of audit procedures to be performed,
- Time for performing audit procedures,
- Scope of audit procedures.

2.3. The relation between audit risk, audit evidence and materiality

There is a mutual dependence between all three concepts of audit, and a reverse relation between the global audit risk and audit evidence, and the materiality and audit evidence.

If the audit risk is constant, and the threshold of materiality is decreased, the volume of audit evidence has to be increased. If materiality is constant, and the volume of evidence is reduced, we have to increase the audit risk. If we want to reduce global audit risk, we have to choose one of three options:

1. Increase of materiality threshold, and keeping volume of audit evidence constant,
2. Increase of evidence volume, while maintaining the materiality threshold at the same level, or
3. Slight increase in the volume of audit evidence and the level (threshold) of materiality.

3. AUDIT RISK

Under the term audit risk we understand the risk of financial accounts of companies or banks not being accurate, truthful and objective.

The scope of acceptable audit risk is determined on the basis of business policies of audit firms. For example, an audit firm may decide that for all audit arrangements the acceptable level of risk is 5%, i.e. this means that an adequately opinion is going to be expressed in 95 of 100 audit arrangements. The auditing firm can evaluate the risk of 1% as acceptable, and this means that an adequate audit opinion has to be expressed in 99 of 100 audit arrangements.

Components of audit risk are:

- Inherent risk (risk by the nature of things),
- Control risk (risk that the controls do not work),
- Detection risk (risk that false statements will not be revealed).

Mathematically audit risk can be expressed as follows:

$$RR = IR \times CR \times DR \quad (1)$$

RR - audit risk,
 IR - inherent risk,
 CR - control risk,
 DR - detection risk.

This risk model suggests a quantitative relation between certain risk categories. In practice, this relation is more complex than it can be seen from the pattern. These three components of audit risk are not completely independent, as it could be concluded, because some risks are interrelated. In that sense to some extent control risk depends on the inherent risk. For example, if a company is

exposed to the risk of exchange rate changes, the management will implement tougher inspection system of the exchange rate than in the case that the company is not exposed to this risk. The detection risk also depends largely on the inherent and control risk. In addition, the inherent and control risk differ from detection risk because they exist regardless of whether the audit process is carried out or not, whereas detection risk relates to the effectiveness of audit procedures performed.

The following table shows how an acceptable level of detection risk is changing, depending on the assessment of inherent and control risk [1, p. 53].

Table 1. Interdependence between the audit risk components

Interdependence between the audit risk components				
The auditor's assessment of inherent risk	The auditor's assessment of control risk			
	Level of risk:	High	Medium	Low
	High	Lowest	Lower	Medium
	Medium	Lower	Medium	Higher
	Low	Medium	Higher	Lowest

Assessment of the fields in the table above, refer to the detection risk. Between detection risk and the combined level of inherent and control risk, there is an inverse relation. When the inherent and control risks are high, an acceptable level of detection risk should be the lowest, in order to reduce audit risk to an acceptably low level. Inversely, when the inherent and control risk are at the lower level, the auditor should adopt a higher level of detection risk and still reduce overall audit risk to an acceptably low level.

4. AUDIT RISK MODEL

Audit risk can be expressed through the equation (1). We concluded that inherent and control risks exist independently of whether the audit of financial statements is being performed. On the other hand, detection risk exists only when the audit of financial statements is performed, and it is reduced to the uncertainty that the auditor will not express an adequate opinion on the balances which are subject of the audit.

The detection risk can be calculated using the following form:

$$DR = \frac{RR}{IR \times CR} \quad (2)$$

From the equation we can conclude that detection risk will be lower when the audit risk is lower, or when inherent and control risks are higher. Conversely, detection risk will be higher, when the audit risk is higher, and when inherent and control risks is lower.

Different values of detection risk cause different scope and structure of audit procedures, thus affecting the overall audit costs. Detection risk is one of the three components of audit risk, which is under the direct control of the auditor. If the auditor decides to accept a higher level of detection risk, this means that the auditor is willing to make conclusions about the accuracy of the claims in the financial statements, based on small-scale audit checks. If to the auditor only a small detection risk is acceptable, he has to do extensive testing of the claims in the financial statements and obtain a large number of audit evidence.

If the auditor wants to reduce audit risk to an acceptable level, he has to minimize the levels of inherent and control risk. The level of inherent risk can be reduced by the auditors' careful planning process, while control risk may be reduced by detailed study of the internal control system, careful assessment of the control risk scope and by providing recommendations to the client, in order to eliminate the weaknesses that he saw in their system of internal control. In practice, detection risk or disclosure risk is being divided into two separate risks:

- Analytical risk (AR), and
- Substantial risk (SR).

So that the form of audit risk may be as follows:

$$RR = IR \times CR \times AR \times SR \quad (3)$$

From this form, one component can be calculated as follows:

$$SR = \frac{RR}{IR \times CR \times AR} \quad (4)$$

For each of these risk types, we need to apply different types of testing's carried out in the auditing process. By multiplication of these four factors, it is possible to calculate the total probability that some incorrect statements in balance will stay unrevealed.

The auditor should take into account that the total probability of misstatement presence in balances does not exceed an acceptable level of audit risk, typically about 5% or lower. Although the auditor has very little ability to control the level of inherent, control and analytical risks, he is able to make recommendations for their reduction.

For achieving of an acceptable level of total audit risk, the auditor must quantify each of these three risk factors (inherent, control and detection risk), calculate their combined value, and then calculate the level of substantial risk, which he can take upon himself.

Application of the audit risk formula can be illustrated by an example:

Assumptions that the auditor is willing to accept for company "A" are:

- Audit risk 5%
- Inherent risk 80%
- Control risk 50%
- Analytical risk 90%

If the auditor would accept the effects of these three factors, without further checking, the overall audit risk would be 36% that the balances are incorrect and unreliable ($80\% \times 50\% \times 90\% = 36\%$). That risk level can be reduced to an acceptable level of overall risk of 5%, by the performance of so-called substantial checking's, which would be the fourth component of risk (substantial risk) led to a level of 14%. When all this is included in the audit risk formula, then the overall audit risk is reduced to the desired level of 5% ($80\% \times 50\% \times 14\% = 5\%$).

Audit risk factors can be imagined as a kind of "filter" which reduces the probability of inaccurate and unreliable balances. After passing the "first filter" (inherent risk), the probability that the balances are incorrect reduces from 100% to 80% ($100\% \times 0.80\% = 80\%$). After the "second filter" (control risk - whose scope is determined on the basis of reliability or unreliability of the clients system of internal control), this probability is further reduced to 40% ($80\% \times 50\% = 40\%$), and after a leak through the "third filter" (analytical risk), this

probability decreases to 36% ($40\% \times 90\% = 36\%$). Finally, the densest filter, which is a major trump of the auditor for detection of unreliable balances, is the factor of substantial checks, in the amount of 14%, which leads the probability of balance failures to an acceptable level of only 5% ($36\% \times 14\% = 5\%$).

Figure 2. Auditing risk factors [1, p. 59]



5. INHERENT RISK ASSESSMENT

Under the inherent risk we understand the risk that a management assertion contains materially false statements. The inherent risk is influenced by numerous factors:

- Nature of the clients business,
- Motivation and integrity of clients,
- Existence of related entities,
- Susceptibility of property fraud,
- Subjective accounting assessment,
- Incidence of transactions, etc.

The presence of these factors means that the risk of erroneous statements is higher, than it would be if these factors weren't present. The effects of some of these factors can be removed.

For accounts with a large number of transactions, there is a greater probability of error occurrence, than for accounts with a lower number of transactions, because in a larger number of transactions it is more likely that something will pass unnoticed. At the same time, with transactions that occur frequently, the client will have greater experience, so it will be less likely to make larger errors. For evaluation of these components of inherent risk, professional judgments on the level of those financial statements, the level of account balances and the level of business transaction types are essential.

5.1. Inherent risk factors assessment on the level of financial statements

The following factors are affecting the evaluation of the components of inherent risk on the level of financial statements:

- Nature of the clients business,
- Factors and the areas in which the client operates,
- Motivation and integrity of management,
- Organization and management structure,
- Pressures on management to achieve certain financial results.

Besides these factors, we have other influencing factors: the intended sale of the company, factors that cast doubt on the continuation of the company and others.

5.1.1. Nature of clients business

In this context important risk factors are:

- Complexity of capital structure,
- Long business cycle,
- Possibility of product obsolescence,
- Introduction of new technologies.

5.1.2. Factors and the area in which the client operates

Significant risk factors in this area are:

- General condition,
- Accounting practices,
- Customer demand,
- Unstable market.

5.1.3. Motivation of management

As a risk factor motivation is of special importance. Particular attention should be paid to the potential motivation of decision makers by clients. For example, if a company is family-owned (small) owners will be interested to show a smaller profit for taxation. On the other hand, management of large companies, which are listed on the stock exchange, is interested to show a greater profit so that the market value of shares would increase, and thus the value of shares owned by the management. Having this in mind, the auditors must be aware of the

motivation of the company owners to deliberately underestimate the net profit, and they have to be ready to process the essential checks to detect such activities.

5.1.4. Integrity of management

Possibility of material misstatements in financial statements is increased, if managements do not possess the required integrity. If the management have dealt in the previous period with illicit activities and acted unprofessionally, the possibility of the existence of material misstatements in the balance increases. In addition, there may be up to it to smear the reputation of auditors as a consequence of lawsuits and negative publicity which is resulting from the lack of management integrity.

5.1.5. Organization and management structure

This factor can also lead to increased audit risk, because the level of training and experience is essential. Inexperience may also adversely affect the preparation and quality of financial reporting and thereby increase audit risk. The management may be unfit to the scope and activities of the company.

5.1.6. Pressures on management to achieve certain financial results

If earnings of the management are depending to assertions in the financial reports, and if the managers and owners are interested in diminishing the amount of tax, the inherent risk is significantly increased. If the company needs fresh capital they will easier get to it, if the financial reports are favorable. The management is motivated to falsify financial statements, on the way to capital.

5.2. Inherent risk factors assessment on the level of account balances or business transaction types

In this assessment the following factors are important:

- Unusual and complex business transactions (at the beginning and the end of the accounting period the inherent risk increases in terms of this factor, and may lead to recruitment of experts),
- Accounts are subject to false statements (auditor has more detailed to consider the sufficiency and competence of audit evidence and to assess higher level of inherent risk at the accounts, where unreliable information was discovered in previous audits),

- Susceptibility to asset deficits and illegal acts (this is about easily portable assets and property which is susceptible to theft, such cash),
- Volume of judgments in determining the account balance (it can come to erroneous estimates by management; in applying generally accept accounting principles).

In the absence of appliance of an internal control system, auditors will conclude that the probability of absence of materially false statements is low.

6. CONTROL RISK ASSESSMENT

Auditors should perform a preliminary assessment of control risk, based on the claims of the management for each balance of material importance and type of transaction.

In his notes, the auditor shall document:

- Conferred consideration of accounting systems and internal control systems, and
- Estimation of the control risk volume.

Depending on the auditors' judgments, the common techniques used individually or combined for this purpose are: notes, questionnaires, list of control issues and charts of documentation flow. The scope of this documentation and its shape depend on the size and complexity of the companies, its accounting and internal control systems. As the size and complexity of a company grows, so grows number of the audit procedures and the scope of documentation.

7. DETECTION RISK ASSESSMENT

In the determination of detection risk, the auditor should take into account:

- Type of audit procedures (audit procedures may be directed to staff and client records, or an independent third party outside the client),
- Extent of audit procedures (determining the size of the audit sample)
- Time of the audit procedures (audit checks on the date of the balance sheet composition, instead of at an earlier date).

Starting from the fact that the detection risk and the combined level of inherent and control risk are in inverse correlation, the auditor determines an acceptable control risk level. If inherent and control risks are high, acceptable detection risk must be low, to reduce audit risk to an acceptable level. If the internal control

system is effective in preventing and detecting errors (if control risk is low), the auditor will have fewer audit checks (high detection risk). If the balance of an account is susceptible to false statements (inherent risk is high), the auditor has to apply more extensive and more effective audit procedures (detection risk is low). In this way, audit risk is reduced to an acceptable level.

If the auditor determines that detection risk, which relates to claims in the financial statements for materially significant account balances or types of business transactions, can not be reduced to an acceptable level, then the auditor should express a reserved or abstained opinion. The reason is the inability to reduce detection risk, which leads to restrictions on the scope of audit and will lead to a large dose of uncertainty in the process of auditing.

8. CONCLUSION

The assessment of risk in an audit is an iterative process. The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels.

We provided an insight into an audit risk model, and concluded that the audit risk factors can be imagined as a kind of "filter" which reduces the probability of inaccurate and unreliable balances. This paper also examined the relationship between the three components of audit risk and the relation between audit risk, audit evidence and materiality. Between detection risk and the combined level of inherent and control risk, there is an inverse relation. When the inherent and control risks are high, an acceptable level of detection risk should be the lowest, in order to reduce audit risk to an acceptably low level. Inversely, when the inherent and control risk are at the lower level, the auditor should adopt a higher level of detection risk and still reduce overall audit risk to an acceptably low level.

We came to the conclusion that between audit risk and the audit scope, there is an inverse relation, which is necessary to confirm the auditor's opinion on the financial statements. Larger audit and detection risk indicates a smaller volume of audit evidence, and inversely, lower audit and detection risk requires increased volume of audit evidence, so that the auditor could adequately express an opinion on the financial statements of the client.

As mentioned above, risk factors are significant when planning and undertaking audit work and auditors will always try to reduce risk as far as they can, by doing their testing, to an acceptable level.

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**DEVELOPMENT OF SMALL AND MEDIUM-SIZED
ENTERPRISES IN THE REPUBLIC OF MACEDONIA AS
AN ALTERNATIVE SOLUTION FOR THE
CONSEQUENCES OF THE ECONOMIC CRISIS**

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Abstract: The last 2-3 years will be remembered and written in the economic history by the economic crisis that caused problems on both finance and real sectors of the economic systems around the world. Governing and living in conditions of global interconnection and complex international economic relationships, the Republic of Macedonia has also felt the negative effects of the biggest world's economy crisis.

The main focus of the paper is how to find a partial solution for the consequences of the economic crisis in the Macedonian economy's real sector. Having in mind the advantages of the small and medium - sized enterprises (SMEs), one can conclude that they can serve as an absorber of the economic crisis' negative effects that the Macedonian economy has felt. The development of this sector can be seen as a generator for the economic development in the near future. However, main disadvantage of the SMEs is their restricted possibility to access financial assets. This is the point where the government should step-in and offers them help to get an easier access to financial assets. Analyzing the current situation in this sector in the Republic of Macedonia the paper points out the possible and desirable policies and activities of the government to help SMEs, as well as the alternatives for future development of this sector.

Key words: small and medium - sized enterprises (SME), economic crisis, unemployment, adaptability, credits, banks.

¹.JEL codes: P, and Q.

².JEL code: P.

1. SMALL AND MEDIUM-SIZED ENTERPRISES – THEORETICAL ASPECTS

The production structure of the national economies covers large number of enterprises. These economic entities differ in terms of their size, the number of employees they have, the type of their business activity, the amount of income, the overall profit they make, their access to markets, the possibility to invest and other similar differences. In order to more successfully analyze the demand side of the economic system, the practice has shown that it is necessary to make systematization and division of the enterprises in accordance with certain criteria. The economic theory and policy notifies many divisions of the enterprises made in accordance with different starting points. It is this paper's intention to show the division of enterprises into *small, medium and large enterprises*.

Major criteria according to which this division was made are: the number of employees and the amount of income that the companies make. Besides these basic criteria, in the regulations about the trade companies in different countries, additional criteria are being used combined with the basic ones. According to this division, an enterprise falls under the qualification of being small, medium-sized or large depending on the number of employees and the amount of income generated by the company.

There has to be pointed out that the line which determines which group an enterprise belongs to regarding the above mentioned division differs from country to country. This practice is due to the fact that the economic systems, as well as the economic entities which act in these economies, are characterized with different specifics and performances. In the Table below are shown the conditions necessary for defining the various enterprises according to their size by using the methodology of the World Bank and the European Commission.

Table 1. Types of enterprises according to their size

	World Bank (2004)	EU (2003/361/EC)
Micro	10 or less employees, average income of less than 100 000 USD	10 or less employees, balance of accounts up to 2 million Euros
Small	10-50 employees, income and assets of between 100 000 and 3 million USD	10-50 employees, annual turnover and balance of accounts up to 10 million euros
Medium-sized	50-300 employees, total annual income and assets of between 3 and 15 million USD	50-250 employees, annual turnover ≤50 million Euros or balance of accounts ≤ 43 million Euros
Large	Enterprises which do not belong to any of the above notified classification	Enterprises which do not belong to any of the above notified classification

Source: IMF, Taxation of Small and Medium Enterprises, p. 3

The subject of this paper is the analysis of small and medium-sized enterprises in the Republic of Macedonia. Therefore, when defining the types of enterprises, what is valid and is complied with is the Act on Trade Companies (Official Gazette of the Republic of Macedonia 28/04, 84/05, 25/07, 87/08, Decion made on behalf of the Constitutional Court 23/09, 42/10,47/10) which determines the legal framework and the criteria regarding the appropriate enterprises. According to this Law, in the Republic of Macedonia there are the following types of enterprises:

1. *Micro entrepreneur* – an entrepreneur who over each of the last two estimate years i.e. in the first year of its operation met the first criteria and at least one of the following criteria listed as second and third:

- The average number of employees, who have determined working hours is amounting to ten employees, and
- The gross income generated by the entrepreneur from any kind of source is not greater than 50.000 Euros in denars' counter value, and
- Not more than 80% of the entrepreneur's income should be generated from one client/consumer or a person related to this client/consumer, and
- All the rights regarding the participation in the micro-enterprise should be in the ownership of not more than two physical entities.

2. *Small entrepreneur* - an entrepreneur who over each of the last two estimate years i.e. in the first year of its operation met the first criteria and at least one of the following criteria listed as second and third:

- The average number of employees, who have determined working hours is amounting to 50 employees, and
- The gross income is smaller than 2.000.000 Euros in denars' counter value, and the total turnover is smaller than 2.000.000 Euros in denars' counter value
- The average value (at the beginning and at the end of the estimate year) of the total funds (in the assets) is smaller than 2.000.000

Euros in denars' counter value.

3. *Middle-size entrepreneur* – an entrepreneur who over each of the last two estimates years i.e. in the first year of its operation met the first criteria and at least one of the following two criteria:

- The average number of employees, who have determined working hours is amounting to 250 employees, and
- The annual income should be smaller than 10.000.000 Euros in denars' counter value or
- The average value (at the beginning and at the end of the estimate year) of the total funds (in the assets) is smaller than 2.000.000 Euros in denars' counter value [5, Article 470].

2. THE ADVANTAGES OF SMALL AND MEDIUM-SIZED ENTERPRISES (IN THE DIRECTION OF MITIGATING THE EFFECTS OF ECONOMIC CRISIS)

The next part of the analysis is going to present the argumentation that supports the thesis according to which the development of small and medium-sized enterprises represents an alternative way out of the economic crisis which also hit Macedonian economy. In addition, the analysis of the advantages of small enterprises also covers the advantages of micro-enterprises which basically do not have many differences in the way they operate when compared to the small entrepreneurs. The intention is that by presenting the advantages to allocate the possibilities for mitigating the negative effects of the economic crisis in the real sector.

In comparison with the large enterprises, the following advantages of small and medium-sized enterprises can be perceived as being the most important ones:

- They are pretty easy to establish;
- The decision-making regarding business issues is relatively easy and unbiased;
- There is a huge flexibility and adaptability to the fast changes regarding the economic circumstances on the markets;
- They offer employment opportunities, especially for the family members;
- They are acquainted with the needs and the taste of the local consumers and they have a fast response to the consumers' demands;
- They create a sense of freedom and independence with the owners because of the way they are organized;

Under circumstances of tight economic relations, especially in the real sector, the above listed features of small and medium-sized enterprises could

represent a significant advantage when it comes to the adaptation to new conditions on the market. In that sense, one publication of the European Union Commission, states: “micro, small and medium-sized enterprises have a central role in the European economy. They are major source of entrepreneurial skills, innovations and employment. In the Union of 25 states, there are around 23 million small and medium-sized enterprises which provide 75 million jobs and represent 99% of all business entities.”[11, p. 159] The presented statistics could be used by those who create the economic policies not for the purpose of handling the crisis, but as a wise alternative for decreasing the foul effects on both the real sector and the standard of the population.

Out of the above listed advantages of small and medium-sized enterprises, what is emphasized in a condition of crisis is the significance of the employment opportunities they offer to the unemployed population. Besides this, there is also an opened opportunity for self-employment and employment of the family members. This advantage exists as such because of the great flexibility and ease in establishing these types of enterprises, especially the small ones. The rise of unemployment that resulted as a secondary effect after the crisis hit, could be alleviated by opening and developing new small enterprises. Their setting up is easy because they do not require large amounts of capital for being established (which is a rare and expensive resource especially when there is crisis going on), the legal procedure for their registration has been relatively simplified (one-counter principle) and they do not require expert knowledge and qualifications (which is not the case with the large companies). The United States of America could be pointed out as an illustration, where 64% of the rise of unemployment is caused by the small enterprises (i.e. by the enterprises which have less than 100 employees). There is another characteristic of the small and medium-sized enterprises which is closely connected with the way out of crisis, and that is the innovation and creativity which are being developed within these companies. Due to their inherent feature i.e. due to their adaptability to the changed market conditions, the small enterprises could react fast to the changed market conditions in a creative and individualized manner regarding their decision-making. What is typical for the large giants, is the fact that the process of decision-making is slower with them, which does not appear to be advantage in circumstances of everyday changes of the existing market conditions. Small businesses create large number of innovations per employee, which according to the Schumpeter theory on economic cycles, represents an impulse for a way out of the phases of depression and recession which exist in one national economy, and which also implies that there is a beginning of the phases of healing and prosperity.

3. SMALL AND MEDIUM-SIZED ENTERPRISES IN THE REPUBLIC OF MACEDONIA

The tendencies of the development of this sector in the country are not

significantly different from the modern tendencies in the rest of the world. The next part of the paper represents a graphic and diagram presentation and interpretation of the meaning the small and medium-sized enterprises have in the Republic of Macedonia.

The Table No. 2 shows the structure of small, medium-sized and large enterprises according to their sector structure. The sector analysis gives an overview of the number of enterprises in each sector separately. What could be noticed from this Table is the fact that the largest part of active enterprises are in the sector of wholesale and retail. Also, it is visible that half of the 50.000 small and medium-sized enterprises are active in this sector. Then, follow the sectors for production, transport, storing, communication and construction. In 2004, according to the definition, only 430 medium-sized enterprises were active. These enterprises were mostly active in the production sector (37%). Around 26% of the medium-sized enterprises are in the sector for wholesale and retail. Large enterprises are mostly active in the sector for financial mediating.

Table 2. Number of active enterprises per sector

2004			
Sector	Small	Medium-sized	Large
Agriculture, hunt and forestry	912	31	3
Fishing	28	0	0
Mining	85	5	1
Production	7731	157	40
Production and supply of electricity, water and gas	57	16	3
Construction	3077	40	6
Wholesale and retail	24486	112	8
Hotels and restaurants	2710	12	1
Transport, storing and communication	4110	24	7
Financial mediating	39	2	62
Real estate, lending and business activities	3150	16	1
Public administration and defense	22	1	0
Education	413	0	0
Health and social affairs	923	2	0
Social and individual services	1380	11	3
Total	49123	429	135

Source: Observation of the SMEs in the R. of Macedonia Report 2004, p. 30

Table 3. Number of employees in the active enterprises in Macedonia

Type of enterprise	2002	2003	2004
<i>Real value</i>			
Small	110373	124840	140511
Medium-sized	144654	137888	61239
Large			48683
Total	255027	262728	250433
<i>(%)</i>			
Small	43.28	47.52	56.11

Medium-sized	56.72	52.48	24.45
Large			19.44
Total	100.00	100.00	100.00

Source: Observation of the SMEs in the R. of Macedonia Report 2004, p. 42.

Table 3 presented in this part of the paper, refers to the link between the small and medium-sized enterprises on one hand and the large enterprises on the other, explained through their participation in the process of employment. Out of the presented overview, it could be seen that the total number of employees in small and medium-sized businesses is 80.56% of the total employment in 2004 i.e. 201,750 employees. This conclusion supports the thesis which states that the economic crisis which had a more damaging effect on the large capacities, in the case of Macedonia could be depreciated because 80% of the employees in the country work either in small or in medium-sized enterprises. Also, these subjects besides being a depreciator of the crisis could also represent an elegant solution to the problem of unemployment in the country, because of the fact that they are capable of absorbing the larger part of the unemployed labour force.

The observation continues further with the analysis of profit and loss of the micro and small enterprises i.e. of the medium-sized and large enterprises. Below are presented two tables and one graph which explain the relations in this area.

Table 4. Data on the profit and loss of micro and small subject-entities

Year	No. of profiteers	Profit (in denars)	No. of losers	Loss (in denars)
2001	17,123	4,612,379,048	16,517	6,412,475,791
2002	18,986	6,005,807,388	16,162	6,219,877,707
2003	20,649	8,839,867,932	17,561	6,099,539,078
2004	22,615	9,054,346,915	18,303	7,419,359,670
2005	24,570	10,228,958,351	19,369	8,009,646,375
2006	27,096	12,648,072,908	19,563	7,750,518,117
2007	30,838	18,443,376,294	19,873	9,255,739,579

Source: Central Registry of the Republic of Macedonia, *Profit and Loss for the period from 2001 to 2007*, Statistical Report, 28.07.2008, p. 14.

The data presented in the Table 4 show that there is a positive trend. The number of micro and small enterprises which make profit is constantly increasing. This increase is primarily due to the increase in efficiency and productivity of the enterprises operating in this sector and less to the increase in the total number of these enterprises. It could also be perceived that there is a large increase in the profit the enterprises make. What also appears is increase in the loss the companies have; however, it is obvious that the trend of increase in loss is slower than the increase in profit.

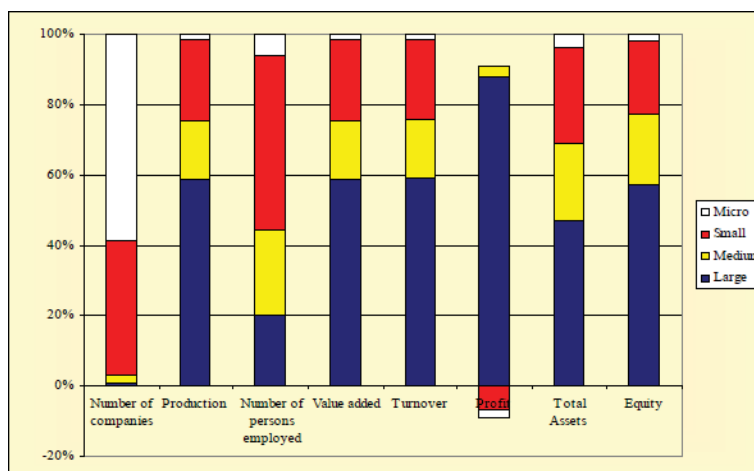
Below is presented the sector of medium-size and large enterprises, as an illustration of the relations between the big players on the market.

Table 5. Data on Profit and Loss of the medium-size and large subject entities

Year	No. of profiteers	Profit (in denars)	No. of losers	Loss (in denars)
2001	330	10,501,374,257	264	11,712,489,421
2002	317	9,876,710,452	263	11,676,475,578
2003	343	12,962,742,026	260	12,293,063,323
2004	364	13,797,250,501	208	11,177,885,896
2005	361	20,951,697,681	185	8,710,765,858
2006	370	20,458,432,538	158	16,707,970,195
2007	391	40,138,082,260	136	9,445,171,953

Source: Central Registry of the Republic of Macedonia, *Profit and Loss for the period from 2001 to 2007*, Statistical Report, 28.07.2008, p. 17.

Graph 1. Main industry indicators according to the size of enterprises in year 2007



Source: Industrial Policy of the Republic of Macedonia 2009-2020, p. 41.

The above graphic presentation (Graph 1) shows the actual conditions regarding the number of different types of enterprises in Macedonian economy. The micro, small and medium-size enterprises are the most important generators of employment in the industry sector (80% of the total number of employees). The analysis of the main indicators of industry in accordance with the size of enterprises shows that micro, small and medium-sized enterprises participate with 99.3% in the total number of firms; they produce 41% of the total production and the added value of industry, and 40.6% of the total income. They own 53% of the total assets and 42.8% of the total capital in the industry. However, micro and small enterprises generated greater loss in 2007 and are mostly prone to change in industry viewed from a perspective of their profitability and productivity.

4. POSSIBILITIES FOR DEVELOPING SMALL AND MEDIUM-SIZED ENTERPRISES IN THE REPUBLIC OF MACEDONIA

The crucial issue related to small and medium-sized enterprises, which is inspected for the purpose of further elaboration on the basic thesis in this paper, is the issue of using some of the advantages these forms of enterprises organizations offer for the purpose of depreciating the negative effects from the big economic crisis. The basic advantages that this type of enterprises have when compared to the large companies, which appear to be extremely useful as instrument for alleviating the negative consequences from the recession, is the fact that they are relatively easy and cheap to establish, as well as the given opportunity for self-employment that these enterprises offer. This part of the paper will cover the institutional aspect regarding the financing of small and medium-sized enterprises in the Republic of Macedonia, as one of the instruments for dealing with the recession on one hand, and as an instrument for alleviating the serious problem of unemployment in this country, on the other.

The most significant institutions which are directly involved in or tackle the small and medium-sized enterprises issue, more precisely, institutions that finance this sector are the following ones:

- Macedonian Bank for Development Support (MBDS);
- Employment Agency of the Republic of Macedonia;
- Industrial Policy of the Republic of Macedonia for the period 2009-2020.

Each of these three institutions has a different approach to this issue, and due to this it takes part in the process of problem solution by making use of specific tools and instruments.

The Macedonian Bank for Development Support (MBDS) is a joint stock company in which the Republic of Macedonia appears to be the only shareholder. Its main responsibilities are: to finance the development of companies (enterprises) established in the Republic of Macedonia; to boost export; to support small and medium-sized enterprises established in the Republic of Macedonia; to finance infrastructure; to support the regional development and to finance projects for environment and renewable energy resources protection [4, Article 10]. In order to fulfill its responsibilities, MBDS provides funds by means of indebteding both in the country and abroad as well as by issuing securities in compliance with the law. In accordance with its possibilities and competencies, at the moment, MBDS is actively using several popular credit lines, that are intended solely for the purpose of developing small and medium-sized enterprises, which is, on one hand, something that enables that the existing companies have easier access to financial means, whereas on the other hand, these convenient conditions have a stimulating effect on the formation of new enterprises. Further are given the credit lines of MBDS.

Credit line for developing small and medium-sized enterprises (SMEs).

These credits are intended for supply of fixed assets (minimum 50%) and working assets (maximum 50%) necessary for setting up new business. This credit line aims at increasing the investments and development of SMEs. As potential credit beneficiaries are companies, registered in the Republic of Macedonia, whose capital of minimum 51% is in private ownership or more precisely:

- existing small and medium-sized companies which achieve positive financial results and
- newly established small and medium-sized companies.

This credit arrangement does not cover financing trade activities, purchasing other legal entities, investments for which there have already been approved credits etc.

Credits are to be approved from the MBDS's own funds, for a period of 8 years maximum (including a one year grace period), with fixed interest rate of 8% on annual basis. The amount of these credits is within the range from 15,000 to 500,000 Euros, in denars' counter value. The credit is insured with standard credit activities: real estate mortgage, movable security, rights and securities, bills of exchange, real estate and movable security, rights regarding the personal property of the founders, and other ways of security provision instruments.

Credit line of the Council of Europe for creating new jobs. This credit lines is a result from the Framework Agreement concluded and signed between the MBDS and the Council of Europe, in year 2005, regarding the approval of credit with an amount of 10,000,000 EUR (ten million Euros) intended for financing and maintenance of jobs in small and medium-sized companies in the Republic of Macedonia. On 18.10.2011 MBDS received the first installment of the credit which amounted 5,000,000 EUR (five million Euros). The conditions related to this credit line refer to the repayment deadline, which is 7 years including 2 years grace period, changeable interest rate and quarterly annuity repayment. The maximum amount of the approved credit is 400,000 EUR, and the funds are intended for supply of fixed assets. According to the estimates of MBDS, it is expected that this credit line creates 950 new jobs.

Micro credit line from KfW (Germany) for micro-businesses. This credit line from KfW is intended for supporting initiatives regarding small and medium-sized enterprises. Potential credit beneficiaries are all the existing and newly-established companies that are (at least 51%) in private ownership, such as: micro and small companies, individual entrepreneurs, artisans, private dealers, market stands and other micro and small economic entities. Credits are intended to be used for specific purposes such as: equipment supply, construction activities, land and working assets. Micro credits have a minimal amount of 15,000 EUR. Credit beneficiaries could be all subjects that employ up to 20 employees. The repayment deadline is 24 months. Small credits are with an amount of 50,000 EUR and credit beneficiaries in this case could be all enterprises that employ up to 100 employees. The repayment deadline is longer (48 months). The interest rate, as well as the repayment deadline is determined

by the banks-participants, in accordance with the type of business, the entrepreneurs' credit solvency and a line of other factors.

After having identified the problems and the dangers of the economic crisis regarding the economy in the Republic of Macedonia, it has been perceived that there is a need for having appropriate Government reaction with interventionist objectives. These measures represent a direct credit support for the private sector. The assets are provided with the assistance of the European Investment Bank (EIB) totaling 100 million Euros, and intended for supporting small and medium-sized enterprises. Because, as stated above, the major advantage that these enterprises have when there is crisis goes on, it is their ability to preserve the level of employment i.e. to mitigate the rise of unemployment. These credits intended for enterprises are conditioned with the obligation to keep the employees in the company.

The funds could be used for supporting export oriented activities up to 50%, whereas the rest of the funds could be used for other business activities out of which up to 50% for reprogramming the existing credits with the same bank [14].

The credit line should be realized through two credit products being the following ones:

Product 1. SMEs investment credits from EIB

NAME OF THE PRODUCT	SMEs INVESTMENT CREDITS FROM EIB
Amount of the credit intended for end users	<ul style="list-style-type: none"> ○ Micro enterprises credit up to 26,700 EUR ○ Small enterprises credit up to 266,700 EUR ○ Medium-sized enterprises credit up to 2,666,700 EUR <p>Minimum amount of 10,000 EUR</p>
Repayment deadline	From 4 to 5 months
Included grace period	Up to 12 months
Interest rate for end users	6% on annual basis 3m EURIBOR +5%, but not less than 6%
Purpose:	<p>Supporting identified projects such as:</p> <ul style="list-style-type: none"> ○ Purchasing material assets (real estate, equipment, working assets) ○ Investing in non-material assets (development, planning and financing in the phase of construction, as well as costs for salaries and all the rest related to research and development phase)
Limitation:	The number of employees may not be decreased while the credit is being repaid.

Product 2. SMEs credits for permanent working assets form EIB

NAME OF THE PRODUCT	SMEs CREDITS FOR PERMANENT WORKING ASSETS FROM EIB
Amount of the credit intended for end users	<ul style="list-style-type: none"> ○ Micro enterprises credit up to 20,000 EUR ○ Small enterprises credit up to 200,000 EUR ○ Medium-sized enterprises credit up to 666,700 EUR <p>Minimum amount of 5,000 EUR</p>
Repayment deadline	Not shorter than 2 years nor longer than 3 years
Included grace period	Up to 6 months
Interest rate for end users	6% on annual basis 3m EURIBOR +5%, but not less than 6%
Purpose:	Supporting the requests for permanent increase of the needs for working capital under conditions when there is expansion of the company's business activities.
Limitation:	The number of employees may not be decreased while the credit is being repaid.

The second pillar of the institutional triad in Macedonia, which refers to the development of small enterprises, is presented via the Ministry of Labour and Social Policy, in a widest range, i.e. more precisely the arrangements are being put into effect through the Employment Agency of the Republic of Macedonia. Identifying the major advantage of small enterprises in their capability to mitigate and even resolve the problem of unemployment, the active approach of the economic policies in this sphere would be directed towards providing support to the unemployed individuals by financing their business ideas with the purpose to provide self-employment or employment of family members. Measures that are projected for the current year are presented in the *Operation plan of the active programmes and employment measures for year 2011* prepared on behalf of the Ministry of Labour and Social Policy.

Within the frameworks of this plan, there are ten active programmes i.e. measures that refer to increasing the employment opportunities for unemployed individuals in the country. Because this is closely connected with the development and financing of small and medium-sized enterprises, this paper presents the first programme projected for year 2011 – The Programme for Self-employment.

This programme aims at decreasing the level of unemployment by starting new businesses. The operative goal expected to be achieved is creation of 700 new self-employments new businesses which would mean having 700 new family businesses in 2011. The Programme is to be realized by carrying out trainings for unemployed individuals interested to learn about entrepreneurship, how to make solid and sustainable business plans, how to help themselves when registering their own business and how to find subvention to start the business. This Programme covers new categories of applicants, by putting a stronger focus on the efficiency regarding the support and promotion of entrepreneurship. As

specific groups of unemployed individuals covered with this measure are the following ones: registered young unemployed individuals up to the age of 27, registered unemployed individuals from the Roma populations, registered unemployed individuals – professional soldiers who have their service in ARM ceased, registered unemployed females over 3 months and registered unemployed individuals over 6 months. It is projected that 147,500,000 denars are to be spend on this Programme.

Table 6. Programme for self-employment – Funds required for year 2011

DESCRIPTION	Amount	No. of individuals	Total in denars
	(in denars.)		
Basic training on “how to run a business“	2,297.00	1000	2,067,300.00
Voucher system for preparing a business plan	11,600.00	750	8,700,000.00
Registration of a firm	3,000.00	700	2,100,000.00
Supporting the supply of equipment and materials necessary for starting the business	185,000.00	700	129,500,000.00
Total per person	201,897.00		
Total for 700 persons			
Administrative costs			4,903,000.00
TOTAL:			147,500,000.00

Source: Ministry of Labour and Social Policy, *Operation plan of the active programmes and employment measures for year 2011*, p. 59.

The industrial policy of the Republic of Macedonia 2009-2020 is a national strategic document for increasing the competitiveness of Macedonian industry and economy in general, by coordinating the competition policies in the Republic of Macedonia. This document covers five strategic areas that are targeted as boosters of the Macedonian economy development:

- International cooperation and initiating FDIs - (improving and enhancing the international cooperation of the key participants in the economic development, enhancing the professional cooperation network among the business partners, exchanging knowledge and practices, learning about management and its development, marketing and other business skills, attracting qualified staff that will create and promote new innovative business and attracting foreign direct investments).
- Applied research, development and innovations – (investing in research and development on behalf of both the public and the private sector, boosting and enable cooperation among the industry, the scientific, the research and government institutions, developing

technological infrastructure and technological-industrial development zones, creating new products and services, increasing the level of implementation of the new technologies, employing researchers with higher education degree and protecting the intellectual and industry property rights).

- Eco- products and services for sustainable development - (using the energetic and ecological advantages as a precondition for creating a sustainable production of organic products).
- Development of SMEs and entrepreneurship – (increasing the growth of new enterprises on annual basis and promoting and financing the fast-growing innovative small and medium-sized enterprises).
- Cooperation in clusters and networks (in the fields of development, supplies, sales, knowledge, deepening and provision of mutual innovative solutions, joint appearance on the market and promotion, joint trainings for creating more efficient labour force etc.).

The industrial policy in the Republic of Macedonia for the period 2009-2020 proposes the following measures for developing the small and medium-sized enterprises:

- Activities for raising awareness of the financial institutions (Banks, funds and leasing firms);
- Pilot projects with the commercial banks in order to have them support the innovative SMEs;
- Increasing the risk capital (establishing Funds for risk capital the aim of which will be to finance new enterprises, based on innovations);
- New role of the Macedonian Bank for Development Support (following the examples of good practices from several EU countries about the development of both the export and the funds for risk capital).

5. CONCLUSION

The sector of small and medium-sized enterprises was seriously subjected to the foul events during the economic crisis. The depth and the consequences of the crisis demanded that there was a serious interventionist response on behalf of the countries that were hit by the crisis, for the purpose of depreciating the damage done. Considering the fact that in Macedonia, this sector participates with 99.3% in the total number of firms, produces 41% of the total production and of the added value in the industry, and engages 80% of the employees, it was impossible to avoid the institutional response necessary for preserving its stability. The institutional arrangements were created by strong interaction between the three pillars: the Macedonian Bank for Development Support, the Employment Agency of the Republic of Macedonia and the

Industrial Policy of the Republic of Macedonia for the period 2009-2020. No matter which form the intervention took (credit placement, help with self-employment, targeting the sector), there were no differences in the expected effects from these activities: providing easier manner for financing good business ideas, and increase of employment. In the end, it should be notified that the further development and stimulations of this economic sector should not be limited only to be used in crisis circumstance, because this sector makes a significant contribution to Macedonian economy, especially by lowering the level of unemployment and stimulating innovation and flexibility, features that are highly listed with the contemporary market economies.

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**COST ACCOUNTING – NEW APPROACHES AND
CONCEPTS FOR ENTERPRISES INTEGRATION INTO
THE GLOBAL ECONOMY**

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Abstract

The trends of globalization followed by the removal of national barriers inevitably result in sharp intensification of international competition. What is more, the consumers' demands are changing more and more frequently and becoming more sophisticated, which, along with intense introduction of new information and communication technologies, drastically shorten product life cycle. Within business and financial decision-making cost accounting, as the essential part of a company's accounting information system as a whole, represents a reliable information support for the management. Therefore, it is necessary to continuously review its information offer, as well as to find new ways of generating quality information as a support for modern mechanisms of company management. Only a flexibly designed cost accounting information system can qualitatively respond to numerous and various information requirements – as such, it will be able to adapt to changes occurring in business environment as well as in the company itself.

In this paper we discuss the cost accounting role in offering adequate information support to managers at all managerial levels. We emphasize some of the new tools, techniques, concepts and approaches to costing and cost management. In addition, we highlight the relevant problems which concern the practice in our country – where we are and where we should direct the changes.

Key words: management, strategy, process, cost management.

JEL codes: M21, M41

COST ACCOUNTING AS A KEY INFORMATION CORE OF ENTERPRISE MANAGEMENT

Turbulent environment is main characteristic of modern business conditions. The management is expected to lead the company towards the achievement of set objectives which, in the contemporary settings of marked external and internal complexity, inevitably requires sophisticated expert knowledge and skills, as well as quality information support. Cost accounting (CA), which measures and reports financial and non-financial information related to the organisation's acquisition or consumption of resources [4, p.5], has an exceptionally important position within the entire accounting information system of an organization because it provides information to both management accounting and financial accounting as subsystems of the accounting information system. When its information is intended for the financial accounting it measures product costs in compliance with the strict legal and professional regulations; however, when its information is used for internal purposes it provides the basis for planning, control, and decision-making. Thus, information support of CA is not exhausted by providing information for the purpose of reporting balance sheets and income statements of the company as a whole, which is its traditional task. It also provides valuable information support for the management in performing the systematic management control as well as in making various business and financial decisions. This means that its information support is expanding towards the creation of relevant information for internal reporting on a company's business activities – especially for short term periods and in smaller organizational segments. Cost data for the purpose of internal reporting are meanwhile relatively free from the constraints of legal and professional regulations. Accounting data used for external reporting very often do not completely satisfy managers' needs for decision-making purposes. Attempts at slight modifications of financial accounting systems for managerial purposes rarely end happily – like eating soup with a fork: it is possible, but it is far from effective [7, p.9].

The importance of CA as information basis for external financial reporting is particularly reflected in providing relevant data for the purpose of inventory balance and determining the cost of products sold. In compliance with the widely accepted regulations, it includes into the inventory value only the necessary costs of functional production fields – but not the costs of uneconomical spending, inefficient work and unused capacity, which represent period costs. Unlike that, when internal reporting is in question, analytical and short-term aspect – notably the success accomplished – is emphasized. Apart from presenting the overall business results of the company as a whole, it is possible to segment it from various aspects – it is an extremely important management instrument for planning and control.

However, when activities of planning and control of the company performance and its narrower segments for various time intervals are in question, CA

provides the management with relevant information, i.e. it represents the basis of the accounting planning and control. This is so because it assumes short-term and analytical aspect of costing, and compiling relevant reports as well, regarding the ever increasing need for planning and control of managers' performance. Therefore, internal reports created by CA are primarily used by management accounting for offering adequate information support to management for the purposes of planning and control of business activities, i.e. for the purposes of more qualitative and efficient operations and making various business decisions.

Meeting various information needs of the management related to *making individual business and financial decisions* has been emphasized over the last few decades as the fundamental CA task – it assumes calculating costs and benefits of individual business alternatives. By using unroutine cost-benefit analyses, CA creates reports based on the concept of *relevant* information. The concept of relevant costs, in choosing among alternatives, assumes considering the expected future costs which differ in alternative actions. Relevant cost analysis generally emphasizes quantitative financial information, but in decision-making, managers must pay due attention to quantitative nonfinancial and qualitative information and must, occasionally, give greater significance to qualitative or nonfinancial quantitative information. Nonfinancial information concerns legal and ethical considerations and long-term effects of decisions on the company image, employees' morale and the environment, and is relevant to particular business decisions.

While designing accounting information systems one must not lose sight of the following [7, pp. 71-72]: decision-makers' needs must be met; different cost information is used for different purposes – what works for one purpose will not necessarily work for other purposes; cost information must meet the cost-benefit test – namely, cost information can always be improved, but before establishing a new system, one basic question should be asked: will the benefits outweigh the costs? It is of vital importance that accounting information systems should be flexibly designed. Due to the fact that they are relatively free from legal and professional constraints and are in function of the company management, they are, in accordance with the needs of internal users, able to generate a broad range of information. Organizational and methodological settings and functions are adapted to management requirements. Being flexible, it will be able to adapt to changes occurring in the business environment as well as in the company itself and, accordingly, respond in a qualitative manner to numerous and various information requirements of the company management. Today, there are new requirements for changes and continuous improvement so that the management could have adequate information support in managing the company – particularly key strategic variables. Regardless of the concrete orientation regarding business strategy, the contemporary company inevitably faces the requirements of cost competition. Numerous studies point at the weaknesses of traditional formal CA systems, particularly emphasizing the problems of

distortion, i.e. distorted information and limitations in presenting cost drivers, amounts and cost profiles in an extended business operations system. Modern business environment inevitably requires CA restructuring and new approaches to costing and cost management (CM) in order to improve cost information quality. It is necessary to provide adequate information support concerning the process of business strategy formulation and implementation, i.e. finding adequate directions leading to the strengthening of the competitive position on the increasingly turbulent market. In general, improved CA can reach more management objectives than traditional CA. In the new circumstances, many information weaknesses are attributed to traditional approaches to costing and CM [2, p.355].

NEW KEY THEMES IN COST ACCOUNTING

One of the new key themes in CA is turning our attention to the customer. *Customer in focus* is the key point of the organization's success. "To be customer-driven" lies at the heart of CM; among all aspects of business operations which the management must take care of, the customer is the most important because without him the organization loses its purpose. There is a permanent question in the way business operations are performed which puts the emphasis on customer satisfaction: how can value be added for the customer? The focus is on the most profitable customers and the ways to first attract them and then retain them. Today, companies first identify customer needs and demands, and then proceed with the product design and production.

Value chain and supply chain analysis is also a key theme. Value chain (VC) describes a set of interconnected activities which increase an organization's product or service value for the customer where each step in the process of development, production and distribution can add value to products or services. VC facilitates consideration of the possibilities of achieving and retaining competitive advantage through strategically relevant activities. By using VC and activity cost information companies can identify strategic advantages on the market. Supply chain (SC) assumes the idea of an "extended company" and presents a set of activities of many organizations directed towards linking producers and end users on the market. Thus, the focus expands from company *production* VC to *purchase* VC on the one hand to *distribution* VC as the final part of the whole industrial VC on the other. CM emphasizes integration and coordination of these activities through all links i.e. companies in the SC, as well as through each business function in the VC of individual companies.

Costs, quality, time and innovations are key factors of business success. The management must continuously focus on these key strategic variables in relation to competition, which surpasses the frames of their company and draws their attention to changes in the external environment observed and assessed by their customers as well. It is of vital importance to manage them carefully and thus affect the level of customer satisfaction. Low costs are a significant business

goal but cost improvement does not necessarily have to be sufficient. Customers want more than just lower prices and costs – they want quality, responsibility, punctuality.³¹

The combination of *benchmarking and continuous improvement* is an ever-present theme in the new approach to management. Benchmarking is a systemic process of measuring and comparing one's own products, services and activities against the best performance levels (inside or outside of the company). By comparing with the best examples, the management finds ways of continuously improving their proper practice. Benchmarking and continuous improvement are often described as a “the race with no finish” because management and employees displeased with a particular performance level seek continuous improvement. When they adopt this philosophy, the organizations perceive that they are able to achieve performance levels which they previously considered unattainable [7, p.15].

Thus, new environment brings new challenges and problems which inevitably impose the need for serious reconsideration of past business philosophy established in stable and predictable business settings. It is of great importance to adopt a wider external orientation with the constant focus on changeable and sophisticated customer demands. The company's existence on the market directly depends on the degree of fulfillment of customer expectations but also on the intensification and strengthening of cooperation with other organizations from the environment (customers, suppliers, distributors). Quality exchange of ideas and information, better interorganizational coordination and integration of vital business activities are necessary assumptions for more successful competitive positioning of the company on the market.

INOVATIONS IN COST MANAGEMENT

Under the new conditions, carefully managing cost is not vitally important only for large enterprises – it is an indispensable small and medium enterprises' tool on the course of growth and development. In the past few decades there has been an increasing number of discussions about CM and extending various limits. It is a dynamic process which assumes intensive efforts directed towards continuous improvement, i.e. improving the existing and inventing new tools and techniques, starting with early activity-based costing models and pursuing lately in the direction of strategic cost management (SCM). In that period, the most prominent trend has been *shift the focus* from determining product costs by using standard traditional cost models, towards providing support for strategic and operational decisions by using certain forms of activity analysis. While considering the development of CM, it is very important to link it to modern

³¹ Quality is the key variable of the differentiation strategy as well as of the leadership strategy in low costs. Quality cost is a relatively new tool and it includes: prevention, detection, internal and external failure. For more details on nonfinancial measures: [1, pp. 136-139]; [6, notably chapters 4-6].

challenges to organizations. Therefore, suggestions go in the direction of separating it from traditional accounting and abandoning the long-standing linearity of measuring historical costs and static standards. Managers should anticipate rather than simply react to changes in cost structure and financial performances. We will now look at some of the new or improved existing tools, techniques, concepts and approaches to costing and CM.

The turning point in the development of CA was the advent of **Activity Based Costing (ABC)** which emerged primarily as an expression of the need to provide much more accurate data about the output cost price compared to traditional methods. It focuses on activities as parts of the entire process in a company and their cause and effect relations with the resources used as well as with cost objects (products and services, market segments, customers) i.e. activity drivers. However, management can use it not only for the purpose of calculation, i.e. more accurate product costing and, therefore, more successful price and product and service range management, but also for providing financial and nonfinancial information on activities, and effective CM – as assistance to activity based management. When considering the use of ABC for the strategic purposes, many experts think that it offers strategic opportunities to companies. Many companies have gained competitive advantage due to ABC information, i.e. cost reduction by lowering prices in order to increase their market share. **Activity Based Management (ABM)** focuses on managing activities with the aim of increasing the value which the customer receives and profit obtained by providing this value, which assumes driver analysis, activity analysis and performance evaluation. The main data information source for that is ABC. Using cost information about various activities helps managers to identify activities that do not add value to products but waste resources, and also urges them to redesign expensive production methods. Thus, according to ABM approach to company management the attention of managers is directed towards company activities; ABM assumes a set of decisions and actions based on ABC concept information. The goal is to increase the value delivered to customers and to boost company profitability to a higher level. Strategic and operational ABM are singled out. **Strategic ABM** assumes directing the organization towards the most profitable use of resources. Due to ABC information we can point out non-profit activities as well as the most profitable ones, and make decisions affecting product development and design, fixing sales prices, specifying the production and sales mix, and establishing and developing relations with key customers and suppliers. All this can be achieved due to skillful combining of the knowledge about cost behavior (i.e. their drivers) with the knowledge about customer behavior. **Operational ABM** assumes decisions and actions with the goal of continuous improvement of business processes; and for designing ABC systems, as its information support, several hundred activities may be necessary in order to obtain better insight into processes underlying production and customer service. Operational ABM is directed towards the improvement of efficiency and reduction of resources necessary for performing respective activities.[1, p.278].

ABC model determines where the greatest possibilities of cost reduction lie; but ABC information is not a current operating tool for the activities of improvement. This model offers the key direction for decision-making where to launch initiatives such as kaizen costing, pseudo-profit centers, TQM and reengineering. **Activity Based Budgeting (ABB)** extends the ABM idea to the planning cycle by using it to establish cost limits and control systems in organizations. Supported by activity analysis ABB uses benchmarking information to help the company to control costs and eliminate the increasing trend of exceeding the budget without improving the company's ability to create value for customers[8, p.14]. ABB is directed towards future resources, activities and outputs and is a valuable information support to the process of strategic decision-making.

One of the most important recent innovations is ***Just-in-Time (JIT)*** concept of purchase and production. This business philosophy emerged from the need of the management for a more efficient inventory management, i.e. reduction of investing in inventories and it assumes that materials flow and production process runs smoothly. JIT system application requires a highly efficient coordination of purchasing, production and marketing functions. Unless all production process components are reliable, this system loses its efficiency. As a result, significant changes in organizational (structural and procedural) company activities which occur with the introduction of JIT systems, affect the nature of CM accounting systems—traceability of costs changes, product costing accuracy rises, the need for allocation of service-center costs diminishes, cost behavior and relative importance of direct labor costs changes, job-order and process costing systems are affected, reliance on standards and variance analysis as well as inventory tracking systems decrease. In sum, organizational changes concern both CA and operational control systems. In general, they simplify CM accounting systems and at the same time increase the accuracy of cost information obtained. Therefore, a simplified approach to manufacturing cost flow has been developed – **Backflush Costing (BFC)**. It is said to be a simplified method which significantly saves time and effort and reduces errors – in JIT settings, among other things, there are no departments, production cycle time is measured in minutes or hours, and products are dispatched immediately after the completion; so it looks absurd to track costs from position to position within a cell. BFC uses trigger points to determine when manufacturing costs are assigned to particular key accounts. There are several variants of this method depending on the number and location of trigger points.[7, pp.380-382]

Target Costing (TC) is a tool [8, p.14] which emphasizes the relation between the price and market share as a basis for disciplining an organization's spending during product and process design, development and engineering. Basically, it assumes cost reduction per product unit. It is a completely new approach: how much a product *is allowed to* cost. As a concept of a much more comprehensive and aggressive CM information support, TC is built in the decision-making (planning) process concerning introduction of new and making radical changes

to the existing products and processes. **Target Cost Management (TCM)**, as a tool for a comprehensive cost and profit management and as a concept of long-term strategic CM, focuses on the design stage. It initiates CM in the earliest stages of product development and is aimed at intensifying the cooperation with the suppliers and other organizations on the market. TC operates after a general model: $\text{target costs} = \text{target sales price} - \text{target profit}$. If the target cost (as the difference between the sales price needed to ensure a previously determined market share and the desired profit per unit) is below the presently feasible cost, the management budgets cost reductions which direct real costs to target costs. Bearing in mind the organizational aspect, a successful implementation of TC concept assumes the creation of an organizational team structure that should include experts from different functional areas of the company as well as from the organizations it cooperates with on the market.

Life Cycle Product Costing (LCPC) is an extension [8, p.14] to TC tools, which links all costs driven by a new product, from the conception of the idea for the product through to its removal from the production program and withdrawal from the market, i.e. 'from the cradle to the grave'. The products are analyzed in order to determine whether they will bring profit during their entire life cycle. **Life Cycle Product Cost Management (LCPCM)**, according to the integrated approach, consists of activities leading to product design, development, manufacturing, marketing, distribution, use, maintenance, service and removal, with the aim of maximizing life cycle profits. As a result, product costs are tracked and analyzed through all stages of its life cycle, which is radically shortened due to changeable customer demands and the increasingly ambitious competition regarding the technological product innovations. In contemporary settings it is of vital importance to launch a new product on the market and replace the existing product with the innovated one as soon as possible (regarding quality and functionality). LCPCM stresses cost reduction, not cost control. Since 90% of the life cycle product costs are determined in its design process, i.e. in the stages of a new product development and construction, activity management during this stage of product existence is stressed. This should, by all means, affect the managerial decisions regarding investments and directing more resources towards activities in the early stages of product life cycle.

Value Chain Analysis (VCA), i.e. costing and CM through the value chain, is a concept representing the broadest approach to management. It assumes monitoring the relations among activities that create value with the aim of cost reduction, where the problems of tracking, measuring, analyzing and managing costs are extended outside the borders of a company. Beside internal value chains (VC), it extends to the area of supply chain, i.e. suppliers, on the input side, and distribution chain, i.e. customers – distributors and end users, on the output side, because the internal VC of a company is built in the broader value system which includes both supply VC and customer VC. That is to say that the leadership strategy in low costs and/or the differentiation strategy can lead to

sustainable competitive advantage, but successful application of these strategies requires the managers to understand all the activities that contribute to their achievement. It is necessary to understand the industrial value chain as a whole, not only the part in which the company participates. Without an external focus there is no effective strategic CM. With the aim of successful implementation of the relevant strategies it is necessary to break the VC into strategically relevant activities of a company. VC is a necessary approach to understand these activities; understanding both the complex links and interrelations between activities performed inside the internal VC of a company (internal linkages), and those describing the linking of activities of a company with the activities of suppliers' VC and customers' VC (external linkages). Therefore, in order to describe and exploit these relations, it is necessary to identify company activities and choose the ones that can be used for creating and sustaining competitive advantage. The optimal choice assumes the knowledge of costs and value created by each of the activities, as well as relevant cost drivers.

We must also point out that one of the critical factors of the success of pursuing competitive strategies on the market is to provide a rounded up performance measuring system. One of the solutions is the so-called **Balanced Scorecard (BSC)** which provides a comprehensive framework linking strategic objectives of the company with a coherent set of performance measures.[10, p.5]. BSC attempts to unite and balance traditional financial perspective (concerning the measuring of current and designing future financial results) with three more perspectives of vital importance for a successful pursuit of competitive strategies on the market – the perspectives of customers, business processes and innovations and learning. In the BSC approach to performance improvement the most critical processes for the success of a strategy are identified. They are stressed not only for their potential for cost reduction, but also for their ability to fulfill end users' expectations. When using BSC, managers usually realize that for the implementation of a new strategy it may be much more important to stand out in completely new processes than to create gradual cost improvements in the existing processes.[1, pp.280-281]

Value Stream Accounting (VSA) is characteristic of *lean manufacturing* (LM) which developed from Toyota production system based on the JIT model and is the complete opposite of traditional production. Many companies, aspiring to the “world class” position, follow LM whose objective is to improve efficiency and effectiveness in every area – including product design, interaction with the suppliers, factory operations, managing employees and customer relations. In order to keep this position, they must persist in “endless journey” which requires continuous innovations and improvement. “Lean” includes making the right product at the right place at the right time in the right quantity with minimum waste and sustaining flexibility. Thus, the key for successful LM lies in the achievement of production flexibility which includes physical organization of production plants and the application of automated technologies including CNC machines, CIM, *robotics*, CAD, CAM. [2, pp. 347-364] Companies inclining to

LM often use the tool **value stream map (VSM)** to present their business process graphically in order to identify the wasteful aspects which should be eliminated. VSM identifies all actions needed to complete product processing (batches or individual products) together with the key information about each individual action (it can include total labor hours, overtime, cycle time for the task completion, error rate). Some commercial VSM tools produce, beside the current state map, a future state map, describing the process which is more lean – where waste is removed to the fullest extent. Since it is possible to identify, from the latter, the steps of the action of eliminating nonvalue-added activities within the process, it is also the basis for the lean implementations. Information needs of a lean company cannot be adequately supported by traditional information provided through conventional accounting techniques, because of inaccurate cost allocation, promotion of non-lean behavior, inaccessibility in real time, financial orientation. Therefore, many lean companies have adopted an alternative accounting model. Some of them see the solution in ABC method, but many replace it with a simpler accounting model, the so-called VSA. VSA tracks costs by the value stream instead of department or activity; the value streams cut across function lines and departments, i.e. horizontally, and thus links with traditional vertical reporting on structure and cost flows are broken. [8, p.17] It is of fundamental importance for its implementation to define *product families* – namely, products are grouped into natural families which share common processes from placing an order to delivering of finished products to customers.[2, p.358] As for the information support to lean manufacturing and world class companies, three information systems are being considered, from MRP and MRP II to ERP. ERP integrates departments and functions throughout the company into one system of integrated applications with a unique common database. A lean manufacturing company will thus have ERP system capable of external communication with customers and suppliers through electronic data interchange (EDI).

Finally, considering that enterprises operate in an extremely dynamic world of interdependent and nonlinear events, we should emphasize that CM cannot stay focused on independent activities and simple linear cost models and their drivers. In order that CM could secure an important position in the 21st century and reject the label 'old wine in new bottles', it is said that it is necessary to withdraw completely from simple assumptions and traditional limitations and that the key of the CM future lies in understanding the dynamic relationships between various resources and the amount of value they can create for company stakeholders. In that sense, key instructions are listed for the most recent research and practice regarding new techniques for the 21st century, such as: resource consumption accounting; the relative cost of intellectual capital and the value it creates; waste measurement and analysis; non-linear cost functions; dynamic cost modeling and prediction. Each of these techniques adopts a broader view of costs, focusing more on the way resources affect one another in creating or destroying the company value than on measuring the status quo. CM

follows the need to define, measure and help the organization to maximize its potential to create value.

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**COSTS MANAGEMENT MODELS IN SMALL AND
MEDIUM ENTERPRISES**

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Abstract: In today's conditions, when changes take place rapidly, the company is requesting an adequate response. The external environment in which they operate are complex and unstable factors, the company imposes a strategic way of thinking. The changes are causing problems, but these problems can become more likely if the company aware of its position, its direction and result of application of the chosen strategy.

In real terms, unfortunately, often the proposed solution does not match the available resources in a company that cannot respond to requests - because of its location, financial resources, or due to conditions and limitations of the external environment.

Incorrectly chosen solution, if applied at all costs, spend effort and resources companies, and may lead to an unenviable position in relation to its competitors, and hence a loss of confidence in senior management, and reduced motivation.

It is necessary to use scientific methods to better show what adaptability methods could miss.

Key words: *Small and medium enterprises, cost, models,*

JEL Codes: O12 - Microeconomic Analyses of Economic Development

Introduction

Basic standing in recognition of the relevant cost is that the very notion of cost has more than one meaning and that the various construction costs caused by the different approaches and using different methodologies.

In many business plans, market data and costs are often superficial and vague. Providing demands for new products are considered, but studies on innovation clearly show that the introduction of new products may fail mainly because of lack of acceptance in the market and overestimating the potential market.

As the first serious approach to the process of reducing costs, it is necessary to identify all costs, be acquainted with their scope, periodicity and repetition of the necessity of their existence to processes in which they arise.

Often defined economic analysis is set of economic theory, economic statistics and economic history, where development is a dynamic process (Schumpeter).¹

Cost management - how to successfully manage them



Operating costs are an important, if not decisive influence the size of the profit. In today's difficult economic conditions, entrepreneurs and managers on a daily basis feel the importance of cost management.

For these reasons, in order to try to influence the costs in different ways, measures to be used while often depend on the level of economic knowledge entrepreneurs or managers that range from very technical to very modest. Some cut costs wherever possible, even to those most in need, while others knowingly or unknowingly allow spending beyond measure.

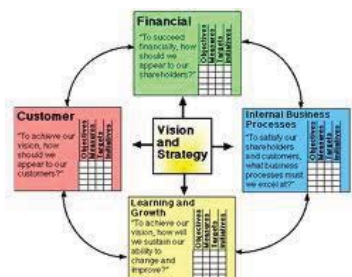
Economic science and practice has long been engaged in studying and applying specific methods of managing costs and expenses incurred seeking to bring maximum benefit. Through this process, methods have been developed and there are certain rules and guidelines that would be observed:

1. in the long run it is crucial to be cheaper than competitors offering the same level of services / products or offer more for the same price
2. to be able to maintain the competitiveness of all costs which must be controlled in the designed stage and all the time controlled decrease
3. it is necessary at all times to accurately monitor the actual costs, revenues and profits for each part of the business
4. the actual cost and revenue for each service / product must be always known (especially true of relationships with key customers)
5. take into account the cash flow and sources of liquidity

Practice shows that a common source of problems is that the responsible person within companies does not know the companies' cost structure, nor place, nor the reasons for their emergence. Therefore, it is useful to more clearly define the costs by type, product, and profit centres. Continued efforts to reduce

unnecessary costs and increase productivity will give each company a competitive advantage in the marketplace and the ability to quickly adapt to market conditions, which are all prerequisites of a successful business. The ultimate goal of any business is to maximize profit, while managing costs and increasing revenue are two equally important tools at our disposal.

Models of cost management



Source: www.downloadsoftwarestore.com/software/keyword/8172/181

In an effort to improve the ratio of total assets and total effects, which actually depends on good results, we want to influence the inputs into the business process. The imperative of business performance management effectively forcing the organization to the application of different methods and models of cost management. For this purpose methods and procedures have been developed, and numerous models provide a critical mass of information necessary for decision making in order to optimize costs, based on facts.

These are:

- a. *The traditional management model of production costs,*
- b. *model-based cost management processes,*
- c. *model-based cost management activities,*
- d. *the target cost model,*
- e. *Activity-based budgeting,*
- f. *balance model of achievement,*
- g. *"Kaizen" costs,*
- h. *analysis of values,*
- i. *Model of quality cost management and other managerial concepts as determinants influence the development of a model information system for managing business processes and overall system management organization.*

As can be seen from the above method is written ELIKI number but in this aspect of the work I put on the traditional model of managing production costs, cost management model based on processes, Kaizen,

The traditional model of management of production costs

(Traditional Product Costing-TPC). Tries accounted costs of direct materials and labour, while the overhead expenses connected direct costs. The traditional

model of management of production costs also called "traditional calculation methods." "When we talk about traditional methods of calculations, think the simple calculation of 24 sharing a calculation with additions such as additives calculated on the basis of different value bases.

Cost management model based on processes

(*Process Based Costing - PBC*) costs of production monitors and evaluates the next logical stage in the production process (*process steps*). In the PBC model direct costs of materials and labour charged and follow the stages of production and the cost of production overheads are added direct costs at each stage of the application of certain "keys" schedule based on cost indicators.

"Kaizen" costs

("Kaizen" Costing - KC) designed for Japanese companies, and its application and calculation model is the most prominent in the automotive industry, namely Toyota. The essence of this model is a continuous reduction of costs, during the production process by applying the procedures. This model assumes that everything can always do better. "It gives an answer to the question: can you even better?"

Cost management model based on the activity

(*Activity-Based Costing ABC*) involves the deployment costs by activities. Instead of costs are monitored on a particular product, this method follows the trend in cost per individual activity or part of the business process. This allows for easier control costs in some segments and managers easily focus on removing unnecessary costs and activities. Determining the cost-based activities is

Accounting procedure that enables organizations to detect and connect real costs to each individual product or service that comes from within the organization.

Systematic study of cost models based on activities identified five activities to be implemented at any cost analysis in the organization:

- Analysis of activities,
- Analysis of direct costs,
- Monitoring of expenditures by activity,
- The establishment of measuring the output product,
- Cost analysis.

In addition, model-based cost management processes and cost management model based on process-oriented activities include the organization of the constructed, documented and implemented business processes. Answers the question: "Why cost occurs?"

Costs observed in European countries

From the above chart it is clear that in Western European countries where small and medium enterprises have reached a certain level of development, have significantly greater experience in identifying and defining the costs in the company of their relations and dependencies. Also opportunities in an environment where companies do business in Western Europe are very different and

Coherent, the result of the trends, changes in the environment and systematic adjustment of organizational segments and resources to these changes. Simple comparison of the cost structure presented in the previous page, can we notice that in Western Europe most of the cost of waste on human resources. While in south-eastern Europe due to a number of circumstances caused by the socio-political, social and other impacts of the turmoil, the impossibility of restoring the means of production and opting equal to the environment by far the largest part of the costs of waste materials.

It is clear that SEE countries need much more effort, resources, will, help and knowledge to optimize costs in SMEs and the only work that is focused in this direction may result in the inclusion of companies from South Eastern Europe in a competitive match with neighbouring area.

Conclusion

Cost optimization is the process of balancing the amount of consumption of resources in the process of realizing that ensure the achievement of the quality of products, which means meeting the requirements of the buyer / user, and interpreted as the maximization of the amount of quality performance with minimum total cost. Requirements for steadily increasing the competitiveness of entrepreneurs both domestic and

The foreign market demand from management mentioned taking a series of activities to reduce costs and increase effectiveness and efficiency at all levels of business. Survival in the market and further development provided only to those entrepreneurs who will own inventiveness, use of modern organizational and IT solutions to provide real basis for cost reduction as one of the most important element for increasing competitiveness.

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**ASSESSMENT OF RISK FINANCING COMPANIES
THROUGH IPO (Initial Public Offering)**

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*"Change the old ideas about economies of
scale, changes in market structure and
require concentration and strengthens the
trend of forming small medium enterprises"*

Tom Peters

Abstract:

The issue of financing development company is one the main issues when it comes to developing companies, primarily SMEs. Small and medium enterprises, depending on the funding policy development must change its form of organization for some of the closed form of organization in the form of open joint stock company, as the most powerful form of company owner in most economies of the modern world. As such, the company is through an initial public offering IPO (Initial Public Offering) shares on the stock market, opening opportunities for gathering the necessary financial resources to finance development projects in the company. When implementing the IPO (Initial Public Offering) The Company is exposed to numerous risks that could affect the increase in direct and indirect costs of IPOs, which directly reflects the decrease in collected funds. Furthermore, the paper elaborated overview of theoretical and empirical analysis of risk in financing the development of enterprise-based initial public offering of shares. The aim is that through mathematical analysis of risk realization IPO elaborate options for reducing those risks and to suggest opportunities to reduce costs of implementation IPO. Interpretation of results should serve as a basis for reducing the risk of financing the company through an IPO (Initial Public Offering), as well as for professional and scientific discussion on the topic of risk assessment company financing through an IPO (Initial Public Offering).

Key words: Risk, IPO (Initial Public Offering), finance companies, shares, capital increase;

JEL Classification: G32, D81, D92;

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INTRODUCTION

Financing policy development company that focuses on the stock market as a segment of modern financial markets, through the recapitalization of the company provides great opportunities for gathering the necessary financial resources for enterprise development. The basic role of financial markets, accompanied and capital markets is that, with financial institutions, instruments and a wide range of financial services, make efficient allocation of financial resources from those who have a surplus to those who show a deficit, or to enable their easier and faster performing encounter transactions. The greater the volume of reported deficits and surpluses, it is also an increasing need for efficient financial market that will channel the excess funds to end users in a simple manner and with the least possible cost. Efficient financial markets are undoubtedly important to ensure adequate provision of capital and economic development enterprises. Additional capital that the company collects through its initial public offering of shares increases the net value of the company. With additional capital, the company is building a new financial position based on who can collect and borrow new funds, often at discounted prices. The essence of financing through equity markets is that companies with development projects, they broadcast their shares through an initial public offering, and investors who have an excess of financial assets through the purchase of newly issued shares and projects are funded. This way of financing their own development to have many advantages over traditional bank loans used much in our country.

At a time when the bank loans have become extremely expensive, the interest rate variable to the detriment of the borrower, a fixed continuity in settlement of obligations, the complicated procedure of obtaining ktedita and great warranties, are just some of the negative characteristics that accompany the financing companies on the basis of bank loans. As an excellent alternative in developed countries use the capital market, which offers excellent opportunities for collecting funds. The paper will be special attention paid to the financing of development stage companies based on capital markets, as laid down by the European Commission (European Commission-DG Enterprise).

This paper presents the analysis of major risks in the implementation of IPOs such as the risk that he would not raise sufficient funds to finance investment projects in the company, the risk that they will not reach the legally prescribed% realization of shares in initial public offering, the risk potcjenjenosti price action the realization of the IPO, the risk of take-over (dilution of ownership), the risk related to an additional increase of share issue costs, which could occur as a result of procedural steps. In the economic literature and in practice, the procedure leaving the company to a primary market of shares is called a procedure to open or IPO (Initial Public Offering). IPO shares prior to a large number of analysis concerning the issuance volume and the formation of

the initial price of shares. The implementation process is highly regulated area of law and requires a larger number of participants.

1. SHARE CAPITAL AND ISSUE SHARES IN IPO (Initial Public Offering)

Funding sources indicate the origin of funds from which any particular investment will be funded. The initial public offering (IPO) as a source of enterprise development is one way of obtaining funds through organized and well-regulated market, such as stock exchanges. Specifically, the primary advantage of enterprise-based issues of shares are included in the following sentences. Access to external sources allows the company faster growth, since the ability to raise additional capital much easier and more successful when a company quoted on the Stock Exchange. Specifically, the company can easily change the financial structure, so as to modify the loan and the permanent capital, and thus take advantage of financing at a much cheaper way. Finally, it should be noted that business owners can, by selling shares, use the stock market to realize part of their property. In this way, the individual investor, due to the existence of developed capital markets, can quickly and easily sell all or part of the securities held by the funds and convert it into money, which he really can not diversify their assets.

Theoretically, there are several ways that a company can issue its shares. The best known are three ways [4, p. 451]:

- Through the IPO,
- With the supply of law,
- Through private placements.

Public programs (tender offer) or cash public offer of shares is one of the most common methods of primary share issues. The point is to offer public suggests a number of unspecified and unknown investors in advance. Realization of emissions in this way, the company uses the services of an investment banker and underwriter. The basic function of investment bankers to buy securities companies and selling them to investors [12, p. 348]. Investment banker or syndicate, equity shares may be performed as a principal or agent. If the sponsor is in the role of principals, then acting on his own behalf and on behalf of the issuer and it is called a practice firm commitment. There are two ways to offer securities to the public [12, p. 348]: the traditional subscription and expedited registration of securities. The first refers to the entire purchase shares of the issuer and is called colloquially-commitment to the company (firm commitment). In this case it is the traditional model of full registration or sponsorship (Underwriting). The essence of this method is that the company entered into a contract with investment bankers about selling the entire issue of

shares. The investment banker buys all newly issued shares of the issuer at a price lower than offered. Further, the basic role of bankers lies in that individual investors sell their shares at the offered price or higher. The investment bank appears as a principal, ie. acting on its own behalf and on behalf of the issuer. She takes on the sale of emissions, giving the company a check on the sales price. The bank is the guarantor of the success of emissions and as such do not themselves take the risk of failure to sell programs at the established price. In that case, any potential loss be borne by the bank, not the company. Profit investment bankers consists in the difference between the more sales and lower purchasing prices. This difference is called a range or a discount. Investment banker takes all the risk and if the sale is not able to realize all actions, he bears the loss. The Bank may instead be the principal agent, when acting in the name and on behalf of the issuer. In this case it is the best of intentions. Another method of issue of shares through a public cash offer, the agency shows and popular way is called best effort (Eng. best efforts). In this case the bank makes the best effort to sell newly issued shares, but does not purchase the program, as in the first case. On the other hand, unlike the previous model is that investment bankers do not take all the risk of sale. Therefore, unless they sold all the shares, the risk borne by the issuer. In other words, investment bankers do not purchase the entire company issued new shares, but only appear in the role of agents. They work for an agency fee, which gets sold for each action, where they try to do it for a higher price, but not guaranteeing a pre-sale, but must act on the principle of good faith during the sale.

Through the rights deals - When do you show a series of actions, there is an increase of their total number, which automatically reduces the share of ownership of existing shareholders. How issues of new shares would lead to the occurrence of dilution of ownership, there is a right of preemption [4, p. 455].

Private Placements (Eng. Private Placement) - Private placement means selling a limited range of emission of institutional investors where the Bank appears as an agent on the basis of which receives an agreed commission. Another advantage of this way of share issue costs are lower because there is no charge for the registration and engagement of the signatories and sponsors.

Share capital given ownership of a company that is buying its own shares is becoming one of the owners in this case small or medium enterprise, organized as a limited company. Also, the financing of share capital does not have a fixed maturity date, it is not time limited. Owner of action may theoretically unlimited disposal by the time of its sale, or the eventual bankruptcy of the issuer corporation.

In the next step we calculate the carrying value of one share of company XXX. Eg. General Meeting decided to issue 295,000 common shares with a nominal value of 1 KM per share. Computation is shown in Table 1.

Table 1. Balance sheet liabilities of the company XXX

1 - The total number of issued shares	295 000
2 - Nominal value per share	1
3 - Nominal value of equity (1*2)	$1 * 295\ 000 = 295\ 000$
4 - The total value of equity	295 000
5 - Carrying value per share (4/1)	$295\ 000 / 295\ 000 = 1$

When shares are nominal and book value equal only at the time of the primary issue of shares. Suppose that next year the company has transmitted 10,000 shares of the same nominal value of 1 km, and that they fail to sell the stock at 4 KM. The company has over the years accumulated retained earnings of 100 000. In this case, book value per share will be calculated in a way that we presented in Table 2. (The official balance scheme prescribed by the Association of Accountants and Auditors of Republic of Serbian, the share capital is meant the nominal value of the share capital of the company. Also, the practice is often used for the equity share capital stands when it comes to the stock company.)

Table 2. Balance sheet liabilities of the company XXX

1 - The total number of issued shares	$295\ 000 + 10\ 000 = 305\ 000$
2 - Nominal value per share	1
3 - Nominal value of share capital (1*2)	$305\ 000 * 1 = 305\ 000$
4 - Capital surplus (Share premium) (4 KM -1KM =3 KM)	$3 * 10\ 000 = 30\ 000$
5 - Retained earnings	100 000
6 - The total value of share capital (3+4+5)	435 000
7 - Carrying value per Action (6 / 1)	$435\ 000 / 305\ 000 = 1,43$

To better understand the essence of the shareholding and understood why the action is one of the most attractive financial instruments for centuries around the world, we must be familiar with the basic elements that make up the share capital.

Equity or equity consists of three basic elements, namely [4, p. 326]:

1. Nominal value of issued shares
2. Capital surplus - which in our terms is called a share premium or Azio,
3. Retained profits, which in our interpretation of accounting the retained earnings (accumulation).

Nominal value (face, stated, nominal, par value) represents the value at which the shares are broadcast and recorded in the books of shareholders. In the

first place it should be noted that the nominal value of shares is equal to book value. These two values are equal only at the time of issue of shares.

This will result in the difference between the sale and the nominal value, which implies the second element of equity called capital surplus (profits) and share premium (Azio) ie. (Paid in capital, capital surplus). As we noted earlier in labor, capital gains, among Finally, the third element of the share capital is held or the undistributed profits (retained) profits (retained earnings).

This element is internally generated, unlike the previous two that are external character, and he, in fact, an accumulation. Changes in capital structure resulting from issue of shares in the IPO, the best we will figure out a practical example. For example, the structure of capital from the balance sheet of the company XXX before its initial public offering of shares is presented in Table 3.

Table 3. The structure of the capital of the company XXX before the initial public offering

CAPITAL POSITION	Amount in KM	% Share in total capital
Share capital	923.433	42,58%
Share premium	958.678	44,21%
Legal reserves	35.846	1,65%
Unlisted gain	250.625	11,56%
TOTAL CAPITAL	2.168.582	100,00%

Suppose that the company issued 295,000 XXX ordinary shares, nominal value of 1 KM. Under current legislation, that would be considered a successful show, you need to be made within 90 days at subscribed and paid for at least 60% of securities, offered in the public prospectus. During the course of the IPO, sold a total of 216,027 shares at a price of 4 KM per share and raised a total of 864,108 KM.

Percentage success of the issue was 73.23% [15]. The total number of issued shares after the public offering is 1,139,460, of which 216,027 (18.95%) shares purchased by shareholders through an initial public offering. Results of changes in equity, upon completing its initial public offering of shares, can be seen from the part of the balance sheet as shown in Table 4.

Table 4. The structure of the capital of the company XXX after the initial public offering

CAPITAL POSITION	Amount in KM	% Share in total capital
Share capital	1,139,460.00	36.66%
Share premium	1,606,760.00	51.70%
Legal reserves	60,910.00	1.96%
Unlisted gain	300,880.00	9.68%
TOTAL CAPITAL	3,108,010.00	100,00%

Capital, before the initial public offering of shares, amounted to 923,433 KM, and after successfully planned and carried out initial public offering of shares of company XXX is 1,139,460 KM, because the market realized 216 027 shares with a nominal value of 1 KM ($216\,027 \cdot 1 + 923\,433$).

Based on comparative analysis of the total capital of the company XXX before its initial public offering of shares and total capital of the company XXX after the initial public offering, we conclude that there has been an increase in the total capital of the company with 2,168,582 KM to 3,108,010 KM, ie., For 939 428 KM.

Share premium increased from 958,678 KM to 1,606,760 KM. Also, legal reserves have increased from 35 846 KM 60 910 KM. Furthermore, undistributed profits increased by 50 255 KM, ie. 300 880 km. The collected funds in the amount of 864 108 KM, will invest in development projects in the company XXX.

2. ANALYSIS OF DIRECT AND INDIRECT COSTS OF IMPLEMENTATION IPO (Initial Public Offering)

In order to make a decision on the initial public offering of shares, should start from the cost-benefit analysis is therefore necessary to compare the costs of enterprise-based IPO and benefit from such financing. Total costs of realization of the IPO include direct (Td) and indirect costs (you) implementation of the IPO. Direct costs related to the activities that precede the implementation of the IPO.

In contrast to these indirect costs imply an initial cost of underestimation of the price action in the implementation of the IPO. One of the biggest problems that arises is the problem of pricing actions and volume of primary issues of shares. Action for the first time appearing on the market and there is no real market evaluation of their value. If the action that is too underestimated the intrinsic (internal) value greater than market value ($IV > T$), this will be reflected at the expense of companies if they turn precjenjene ($IV < T$), there is a

possibility that is not sold and that the show fails with some existing indirect costs. To this aim, the first chapter and an analysis of book value per share.

However, research and practices of developed countries have shown that the actions in the initial public offering in most cases underestimated. This is certainly the golden rule of investing given the green light to investors to purchase these shares and receive income from capital gains and dividends. Amount and structure of the components of total costs varies from market to market, according to the commission by appropriating subjects necessary for the successful implementation of the initial public offering of shares (Initial Public Offering - IPO), as well as the involvement of entities.

Suppose that the company emitted 100,000 shares at a par value of 1 KM. The market price has reached a value of 2 KM, which means that the company collected 200 000 KM, to finance growth and development.

Table 5 The structure and amount of direct costs of initial public offering of shares

	Description of costs	% Amount of the value of the funds collected	The amount of IPO costs in the amount of 200 000 KM
Tr	-Cost audit of the last three years	5.00%	10000
TDD	-Drafting legal due diligence, review of all documents (contracts, minutes, court doc., Papers. From ministries, land registry ..), we need jobs in the commission for securities register of securities, min. for Econ. relations, statistics, and court enforcement of converting to get the capital ...	2.85%	5700
TBP	-Commission broker-dealer: the amount of commission included in the commission of the Central Registry and Exchange	3.00%	6000
Tku	-Cost consultant for corporate governance (statutes, rules of procedure upr.odp, a set of rules of procedure. Shareholders korp.upr code.) -Consulting services related to legal and financial. due diligence, Road show, the production of prospectuses and other services	0.50%	1000
TM	- Costs related to talks with investors and presentation, marketing	0.60%	1200
Ttr	- Notary Services for the necessary resolutions of the Assembly and the implementation of the above activities	0.40%	800
Ts	There is success fee 1.45% of the collected money	1.45%	2900

	through IPO		
Tšp	Tšp - The cost of printing the prospectus	0.40%	800
Tdr	Other costs that may occur in the IPO - a	2.00%	4000
Td	Direct costs	16,20%	32 400

Mathematical interpretation costs (IPO-Initial Public Offering):

Relation 1:

$$T_{IPO} = T_d + T_i$$

Relation 2:

$$T_d = T_r + T_{DD} + T_{BP} + T_{ky} + T_M + T_{tr} + T_s + T_{šp} + T_{dr}$$

Relation 3:

$$T_{IPO} = T_r + T_{DD} + T_{BP} + T_{ky} + T_M + T_{tr} + T_s + T_{šp} + T_{dr} + T_i$$

Costs of initial public offering of shares, are specific and differ from case to case, depending on the variability of the absolute amount of each component of total costs, as well as the structure of total costs. Mathematical interpretation is developed on the basis of foreign and domestic practices. Amount and structure of the components of total costs varies from market to market. Empirical studies have shown that costs for the secondary issue of shares amount to about 3%. This means that the company an additional 200 000 KM, gather in the capital market at a cost of 6 000 KM, with all the above mentioned advantages, is a very important parameter in deciding the initial public offering of shares.

3. RISK ANALYSIS OF FINANCING COMPANIES THROUGH IPO (Initial Public Offering)

Risk taking is one of the biggest risks which expose existing business owners, the decision on opening. As a rule, all companies whose shares are in public transport, there is a risk taking enterprise. The level of risk is inversely proportionate to the level of ownership concentration. As we saw in the previous section, IPO raises numerous questions and requested to respond to them. Maximum risk involves the possibility that the IPO is not realized due to failure of statutory limitations on the scope of the sale of shares offered to investors in the prospectus and the time period that should be implemented IPO.

Furthermore, the risk can be defined as a deviation from the expected real yield [3, p. 91]. Also, the risk can be seen as the probability of suffering loss, damage or injury. However, they should be seen as an opportunity, and in every important decision should balance the entrepreneurial profit and loss, and seek to find ways to reduce risk to a tolerable measure. A modern view of the risk perceived risk as an opportunity in which a company can achieve the planned level of growth and development. The aim of the risk management function is to

provide analytical support in the process of decision making, based on which will identify possible hazards and ways to respond to possible unforeseen problems. This is an implementation of many techniques and models as a function of risk management, risk control, risk management organization and management of the process itself. Analyzed in previous chapters are aimed at risk the successful implementation of the IPO to a minimum. In the context of the subject that process work, the risk is seen in many aspects. One of these aspects are the risks of implementation of IPOs. Some of the main risks are:

- The risk of not collecting enough funds to finance investment projects in the enterprise;
- The risk of reaching their legally prescribed% realization of shares in initial public offering (to be considered a successful show, you need to be made within 90 days at subscribed and paid for at least 60% of securities, offered in the public prospectus.)
- Risk potcjenjenosti price action in the realization of IPO (indirect costs of realization IPO);
- The risk of take-over by the new owners of shares (dilution of ownership);
- The risk related to an additional increase of share issue costs, which could occur as a result of procedural steps.

4. GUIDELINES TO REDUCE THE RISK OF FINANCING COMPANIES THROUGH IPO (Initial Public Offering)

When we look at modern financial markets, which covered the period of the last thirty years, it can be concluded that the financing of enterprises in the EU large part relies on the collection of funds through issue of shares in the capital markets of some countries. In 2008. and 2009. year, influenced by economic and financial crisis, there was a significant decrease in the value of IPOs in Europe, most IPOs in 2009. years after European exchanges had in the first quarter of the Warsaw Stock Exchange (WSE), and six out of 18, while at the same time in 2008. year in Europe or even 72 successfully conducted its initial public offering of stock.

According to recent data report "IPO Watch Europe repor" who regularly made the audit firm PricewaterhouseCoopers (PwC), the Warsaw Stock Exchange is superior to not only regional stock exchange, but also the largest European stock exchanges: London Stock Exchange, NYSE Euronext and Nasdaq OMX.

According to the report, six out of 18 European initial public offerings, with a total realized value of 9 million euros, held at the Warsaw Stock Exchange. Also, looking at the value of the IPO, the Warsaw Stock Exchange recorded a total of 6 million euros worth IPO's. Number and value of IPOs and the top five stock exchanges in Europe in 2008. year, we presented in Table 6.

Table 6. Number and value of IPOs and the top five stock exchanges in Europe in 2008. [16]

IPOs in Europe in 2008. year			
<i>Red.Br.</i>	Stock market	Number of IPOs	Value in millions of euros
1	<i>London</i>	99	8884
2	<i>Varšava</i>	91	2502
3	<i>NYSE Euronext</i>	65	2051
4	<i>Nasdaq OMX</i>	26	208
5	<i>Luksemburg</i>	20	314

The economic crisis that has engulfed the capital markets in all countries of the world, seriously affects the number and value of initial public offerings (IPOs) in Europe. Unlike the domestic capital market where the IPO does not happen and almost certainly in the U.S., and offers almost daily occurrence. Based on research in this paper, we have come to the guidelines that might decrease the risk in realizing the IPO, which we have covered in the previous chapter. These guidelines are contained in the following:

- All the changes and re-registration, performed in one place, the Central Registry of Securities (thus eliminating all the costs and waste of time going to court and all other complex procedures),
- To influence the reduction or complete abolition of fees and charges in the Central Registry,
- To influence the reduction or complete abolition of fees of including the stock exchange,
- Having an influence on cost Incorporation (for companies opt for an initial public offering of shares)
- To influence the reduction of fees obtained by the broker - dealer company (because the price list of services form the basis of acceptance of price lists by the SEC),
- To influence the expansion of knowledge in the field of capital markets, which would eliminate a lot of the high costs of consulting services during the initial public offering of shares,
- Organize a number of educational seminars, to the company introduced the possibility to raise funds on capital markets,

CONCLUSION

The initial public offering (IPO-Initial Public Offering), is one way of collecting the necessary funds to finance development of the enterprise. The Company may use the capital market as an opportunity to raise the necessary funding. In this connection, opens up the possibility that the company is quoted on the stock exchange can be used and international sources of capital, loans and

issuance of permanent capital in other countries, or through evrotržište. The possibility that the company is financed through the capital market allows the company a flexible capital structure. The company, which plans to become public, offering shares in the capital market, should act as a public company at least two years before the IPO. When the final management of the company decides to go out in public, the company first prepare a team of investment banks, accountants and notaries. The initial public offering of common officially begins "all-hands" meeting of the team 2-5 months before the company officially turned the Securities Commission regarding the initial public offering of shares. The choice of financing enterprise development is determined by numerous factors, such as: financial condition of enterprises, level of indebtedness, the current financial leverage, interest rate outlook, the risk level of specific sources of financing, general economic trends at home and environment and so on. In countries with highly developed capital markets, the issuance of shares of a constant source of government funding, and for most of our businesses this type of financing is still rather obscure.

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**THE ROLE OF MICROFINANCE IN THE AGRICULTURAL
DEVELOPMENT OF THE CROSS-BORDER REGION OF
SANDZAK**

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Abstract

Microfinance is becoming a world-wide trend in financing development projects. Due to the fact that the cross-border region of Sandzak has an increasing rate of unemployment on the one hand, but unused resources, especially in the sector of agriculture, on the other hand, we want to develop a microfinancial institution for Sandzak, which considers the characteristics of this region. One of the major characteristics is that it is a region with a dominant Muslim population; it has to be considered that classic loan agreements, especially in rural areas, would not be accepted. Moreover, the legal framework and popularity of such an institution has to be analysed.

Keywords: Microfinance, microcredit, interest-free finance, Islamic finance

JEL codes: G21

1. INTRODUCTION

Microfinance is the provision of financial services to low-income groups, who traditionally lack access to financial products of conventional banks. Therefore, microfinancial institutions want to provide a wide variety of services, such as savings, insurance and fund transfers, to these groups. In such a way, these groups are able to organise a small business in order to earn a living. One of the major products of microfinance is microcredit. Microcredit is giving a small amount of credit, so a receiver can finance his or her entrepreneurship and get out of poverty. Although microcredit is only one aspect of microfinance, these

terms are used as synonyms in practice, which often makes a differentiation difficult.

The reason why low-income groups are not able to receive a loan from conventional banks is simply that, according to traditional models, they are not creditworthy. The reason is that they do not fulfil two main criteria:

- Income
- Collateral

Because poor people have no or only a small income, the probability of default is very high. Furthermore, poor people do not own assets which could be used as collateral. So, traditional banks, who are profit-orientated and who have high transaction costs for granting a credit, avoid low-income groups in order to avoid losses. The only exception would be if a poor applicant found a guarantor, but this is also a rare event.

Another problem for low-income borrowers, who often have a low education, is the high bureaucracy at banks, e.g. a loan agreement often exceeds 10 pages. So, they do not really understand how much they have to pay and what guarantees they have to provide. The result of such a system is that people in Serbia often sign short-term loan agreements with an effective interest rate of more than 25% on loans determined in Serbian dinars or medium term agreements of 15-20%. [1] Furthermore, relatives and friends of the applicant often sign guarantees not really knowing what the resulting obligations of such a contract are.

Besides the fact that low-income groups are not popular customers of traditional banks, in the cross-border region of Sandzak, we have to keep in mind that the majority of the population are Muslims. In Islam, the giving and taking of interest is strictly forbidden, so taking an interest-bearing loan is also forbidden. Of course, not all Muslims obey this rule, but it has to keep in mind that people from rural areas are observing this rule in a much greater sense than people from urban areas.

The lack of financial resources for earning a sustainable living, forces people to leave rural areas and to migrate to urban areas or to go abroad, especially into countries of the European Union. So, supply of labour force in the towns and cities is rising, which leads to a higher rate of unemployment and thus to social problems. Therefore, it is necessary to think about a sustainable solution to offer people from rural areas an alternative for an honourable life.

2. PROPOSALS FOR A MICROFINANCIAL ORGANISATION

2.1 The advantage of microfinancial institutions

The Grameen Bank from Bangladesh, founded by Nobel laureate Muhammad Yunus, is often quoted as a role microfinancial institution. So, the question arises why this institution is so different from other financial institutions, besides the fact that they were giving small loans?

Muhammad Yunus gives answers to these questions in his autobiography. [2] Despite the fact of interest rates of up to 16 percent, 98 percent of the loans were returned on time. One of the major reasons for the success of Grameen was that debtors do not have to go to the bank in order to receive a loan or to repay it, but the bank comes to them. During the visit of a banking official, applicants do not have to fill in complicated forms, which increase confidence into the bank.

Furthermore, applicants do not need any collateral. This one of the major advantages, because poor people usually do not have adequate assets, which can be used as collateral. Grameen solved this problem by asking for a guarantee of at least five women. The reason why women were chosen as guarantors was that experience in Bangladesh showed that women are creative entrepreneurs, ready to save part of their income.

Other microfinancial institutions have developed similar instruments, e.g. an instrument called “group lending”. Here, a microfinancial institution selects a group of people and grants a loan to one person. The rest of the group acts as guarantor. When the first lender repays his loan, the next person in the group receives the right to receive a loan, and the other group acts as guarantors again.

Another example for the success of a financial institution, which had the goal of fighting against poverty, was developed in Egypt in the 1960s. [3] This project was developed by late Ahmad al-Najjar and had the goal to found an interest-free savings bank. The target group was the rural population in Egypt. The advantage of this savings bank was that the whole system was without interest, i.e. neither depositor received any interest nor debtors had to pay interest. The funds received by a depositor were used to invest according to a profit-loss system. Profit and loss was shared among depositors and the users of funds.

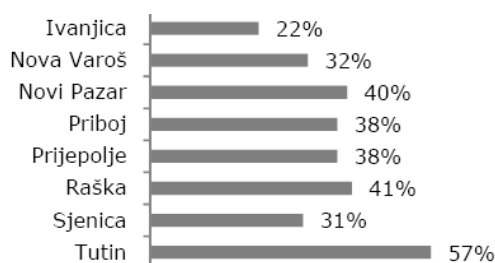
Another special feature of this savings bank was the social fund. This fund had the goal to assist poor members of the community by giving them an interest-free loan for buying a machine or by paying their debts.

The interest-free savings bank was a big success. However, it was cancelled after four years due to political reasons. Nevertheless, from the aspect of economic development, the project was a success story. Apathy and pessimism have decreased among villagers and the rural people understood the importance of the project, i.e. that the project was for their benefit. During the project period, nine savings banks and one investment company was established. However, due to the fear of the then Nasserite government, the project was abolished and the government established its own social bank, the so-called “Nasser Social Bank”. So the original idea, a bottom-up approach in order to include ordinary people into a project, was dismissed in favour of a top-down approach, without including ordinary people.

These examples show that microfinancial institutions, or generally financial institutions with a developmental goal, have a right to exist, and are necessary to fight unemployment and poverty. Analysing the situation in Sandzak, we can say that no real poverty (as in developing countries) exists. However, the rise of unemployment, which a recent study of the research group “MS Gallup” showed

that about half of the population is unemployed in Southwest Serbia. This picture is similar in the Montenegrin part of Sandzak. Therefore, we will argument in this paper that a microfinancial institution could help to reduce unemployment in Sandzak.

Figure 1. Unemployment rate in Southwest Serbia



2.2 The agricultural situation in Sandzak

The region of Sandzak is a very fertile region. We can find a wide variety of agricultural activities in this region. In Sandzak, we can find livestock farming as well as the farming of fruit, vegetables and grains. Especially the plateau of Peshter is an area with high potentials in agriculture, especially in the field of livestock. The dominant livestock in Sandzak are cows and sheep. For example, Peshter is well-known for its cheese made from sheep milk. Another comparative advantage of Sandzak is that there is no industrial farming – farmers, above all, use traditional methods of farming. Therefore the region of Sandzak would be able to deliver “green products” for the growing demand of products produced without any harmful substances.

However, these potentials are not used sufficiently. Many people from the rural regions of Sandzak have left their villages and went to the towns of Sandzak or have even gone abroad.

From an economic perspective, the reason for this migration is that the villages of Sandzak have a bad infrastructure, only a minority have asphaltic roads, a good power supply etc. So, there is no adequate infrastructure to market the products or to found a factory for processing agricultural products adequately.

Furthermore, the average farmer from Sandzak is a small farmer, often having only two to three cows, or a relative small number of sheep. Such small farming causes only a small income for farmers, so young people often do not have the motivation to conduct farming. Moreover, farmers do not have an infrastructure to market their products, except selling raw milk to some dairies, or selling it directly to private households (e.g. fruit, meat).

Former big state-owned farms have also existed in Sandzak. However, as other state-owned companies, they have gone bankrupt and the privatisation was done in a very unserious way. So these companies cannot be a backbone for an agricultural revival in Sandzak.

2.3 Instruments of a microfinancial institution in Sandzak

In developing financial contracts for the agricultural development in Sandzak, we have to avoid classical loan agreements. First, because classical loan agreements cause high debts, even if they are microcredits, for the applicant and therefore cause more harm than benefit for the debtor. The second reason is that a considerable amount of farmers in Sandzak avoids interest due to religious reasons, because interest is forbidden in Islam.

Furthermore, we have to develop a system avoiding adverse selection and moral hazard. As in all contracts, financial contracts contain the problem of asymmetric information. Under asymmetric information, we understand that one contracting party possesses much more information about the object of contract. Therefore, the better informed party can misuse his position. Asymmetric information cause two problems: adverse selection and moral hazard.

The problem of adverse selection will be dealt in the next section. A major problem for financial institutions is the problem of moral hazard. Moral hazard occurs when a contracting party does not use money for agreed purposes. Such behaviour leads to fall of profitability and hamper repayment of debt as well as reduce the probability of profits. The reason for such behaviour of the demander is that the objectives of the two contracting parties can be very different.

In order to avoid moral hazard, we have to develop contracts that are easy to monitor. Here, an important strategy is to conclude contracts with a fixed income for investors. [4, p. 183] Due to the fact that the expenses of the demanders for money are fixed, we know our receivables and do not have to determine the realised profit of a transaction or period. Therefore, no detailed supervision is necessary in this case. In this case, we would have only to react if there are delays in payment.

Furthermore, a microfinancial institution should avoid paying cash to its customers, in order to avoid moral hazard. Therefore, a microfinancial institution should buy a physical asset which is needed, especially for productive purposes, so the applicants have a tool to earn for their living. [2, p. 99] Productive physical assets are, e.g.: tractors, livestock, and agricultural machines.

2.3.1. Sale on credit (*bay mu'ajjal*)

One of the most important contracts for a microfinancial institution in Sandzak would be a sale on credit, which is called *bay mu'ajjal* in the literature of Islamic

finance. *Bay mu'ajjal* is a sale of an asset, which is not money, on the condition that the compensation, which is neither of the same genus nor kind, is paid later. So, *bay mu'ajjal* is a sale on credit. However, Islamic law allows that in a credit sale the seller asks for a higher price than the cash price. [5, p. 349] So, at first sight, this transaction looks similar to an interest-based loan. However, there are several differences between an interest-based loan and a *mu'ajjal* contract.

The major difference between a *mu'ajjal*-contract and an interest-based loan is that the object of contract of the former is a physical asset, whereas at a loan the object of contract is money. So, the money holder is always able to find a customer for his "good", because everybody needs money as it is the general medium of exchange in an economy and therefore he can ask for interest on his money. If the level of the interest rate is not sufficient, according to the subjective opinion of the money holder, he can hoard his savings without major costs. On the other hand, the trader of physical assets (e.g. cars, computers) has no certainty whether he will be able to sell his goods, because under normal circumstances he has no monopoly. Furthermore, if the trader stores his good over a longer period, the value of his goods will decrease because they become out of date, perish etc.

Another justification for a higher price at a credit sale is that the seller has to wait a longer period until he gets the whole agreed price. During this waiting period, he has to finance other expenses (e.g. wages, rents). So, if he is unable to finance the purchase or production of other goods, he will lose customers. The longer the waiting period, the higher these opportunity costs. On the other hand, money holders who ask for interest do not have real opportunity costs. They are only trying to extort the demanders of money, due to their monopoly position, in order to receive their desired interest.

Moreover, there is no refinancing in *mu'ajjal* contracts, i.e. that the seller extends the date of repayment with an increase of debt. This is not allowed in Islamic law, because this would be interest and hence forbidden. [6, p. 124]

The above discussion clearly shows that *bay mu'ajjal* is very different to an interest-based contract.

Bay mu'ajjal is an important contract of finance, because with this contract a microfinancial institution can sell physical assets (e.g. tractors, livestock, and machinery) to customers. The customers can repay its debt in instalments, after earning the necessary sum of money. For example, many farmers in Sandzak buy cows or sheep in order to sell them for the Muslim holiday of Eid al-Adha where cows and sheep are slaughtered. So, farmers often keep their livestock only some months. Because the cash flow is generated at the time of the holidays, a microfinancial institution can sell the sheep on credit and ask for repayment at once. Such special features have to be kept in mind when a repayment plan is developed.

2.3.2. *Murabahah*

Using a sale on credit as a method of financing, the question arises how a microfinancial institution could be able to buy, store and sell physical assets? Here, an important agreement exists, called *murabahah*. *Murabahah* is not a finance contract itself. It is a “trust sale”, which allows the seller to sell a product, which he does not possess. This is an exception of the general rule within Islamic law which states that a seller is not allowed to sell a product which he does not possess, because the Prophet, peace be upon him, said: “*Do not sell what you do not possess.*” [7]

In the following, we will show shortly how a *murabahah* works:

1. A client (buyer) places a non-binding order for an article, which the microfinancial institution (seller) does not possess. Client and microfinancial institution agree in advance to a sales price, which the client has to pay when he receives the article. It is important to mention that the order of the client is not a contract of sale; it is only “promise” of the client that he will buy the article, if the microfinancial institution owns it. Therefore, the client can cancel the order as long as the agreed article is not possessed by the microfinancial institution. [8, p. 86]
2. The microfinancial institution buys the article from a third-party. The whole procurement costs are borne by the microfinancial institution.
3. The client pays the article immediately or in instalments.

The most important feature of the *murabahah*-contract is that the microfinancial institution is able to execute orders with a relative low risk. The principle of *murabahah* allows combining other types of contracts. So, classical contracts of exchange can be used for financing with an agent (microfinancial institution). However, the agent has to take a certain degree of risk, due to the Shari’ah rule “profit goes with risk”. The agent in a *murabahah* takes two kinds of risk:

1. The client can cancel the order before the microfinancial institution buys the agreed item, i.e. takes possession of the agreed asset. So all efforts and expenses of the microfinancial institution would be of no value.
2. The microfinancial institution takes the risk of the object. So, unless the client adopts the agreed item, he has to take the risk, i.e. the risk of storage, risk of transport. Furthermore, the agent has to pay all (expected and unexpected) procurement costs. [9, p. 362, 363]

2.3.3. *Bay salam*

Bay salam is a forward contract under Islamic law. *Bay salam* can be defined in the following way: *salam is a forward sale for an object which, according to a specified description, will be delivered in the future.*

Bay salam is an exception from the general rule in the Shari’ah that a seller has to possess an object prior to sale. The main difference between a *salam* contract

and a classic forward sale is that in a *salam* contract the whole price has to be paid in advance at the time of concluding the contract. [6, p. 163] The reason for disallowing delay of payment is the fear that the contract can be used as a means for speculation.

A variation of the classic *salam*-contract is the “value-based *salam*”. [10, p. 132] In this case, a buyer pays in advance the full price, as in the classic *salam*-contract. In a classic *salam*-contract the buyer would now have the right for a certain **quantity** of the agreed article. However, in a value-based *salam*, the buyer receives the agreed **value** of the agreed article, namely the value of the paid price. So, in this case the exact quantity which will be delivered is not specified in the contract. It is important to mention that in such a case there is no interest, because it is an exchange of a physical asset for money. [10, p. 134]

Bay salam can be used for short-term financing of the production of agricultural products (e.g. fruits, vegetables and grain). A microfinancial institution can finance the production of physical assets and then try to sell this asset at the market. Because, the microfinancial institution pays in advance for this asset, it will receive a discount. Depending from the price development, the microfinancial institution can have a profit from this transaction.

However, the major disadvantage for a broader application of *bay salam* is that the financier receives a physical asset at maturity. However, the question arises what a microfinancial institution should do with this asset? Here are some alternatives:

1. The investor can wait until maturity and then try to sell the physical asset.
2. The investor sells the physical asset prior to maturity to a third-party. This is possible, because the object of sale is a physical asset. [6, p. 260, 261] This alternative has the advantage that the microfinancial institution is able to receive cash within a short period of time and does neither have to look for a customer nor store the physical asset. Because the time to maturity will be shorter in such a case, it can be assumed that the investor can ask for a higher price than the paid price.

2.3.4. Leasing (*ijarah*)

Ijarah is a sale of a usufruct of a certain object, but not the object itself. It is very similar to a classic operative leasing contract. However, the question arises whether *ijarah* is an adequate instrument for microfinancing. Because, applicants have to pay a deposit when concluding a leasing contract, this is a problematic feature of leasing contracts. After using a leased object, for the microfinancial institution the question arises: what to do with this object? Furthermore, it is doubtful whether applicants are ready to lease livestock, because they usually want to have real ownership of their assets.

2.4 Avoiding adverse selection

Because customers of microfinancial institutions have neither a regular income nor other assets before concluding a financing contract, their ability to repay their debts is dependent on the ability of the applicant to use the bought object successfully. In order to protect from any losses, the microfinancial institution has to use the sold object (e.g. livestock, tractor) as collateral. This property is promised to the lender if the borrower defaults. The property can be sold by the lender and use the proceeds to cover his losses. However, here also a problem arises what to do if, e.g. the livestock dies due to diseases. Here, certain insurance is necessary. The first alternative would be to conclude an insurance contract with a private company. The major disadvantage would be that the private insurance company would ask for a high premium from the relatively poor insured.

The second alternative would be that the microfinancial institution establishes a fund for “extreme situations”. If a borrower loses, e.g. his livestock, he will receive support from this fund. In order to finance this fund, every customer of the microfinancial institution has to pay a certain premium to this fund. This premium can be calculated into the regular instalments.

Besides collateral, we can also use guarantors to protect from a debtor’s default. One system would be that the relatives of a debtor act as guarantors. In such a situation, the debtor has an additional motivation to return his debt, in order to avoid problems with his relatives. This system can be also combined with group lending, i.e. that another person of the group can take a loan after one person repaid his debt.

A special feature in Sandzak is that Muslims are paying a wealth tax called “zakat”. This is paid by wealthier Muslims and given to poor Muslims. People who are highly indebted can receive funds from the zakat revenue in order to repay their debts. [11, p. 460]

3. CHALLENGES FOR A MICROFINANCIAL ORGANISATION

3.1 Legal framework

One of the major problems for microfinancial institutions in Serbia is the missing legal framework. There is no law regulating microfinancial institutions. The existing legal framework is classifying financial institutions only into commercial banks, investment funds and leasing companies. For example, for banks a minimum equity of 10 million Euros is necessary. [12] Investment funds have a lower limit for equity, but they can only invest on the stock exchange or companies. As we have already mentioned, the use of leasing contracts is only of limited use in microfinancing. So, we can conclude that the existing legal

framework is not adequate, especially for microfinancial institutions trying to use alternative ways of financing.

Microfinancial institutions in Serbia try to cooperate with commercial banks to solve this problem. In such a situation, the microfinancial institution is giving a credit, but the whole procedure (including taking payments) is done by the cooperating commercial bank. This is, for example, done by the microfinancial institution "Fund for Microdevelopment". [13]

3.2 Public acceptance

One of the major challenges for microfinancial institutions is the public acceptance, i.e. whether there will be sufficient demand for the services of a microfinancial institution in Sandzak. Generally, analyzing different studies about the efficiency of financial institutions, we can conclude that it is important that the microfinancial institution offers fast and efficient services, creates a trustworthy relationship with its customers and a good image. [14, p. 4] Keeping in mind that such a microfinancial institution should offer Islamically permissible services, a close cooperation with the Islamic community in Serbia is indispensable.

In one survey, done at the Islamic financial institution „Kuwait Finance House“, clients mentioned the following criteria as most important what they expect from a bank: [15, p. 13]

1. Run on Islamic law and principles
2. Provision of Islamic products and services
3. Branching
4. Confidence in Bank's management
5. Provision of profit-sharing investment products
6. Knowledgeable and experienced management team
7. Wide range of products and services provided
8. Bank's familiarity, reputation and image
9. Bank location (easy to getting to the bank)
10. External appearance
11. Way staff treat customers
12. Opening hours of operations
13. Confidentiality of Bank
14. Fast and efficient counter services
15. Security of transactions
16. Able to fulfil individual/personal needs
17. Products and service profitability
18. Politeness and friendly staff
19. Convenience (short time for service anywhere)

4. CONCLUSION

In this paper we have argued for the establishment of microfinancial institution which would finance agricultural households according to Islamic financing contracts, especially credit sales. Through such an institution, we think that unemployed people from urban areas will have a motivation to return to their rural possessions. However, it is not only necessary to have a greater agricultural production in Sandzak, but also a system has to be developed to market the newly produced products. Without an adequate marketing, people will have a sufficient income and so they will not be able to repay their debts. However, the major challenge in opening such an institution in Sandzak is the non-existing legal framework regulating microfinancial institutions.

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II SMEs – Globalization and cross border cooperation

**INTERNATIONAL SCIENTIFIC CONFERENCE
“SMALL AND MEDIUM ENTERPRISES - POSSIBILITIES AND
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**POSSIBILITIES AND LIMITATION IN DEVELOPMENT
OF MANUFACTURING SMALL AND MEDIUM
ENTERPRISES IN BOSNIA AND HERZEGOVINA**

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Abstract: The author, in this paper, point out the attained level of development, measures and activities of stimulation of Small and Medium Enterprises (SME s) sector in Bosnia and Herzegovina (BiH). A special accent is on of manufacturing SMEs in BiH. The author have come to the conclusion that, in respect of SMEs, BiH lags behind the other countries in the region, in which this sector obtained dynamic development and majority share in employment market, export and GDP. At the beginning of the 21st century, an obvious lack of big markets led to greater fragmentations of market where SMEs had successfully entered thanks to their innovative and entrepreneurial skills. Big corporations faced stagnation, while SMEs were undergoing an extensive economic growth. There is evidence that SMEs create employment opportunities and contribute to economic growth. The fact is that SMEs, having specific characteristics, find profitable businesses the quickest possible way. They do so by innovation, organizing the necessary activities, making profit and considering the experience of the countries which had already undergone transitional changes from economic underdevelopment to the level of medium productivity. That means that the most acceptable solution to the problem that the Western Balkan countries are facing is to give an organized support to establishment and development of privately owned SMEs sector. In that respect, it is necessary to mention the European Charter for small enterprises signed by the Western Balkan countries. However, in the whole region the need still remains for resolving the barriers in domestic market, having at the same time intensive activities started aiming to present them in the unique European market. BiH ranks 110 out of 183 in the World Bank's 2011 ease of doing business survey. It is ranked 160th for starting a business and 139th in dealing with construction permits. BiH is ranked 110 out of 179 in the Heritage Foundation's Economic Freedom Index, 82 out of 122 in the Milken Institute Capital Access Index. This paper contains the most important parts and results of scientist cal and research project, which granted and financed Federal Ministry of education and science Federation B&H. Received results have been shown here are compared with the EU Charter for SMEs, but also for Western Balkans countries.

Key words: Legal environment, Small and Medium Enterprises (SMEs), manufacturing, limitation, possibilities, BiH

JEL: L 25.

INTRODUCTION

Small and medium enterprises (SMEs) have played a crucial role in economic transition in all the countries of Central and Eastern Europe. Except in transitional countries, they are very important for the functioning of developed countries as well since they employ a big number of workers, for example 60 to 70 percent of all employed people in the countries that are OECD members. Also, SMEs account for 95 percent (OECD, 2010). In the European Union, there are more than 23 million of SMEs, which make up more than 99% of all the companies, and 66% of all the employed, or 100 million of job posts. That means that SMEs have a share of more than three-fourths of all the employment market. SMEs sector offers the opportunity for the fastest implementation of modern solutions and practices of developed countries, which have built their industrial power thanks to SMEs.

BiH has also signed the European Charter for Small Enterprises, but it still has the smallest per capita number of SMEs in the South East Europe (Dzafic, 2007), as well as a low level of company development, which is the consequence of various obstacles and barriers. The general aim of the research is to determine internal and external barriers in development of the manufacturing SMEs and understanding of the situation they are facing. Having these in mind as well as the results of the research, there is a need to initiate certain steps within companies and developing institutions that will bring about changes in the wider business environment.

1. OVERVIEW OF RESULTS AND METHODOLOGIES USED IN THE RECENT RESEARCH OF DEVELOPMENT OF MANUFACTURING SMALL AND MEDIUM ENTERPRISES (SMES) IN THE WESTERN BALKANS

Various papers can be found pertaining to the problem of barriers in development of SMEs in Western Balkan countries, but there are very few barriers that are related to the research in manufacturing SMEs. Many Croatian authors have addressed this problem. In one of such works, Dumicic and Knezevic have undertaken the original questionnaire research of random samples of companies which has shown that most Croatian small and medium enterprises independently predict changes mostly using external sources of information, methods of market research and personal judgment (Dumicic and Knezevic, 2009). Butigan used the model of five concurrent powers of Michael Porter, analyzed the attractiveness of the petroleum products retail trade in

Croatia and identified the key factors needed for the success of the industry, showing that Croatian industry of petroleum products retail trade is facing a great threat of new rival enterprises coming in and that competition among the existing enterprises is very intense (Butigan, 2008). In Serbia, Basic and Djordjevic have analyzed the necessity of modern concept of business in organizations, having the function of fulfilling the goals of business excellence. Entrepreneurial behavior is a way of thinking, determined by creative approach to business, which increasingly takes the shape of corporative business (Basic and Dordevic, 2009). In Kosovo under UNSCR 1244/99, Hashi explains that, although SMEs are believed to be essential to the development of transitional economies such as, numerous financial and institutional barriers are blocking their development. The author relates an extensive literature review and the methodology for a cross-sectional survey of 106 participants from 73 SMEs in Kosovo under UNSCR 1244/99 (Hashi, 2010). Direction for SMEs development in Montenegro 2007 presented the «Strategy of SMEs development». By this document, barriers for SME growth and development have been identified including business climate, and financial and institutional support, support system in education, consulting, competitiveness and export have been analyzed. The approach of the authors from FYR Macedonia was to provide a summary and quick overview of all major barriers and issues affecting the SME sector. Also, this document has identified the following key areas for policy improvements in relation to the SME sector: the legal, regulatory and institutional environment, the business climate, support to business, access to finance, access to Communication and IT, etc. (Pinto et al., 2006).

In BiH, Hasic discusses the problem of SMEs development in BiH with the aim of determining their abilities to adapt to great challenges of the future pertaining to business environment, caused by active Bosnian inclusion in the process of globalization. The subject of this paper is very important for economic revitalization of BiH and its general participation in the immediate and wider regional surrounding as a successful rival. SMEs in BiH are the worst component of total economic organizational structure (Hasic, 2006). In other paper, Hasic offers his analysis of imposed restrictions on the enterprises in BiH. The author has been doing research on the factors that most directly affect the level of economic freedom and prosperity in one country. He has addressed a few variables, which belong to 10 wide categories: trade policy, taxes, government interventions in economy, monetary policy, the flows of capital and policy of foreign investments, banking, prices and payment control, ownership rights, regulations and black market (Hasic, 2001). Also, in BiH, Dzafic and Rovcanin explain that development of SMEs and entrepreneurship is in its initial stage, even though this sector of economy could become the initial force of development of the country. There is no policy and there are no specific objectives of the development of SMEs in BiH. The economy of BiH, as well as that of other developed countries and those in transition, determines for strategic development of the SMEs sector in order to decrease the unemployment rate,

which is the highest in Europe. BiH has a very low share of private sector in the overall economy, which is only 45% of GDP and Index of SMEs development is very low³³ – only 118.2, while in Slovenia it is amazing 2534.9 (Dzafic and Rovcanin, 2009).

2. COMPARATIVE ANALYSIS OF THE KEY INDICATORS OF ECONOMIES OF THE WESTERN BALKANS

The competitiveness of the economies of the Western Balkans (Albania, BiH, Croatia, FYR Macedonia, Serbia, Montenegro and Kosovo under UNSCR 1244/99) represents a strategic European interest. Well-functioning market economies, resistant to global competitive pressure, contribute to the political stabilization of the Western Balkan region as well as to growth and jobs for Europe, which is the EU's main policy objective for the years to come (OECD, 2010). The Main Country Indicators of the Western Balkan region are given in Table 1.

Table 1 Main Country Indicators

	<i>Total area (in km²)</i>	<i>Population on 1/12/2007 (thu)</i>	<i>Population density (per km²)</i>	<i>GDP (EUR mio)</i>	<i>GDP growth (% changes with a previous year)</i>
<i>All Western Balkan countries</i>	264 462	23 614	89.2	85 255. 53	<i>n/a</i>
<i>EU 27</i>	4 309 406.6	492 090	114.4	12 339 731	3.0

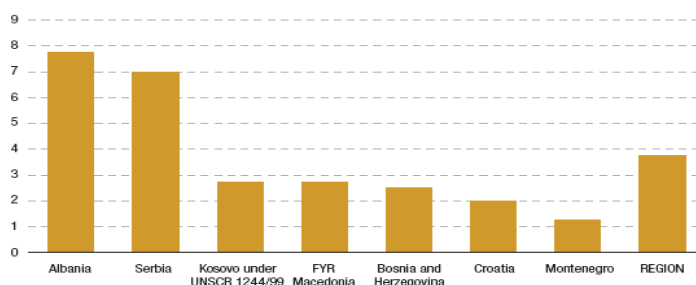
Source: According to Eurostat for 2007

At the beginning of the 21st century, an obvious lack of big markets led to greater fragmentations of market where SMEs had successfully entered thanks to their innovative and entrepreneurial skills. Big corporations faced stagnation, while SMEs were undergoing an extensive economic growth. There is evidence that SMEs create employment opportunities and contribute to economic growth. The fact is that SMEs, having specific characteristics, find profitable businesses the quickest possible way. They do so by innovation, organizing the necessary activities, making profit and considering the experience of the countries which had already undergone transitional changes from economic underdevelopment to

³³ More information are available in: United Nations Economics Commission for Europe, Series: Entrepreneurship and SMEs, UN, New York and Geneva, 2006., or <http://www.unece.org/operact/enterp/documents/strat.pdf>.

the level of medium productivity. That means that the most acceptable solution to the problem that the Western Balkan countries are facing is to give an organized support to establishment and development of privately owned SMEs sector. In that respect, it is necessary to mention the European Charter for small enterprises signed by the Western Balkan countries (The Charter). The Charter calls for the support of the member states in ten basic areas including education, cheaper and faster start ups, better legislation and regulation, availability of skills, improving on-line access for SMEs etc. (OECD and European Commission, 2009). Overall cumulative changes in scores from 2007 to 2009 SME Policy Index in the Western Balkans³⁴ are given in Figure 1.

Figure 1 Overall cumulative changes in scores since 2007 in the Western Balkans

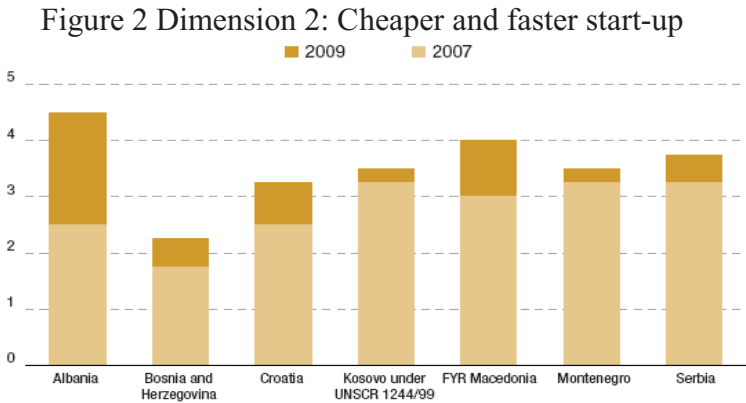


Source: OECD and European Commission, 2009

The Charter assessment cycle completed over the last two years (2007-2009) offers a good picture of the challenges faced by policy makers in engineering and steering reforms in the SME policy area. Good examples in the region are the successful restructuring of the company registration process in Albania, which has introduced a state-of-the-art registration system in less than two years, and the launching of the one-stop system in the FYR of Macedonia. A negative example for the same area is the stalling of company registration reform in BiH, under consideration since 2003 (OECD, 2009). The 2007 report divided the Western Balkan economies according to the level reached in terms of policy performance. The first group, made up of Albania, BiH and Kosovo under UNSCR 1244/99, was characterized by a level of performance across the ten dimensions around level 2, denoting an institutional and legal framework underpinning SME policy still largely reliant on ad hoc intervention and pilot projects, and in need of further concretization. The second group, made up of FRY Macedonia, Montenegro and Serbia, described countries that had largely completed the legislative and institutional framework supporting SME policy

³⁴ The figure 1 and figure 2 show the SMEs Policy Index scores for each economy and Charter dimension, comparing the current results to those published in the SME Policy Index 2007 Report. Due to the large number of new indicators, the results in dimension 1.4 and 7 are not comparable to the results from 2007 (OECD, 2009., pag. 14 – 30).

and had just entered the phase of policy implementation. Their performance level was between level 2 and level 3 in most dimensions. Finally, Croatia was highlighted as the most advanced country in terms of SME policy. In each policy, human capital and tax policy excluded, Croatia has registered performance well above level 3. Croatia will be our benchmark in continuation of this research. Cheaper and faster start-up is given in Figure 2.



Source: OECD and European Commission, 2009

OECD 2009 report shows that there are two economies in the region that, for a variety reasons, are still in a phase of completing the basic institutional, legal and regulatory requirements underpinning SME policy: Kosovo under UNSC 1244/99 and BiH. Inside BiH, there have been differences in performance across the two entities (BiH Federation, Republic of Srpska and Brcko District (OECD, 2009)). Also, the progress of BiH in transition has been effectively stalled for some years, and as a result the country lags behind all others in south-eastern Europe. The country's complicated political and constitutional structure is a major constraint to reform and good governance. As a result of the reform paralysis, the country also lags behind other EU candidates or potential candidates in the region in terms of EU approximation (EBRD Transition Report, 2010). Comparative analysis of the conditions for starting enterprises in the Western Balkans is given in Table 2

Table 2 Comparative analysis of the conditions for business establishment in the Western Balkan countries

Overall business establishment process in figures								
		ALB	BiH	CRO	KOS	FRYM	MNE	SRB
<i>No. of days to complete overall process</i>	2007	39	54	45	23	18	24	18
	2009	8	60	40	22	9	21	23
<i>No. of steps to complete overall process</i>	2007	11	12	10	5	10	15	10
	2009	6	12	8	12	7	15	11
<i>Total cost of the overall process (EUR)</i>	2007	429	679	739	n/a	158	182	252
	2009	575	845	930	1066	99	192	97
<i>Total cost of the overall process (% of income per capita)</i>	2007	22.4	37	12.2	22	7.4	6.6	10.2
	2009	25.8	30.8	11.5	78	3.8	4.4	7.6
<i>Minimum capital requirement (% of income per capita)</i>	2007	36.7	52	20.6	Over 40	112	0	7.6
	2009	32.3	36.3	16.6	0	0	0	6.9

Source: Doing Business 2009

Based on the previous table we can come to the conclusion that the conditions for business establishment in 2009, compared to 2007, become worse only in BiH, because the number of days increased from 54 to 60. The number of steps remained the same. The registration costs were increased. In conclusion, in other countries, the business environment was significantly improved. (SME Policy Index, 2009). BiH ranks 110 out of 183 in the World Bank's 2011 ease of doing business survey. It is ranked 160th for starting a business and 139th in dealing with construction permits. BiH is ranked 110 out of 179 in the Heritage Foundation's Economic Freedom Index, 82 out of 122 in the Milken Institute Capital Access Index (<http://www.estandardsforum.org>, December 2010). According to SME Policy Index, 2009 BiH should do the following: improve entrepreneurship education and Training, enable the cheaper and faster start-ups, enable better legislation, improve the skills of development, improve on line access, enable getting out of the Single Market, improve access to finance (provision of financing schemes for SMEs, including equity funds and business angles), strengthen the Techno Capacity, improve successful E-Business Models, develop stronger representation etc. (World Bank and IFC, 2010)

4. THE KEY OBSTACLES OF FASTER DEVELOPMENT OF SMES IN BOSNIA AND HERZEGOVINA

Based on previously used secondary sources following recommendations can be established in respect of external barriers to policy makers. Government of BiH should reduce:

- number of procedures (12), number of days in starting a business (55), costs in starting a business, minimum of capital in starting a business, number of procedures for construction permits (16), number of days for dealing with construction permits (255), costs for dealing with construction permits (578.1),
- number of procedures for registering property (7), number of days for registering property (33), costs of registering property (5.5% of property value), adjusting the strength of legal rights index (rank of 5) and depth of credit information index (rank of 5), and adjusting the strength of protecting investors index (rank of 93),
- number of tax payments (rank of 127), payments (number per year 51), time – hours per year for tax payments (422), days to export (rank of 71), costs to export (1240\$), days to import (16) and reduce costs to import (1200\$),
- number of procedures for enforcing the contracts (rank of 124), and the days for enforcing the contracts (595), years for closing a business (rank 73) is 3,3 years. The costs of closing a business in BiH are 9, and recovery rate 34.7 cent on the dollar).

In BiH, there are 129,644 enterprises now, and 60,000 of them have been registered as a trade business. That's a small number of enterprises compared to Croatia where there are 239,131 enterprises, or FYRM, which has 180,000 registered enterprises (Dzafic, 2007).

Although the current situation of the SMEs in Bosnia and Herzegovina we can not characterized as satisfied for many reasons, as inadequate financial support, non-supporting tax system, complex and long lasting process of registration of entrepreneurship, insufficient institutional support, SMEs are the only economic structure that worked with positive results in the past period. With relatively small initial capital, SME sector achieves over 40% of GDP of the country and it gives needed job to over 350 000 employees, or in the other words, around 45%. The structure of SMEs by economy activity is not satisfied because out of total number of SMEs, 45 % of them are involved in trade, 18 % in the production, and 9%, in building projects, 12 % in service and 16% in other activities. That is the reason why SMEs are involved export only with 39%. Based on stated data, we can conclude that SME sector could give a job to a larger number of people in this country, in the case of decreasing of tax load on them, establishing of stable business environment, making deregulation of certain regulations,

liberalization in the field of foreign-market economy, and in the case of easier access to the initial capital with better conditions. Research that we made showed us that SMEs in Bosnia and Herzegovina are facing many obstacles, on daily basis but the major one is lack of finances. Considering that the system of financial support is inadequate in Bosnia and Herzegovina, majority of companies is financed by its own capital and with loans from the customers and suppliers. The biggest number of companies (apx. 95% out of total number of SMEs) is defined as micro-companies (up to 10 employees) and the amount of capital is limited.

The next obstacle to the faster development of SMEs in Bosnia and Herzegovina is tax system that is primarily in the function of covering high public expenses. With a current high ratio tax/GDP, the economy of Bosnia and Herzegovina is one with the highest taxes in the Central Europe, where the taxes are one of the reasons of slow development of private sector and SMEs and leads to transition to the grey economy and induces avoiding of tax payment. SMEs in Bosnia and Herzegovina in the past period did not have support of the leaders in the economic development. Similar to the other countries that have been in the transition period, SMEs in B&H have shown a constant growth in the last decade. At the same time the environment is also in the process of transformation through the bringing up new regulations, finalizing the process of privatization but also starting with the first planned activities by the state toward development of SMEs and business.

Until now, there is no one institution for the monitoring and support of the SMEs on the state level in Bosnia and Herzegovina, there is no regulations, nor programs of support of the development of SMEs, neither on state nor entity, cantonal, regional nor municipality level. Besides this, on economic faculties, departments for entrepreneurship and management have been opening just recently. Professionals should be educated in these departments, and they would later on direct the development of SMEs, but there are still no SME Centers, that would function in universities, and that would be connected with SME agencies. In regards to them the centers would be in the expert's role. Also, the universities still have not established even a single incubators, as we can see in other countries.

There is not even a joint definition of SMEs in BiH. Therefore, making a comparison of the level of development of institutions crucial for the development of SMEs in BiH with highly developed countries, and with the transition countries, we have pointed at our distance from those countries clearly and unambiguously.

Having in mind the importance of SMEs in the market structure of the developed countries and the advanced transition countries, BiH should secure support and

help to the development of SMEs, by using the legal system and setting up the appropriate institutions to:

- Establish a stable policy of support to the development of SMEs on all levels of territorial organization in BiH, which would not oscillate depending on the changes in power on all levels;
- Making programs of support for SMEs.
- Supporting the creation of centers in non-governmental institutions that would give special and immediate support to SMEs in all stages of their development
- The local authorities should support the development of technological parks, clusters, incubators etc.
- The local authorities should improve legislation, and especially practices, of registration of companies based on principle: „Everything in one place – faster, easier and cheaper“.
- Establishing funds for the development of SMEs, which would stimulate activities of companies on:
 - Improving current and creating new products and services,
 - Developing competitive advantages of SMEs in domestic and foreign markets,
 - Securing the level of quality in accordance with the requirements of ISO standard,
 - Faster implementation of modern technologies,
 - Introducing information systems and e-commerce,
 - Preparation and execution of ecological projects, etc.
- Leasing has been proven as an effective tool of supporting SMEs in many countries and, therefore, legislation in this area could be a priority for the authorities in Bosnia and Herzegovina. The government can influence the leasing market as it is very sensitive to tax treatment and the protection of rights of retailers in order to be able to extract money in case that the customer does not pay.

5. CONCLUDING REMARKS AND RECOMMENDATIONS

One of the basic results of the analysis conducted in this paper is that the creation of a specific model of a successful transition in BiH is a task with no alternative. This is not surprising, because under the influence of events that are gaining speed ever so quickly (and these events are mostly external – globalization) there is no possibility of a stationary condition; either there is economic growth, or there is recession, with all the consequences of such a process. This is especially true for BiH, which, as a late participant in the process of globalization, which is caused by war, must put in additional effort. The economy of Bosnia and Herzegovina must get institutional support on national (and more and more even on the international) level, in order not to lose

its chance in regards to those countries that have gone quite far down that road. Besides this, the program of restructuring of the economy and the development of the SME sector is unimaginable without the necessary infrastructure. First of all this relates to: highways, railroads, telecommunication systems, securing cheap and safe sources of electric power, creation of industrial zones, etc. Only such a modern infrastructure, ready for investments of commercial investment capital can be the answer (the countermeasure) for opportunity attractiveness of investing in other, mainly transition countries in which there is a low price of workforce. If these things do not happen, investment capital will not come to BiH.

Throughout the paper, we can see that BiH lags behind the countries in the region in almost all the aspects. There are also no concrete institutional and legislative reforms in order to come up with systematic solutions for creating a stimulating environment needed for development and growth of manufacturing SMEs.

The research has also confirmed that in BiH there are numerous barriers in development of manufacturing SMEs. The most important external barriers in development of manufacturing SMEs in BiH are as follows: Bureaucracy, Time that passes until the judicial sentence is carried out, Issuing of building permits, Corruption, Lack of financial stimulation/ government support for development of production enterprises, Time that passes from when the legal trial date was set to passing of judgment, Lack of government measures for stimulation of employment, Quality of workforce, Quality of road networks, This research has identified some external barriers that have been pointed out by the World Bank, OECD, and the European Commission, all of which have been mentioned in the second part of the research. We hereby also suggest that business decision makers as well as governments at all levels urgently intervene and eliminate identified barriers, or that they at least reduce them more radically in order to enable a stimulating business environment in BiH, the thing that has already been done in other countries in the region. In addition, that is especially important for the Bosnian approach to Euro-Atlantic integration.

Entrepreneurs and managers of manufacturing SMEs in addition to internal company must be respected in its decision-making and external barriers and try to influence through the organizational forms for public institutions whose work is mainly caused by external barriers. Apart from the elimination of internal barriers, entrepreneurs and managers of manufacturing SMEs must respect external barriers as well. They should try, through the organized forms (chambers of commerce or business associations), to influence public institutions which mainly cause external barriers and BiH government so that it could eliminate these barriers.

Identifying external and internal barriers in development of manufacturing SMEs will not solve all the problems in Bosnian economy, but it will improve its business environment and make everyday business easier to our entrepreneurs.

At the same time, it will create the conditions for attracting direct foreign investments into BiH quicker than earlier.

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PARTICULARITY OF RISK MANAGEMENT IN SMES

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Abstract

Risk management is topical problem of all type of enterprises in current time. SME often fail to do risk management proper non-availability of financial or personal sources. But risk management has to be essential part of SME's management, because inadvertence of small risk could cause fatal consequences for SMEs. Contribution describes risks which affecting enterprise activities and put the accent on particularity of SMEs. It mentions on advantages of SMEs, for example by managing of economic crisis and disadvantages, which become evident by management of entrepreneurial risks.

Keywords: **entrepreneurial risk, SME, risk management**

JEL codes: D21, D24, D80, M19, M20

1. INTRODUCTION

Gunter Verheugen, Member of the European Commission said: Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. [1]

2. ADVANTAGES AND DISADVANTAGES OF SME

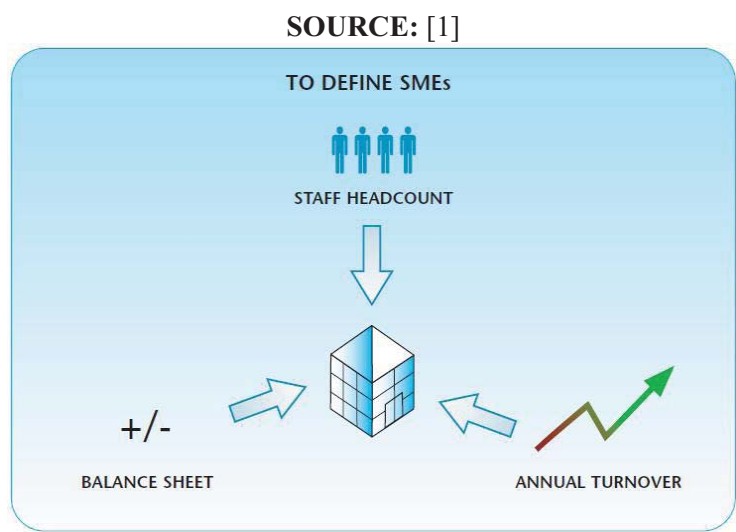
SMEs play central role in the European economy. They represent more than 99% of all European enterprises, offers more than 67% of jobs in private sector and generate more than 80% of employment in some industrial sector (for example metalworking, civil engineering and furniture industry). [2]

If we want to qualify enterprise as the SME, we have to consider three criteria:

- staff headcount,
- annual turnover,
- annual balance sheet.

Small and medium-sized enterprises have fewer than 250 employees, their annual turnover is less than 50 million euro or annual balance sheet not exceed 43 million euro.

Figure 1. How to define SME



The figure 2 shows specific categories of small and medium sized enterprises in dependence on criteria shown in figure 1.

Figure 2. Category of SME

Category Criteria	Small enterprise	Medium-sized enterprise
Staff headcount	< 50	< 250
Annual turnover	≤ 10 million €	≤ 50 million €
or	or	or
Annual balance sheet	≤ 10 million €	≤ 43 million €

SMEs are very sensitive to the economic downturn, more than big enterprises. On the other hand they adapt to market changes much more flexible as a larger company. The biggest problem for SMEs is financing, especially in time of economic crises.

2.1 Advantages of SMEs

Advantages of SMEs are based on simple business structure, close relationship with customers and high productivity. We can outline them in following paragraphs.

- **Close customer contacts.** SMEs better understand needs, tastes and preferences of their customers, and thus are able to offer better care, for example, better advice on shopping
- **Personalized service.** SMEs offering a personalized service, for example, can more easily ensure that the same worker attends to a customer during the checkout process.
- **Better handling of complaints.** SMEs can better meet customer complaints, for example, can ensure that a single worker is making quick work of complaints from a customer, and it does not have to consult with several employees.
- **Better access to market information.** Proximity to customers allows SMEs to better understand their target audience and be aware of the new changes that arise in the market.
- **High flexibility, fast reaction times.** Ability to adopt to new situations new needs, tastes and preferences of consumers.
- **Continuing innovation.** SMEs are able to innovate constantly, to bring to market new products, services or promotions without running too much risk.
- **Flat business structure.** SMEs are able to make more rapid and timely decisions, due to its simple and low hierarchical structure.
- **Motivated, high engaged and flexible employees.** Employees in the SME often have a greater contribution to ideas and suggestions for improvement in overall business, which makes them more useful and therefore, more identified and committed to it.
- **Increased productivity.** Employees in the SMEs are usually more productive because of better motivation.

2.2 Disadvantages of SMEs

As mention above, the biggest problem for SMEs are finances. But in generally we can tell all of the disadvantages are generated from missing resources.

- **Difficulties to get capital.** SMEs are often not credible for financial institutions and investors, because of their low assets. These subjects are suspect of investment recovery.
- **Difficulties to hire good personal.** Every employee have to be qualified and loyal in SMEs.
- **Concentration on owner or manager.** It can be a problem if owner or manager misses foresight. Recent trends shows on dividing management and ownership. Enterprise can flexible answer to market changes, when manager is another man as a owner,
- **Limited research and development.** Costs needed for research and development is high and SMEs do not have sufficiency for financing them. On the other hand SMEs missing personal and material resources too.
- **High fix costs and disadvantage in measures of economies of scales.** High fix costs and disadvantage in measures of economies of scales do not allow price competition between SMEs and big enterprises.

Because enterprises face a variety of risks while carrying out their business operations they have to apply various forms of risk management to handle these risks.

3. TYPES OF RISK MANAGEMENT

Risk can be defined as the combination of the probability of an event and its consequences [3].

Risk management is the process whereby enterprises systematically address the risks attaching to their activities with the goal of achieving sustained profit within each activity and across the range of all activities. Risk management increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving the enterprise's overall objectives. The focus of risk management is the recognition and treatment of these risks. [4]

3.1 Strategic risk management

Strategic risk management deals with risks associated with operating in a particular industry. These risks include risks arising from industry changes, changes in demand or among customers, research and development, merger and acquisition activities.

3.2 Operational risk management

Operational risk management deals with technical failures and human errors and manages various types of operational risks.

Operational risks are associated with operational and administrative procedures that occur on a daily basis, for example recruitment, transportation, board composition, IT systems etc.). These risks include the risk of loss consequent to poor or unsuccessful internal methods, machinery and human resource, or extraneous happenings.

3.3 Compliance risk management

Compliance risk management is engaged in risks associated with the need to comply business activities with laws and regulations. Enterprises need to consider whether employment or health and safety legislation could add to their overheads or force changes in established ways of working.

3.4 Financial risk management

Financial risk management tries to add value in a company through implementation of financing mediums (cash instruments and derivative instruments) to handle risk exposure.

Identifying financial risk involves examining daily financial operations. Financial risks which can be handled include shape risk, foreign exchange risk, sector risk, volatility risk, inflation risk and liquidity risk.

1.1.

3.5 Credit risk management

Credit risk management is extremely important as far as the overall financial stability of the financial institutions. The most basic aim of the process of credit risk management is to minimize the levels of credit risk that a particular institutional creditor like a bank faces when it lends money to a particular borrower.

3.6 Market risk management

The process of **market risk management** has a number of applications in the context of today's global market. It deals with different types of market risk, such as interest rate risk, equity risk, commodity risk, and currency risk.

3.7 Commodity risk management

Commodity risk management is very important to provide coverage to all those groups that are related to the commodity market, for example farmers, producers, purchasers and exporters of commodities. These groups are exposed to maximum financial risks when there is any natural disaster or man-made disturbance (wars, political instability and so on). Proper commodity risk management is essential to provide stability to this sector as well as to make this sector financially secured.

3.8 Project risk management

Project risk management deals with various types of uncertainties and constraints related to a project. A project risk is a probable origin of deviation from the plan of the project and it could have a positive or negative influence on the project. Project risks having negative characteristics are known as threats and project risks bearing positive characteristics are known as opportunities. Endeavour is always on to maximize the opportunities and minimize the threats.

3.9 Software risk management

In the modern market, most of businesses are depending upon some particular software. **Software risk management** is very essential to manage the risks that are related to the functioning of the software.

3.10 Integrated risk management

Integrated risk management refers to integrating risk data into the strategic decision making of a company and taking decisions, which take into account the set risk tolerance degrees of a department. In other words, it is the supervision of market, credit, and liquidity risk at the same time or on a simultaneous basis

3.11 Other categories of risk management

Categories mentioned above are not rigid and some parts of entrepreneurial business may fall into more than one category. We can also consider other risks include:

- environmental risks, including natural disasters,
- employee risk management, such as maintaining sufficient staff numbers and cover, employee safety and up-to-date skills ,
- political and economic instability in any foreign markets you export goods to,
- health and safety risks,
- commercial risks, including the failure of key suppliers or customers. [5]

3.12 Particularity of risk management in SMEs

Risk management is not a single matter. The business environment changes rapidly so risks need to be monitored on a regular basis. It is particularly important to be alert to new risks that the SMEs may face.

In big enterprises are risk managed by risk management committee, led by senior executives, or board directors. The increasing significance of risk has resulted in the new role of a board-level chief risk officer being created in some companies.

In small or medium-sized enterprise, the finance director or chief executive tends to add the role of risk management. Although the finance director should undoubtedly be involved in most aspects of risk management, it is not ideal that he is the only man responsible for risk throughout the company.

There is a greater understanding that risk management must be led from the top of the company and needs to involve all employees in some capacity to be truly effective.

It is important to bear in mind that the principal objectives of the risk management are to reduce the downside risks and minimize impact of lost opportunities and not simply to come up with processes that appear to do so in order to comply with corporate governance requirements. Good, actual risk management processes will comply with requirements but, more importantly, will also be improving the quality and returns of the business.

4. SUMMARY

There is no question that SMEs face some special problems that are not an issue for big enterprise. Small or medium size is not necessary equal to disadvantages and problems. Many SMEs are much more flexible than their large competitors, which have to meet a great variety of expectations and interests from various market subjects. Simple organizational structures and few levels of hierarchy encourage a motivating community and a knowledge transfer between all members of the enterprise. The stable relationships with customers and suppliers provide a degree of continuity. It is important to consider that small and medium-sized businesses can form ad hoc partnerships, cooperation and networks with other SMEs in order to work on a particular project.

It is obvious that the special characteristics of small and medium-sized enterprises do not only cause problems, but also a variety of opportunities. The most important precondition for successful exploitation of these opportunities is a qualified management. It is the management's task to capitalize the strengths and minimize problems and risks.

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**IMPORTANCE OF INNOVATION IN MANAGEMENT
OF SMALL AND MEDIUM-SIZED ENTERPRISES
IN CONDITIONS OF GLOBALIZATION**

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Abstract

The paper is based on detailed analysis of the literature and carried out research to highlight the importance of innovation in management of small and medium-sized enterprises in conditions of globalization. The primary purpose of research was to obtain information and interpretation of testifying about the level of innovation in the management of small and medium-sized enterprises operating in the Slovak Republic. The research involved a total of 402 top managers of small and medium-sized enterprises. The paper contains the main results of research on which it was developed a basic model of innovation in the management of small and medium-sized enterprise. A substantial part of the paper is dedicated to the development of an effective system to work with innovation and knowledge in small and medium-sized enterprise. The main objective of the proposed system will achieve the best response to real data on innovation and thereby ensure high quality of decision making. On the end of the article are the recommendations for successful exploitation of innovation in management of small and medium-sized enterprises in conditions of globalization. These recommendations are intended to serve managers of the enterprises as a valuable tool for the application of innovation in management.

Keywords: innovation, enterprise, globalization, management, system

JEL codes: O31, M11, M31

1. INTRODUCTION

Increasing globalization brings to small and medium-sized enterprises new challenges and opportunities. Enterprises in this new environment can be

successful and to cope with competitive pressures, if they become more innovative and will more effectively meet the needs and priorities of its customers. SMEs have a special potential for innovation, particularly in the form of creative people.

Using of innovations by SMEs supports the European Union. European Commission seeks to ensure a thorough understanding of innovation and comprehensive access to them. Its aim is to increase the competitiveness of SMEs.

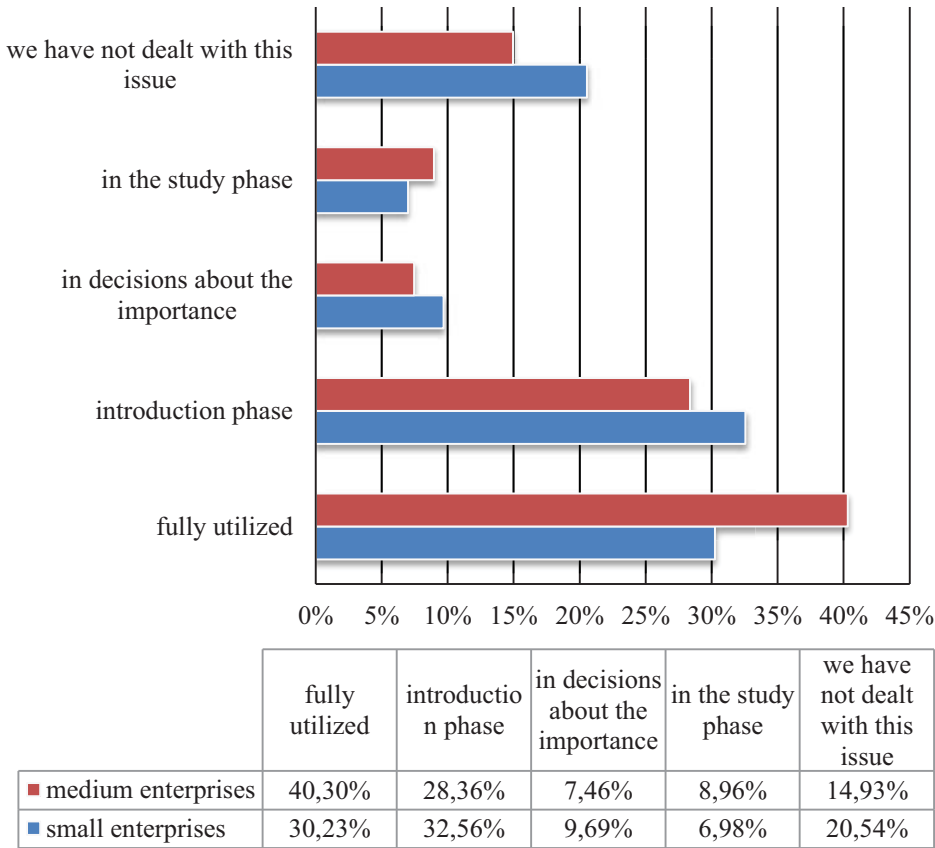
Globalization can be characterized as a gradual reduction in the distance and the disappearance of borders. As a result of its effects there is a progressive linking and integration of national economies through international trade and international capital movements. Globalization has a particular impact on small businesses, because the weight of large enterprises has been growing and they have joined to itself more and more of small enterprises.

SMEs should therefore place emphasis on ensuring to be effective. This means reducing costs and improving utilization rates of resources. The base of success is strategic innovations and enterprises' ability to achieve continuous improvement. This requires innovation and creative thinking.

2. EMPIRICAL RESEARCH - SITUATION IN SLOVAK COMPANIES

Research was conducted in the period from January to March 2011. His primary task was to obtain and interpretation information about using of innovative strategies in Slovak companies. Purposes of research was to identify the preparedness of selected Slovak companies to introduce and use innovation strategies by identifying its key elements, work with innovative ideas, opportunities, innovation and application of lateral thinking. Research was conducted on a selective sample of 402 senior managers of small and medium enterprises operating in the Slovak Republic. Most managers were interviewed via an online questionnaire (87.2 %). 12.8 % of senior managers we contacted personally by the semi-structured interview.

Figure 1. Current state of implementation of innovation strategy in the enterprise

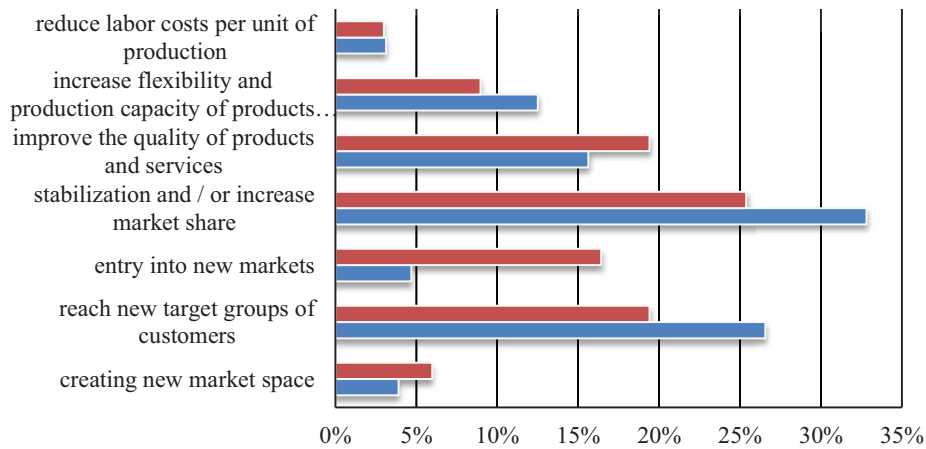


Source: own research

20.54 % of small enterprises and 14.93 % of medium enterprises have not dealt with innovation strategy. 28.36 % medium and 32.56 % small enterprises are in introduction phase of implementation, but 40.30 % medium and 30.23 % small enterprises fully utilize innovation strategy (Figure 1.).

The main objectives in the field of innovation strategy of enterprises are stabilization and/or increasing of market share, reaching of new target groups of customers and improving the quality of products and services (Figure 2.).

Figure 2. Main objectives in the field of innovation policy

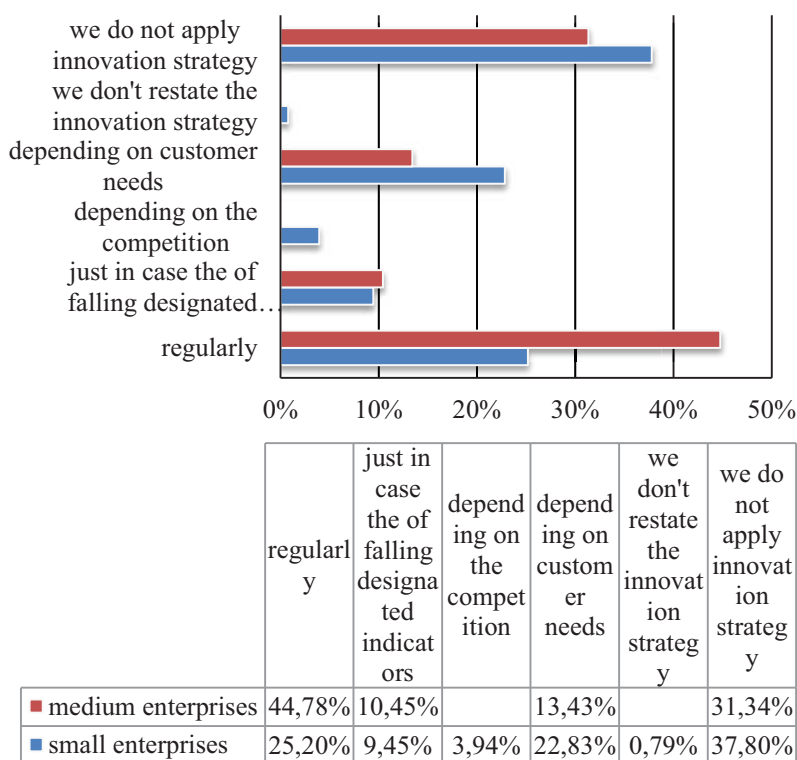


	creating new market space	reach new target groups of customers	entry into new markets	stabilization and / or increase market share	improve the quality of products and services	increase flexibility and production capacity of products or services	reduce labor costs per unit of production
■ medium enterprises	5,97%	19,40%	16,42%	25,37%	19,40%	8,96%	2,99%
■ small enterprises	3,91%	26,56%	4,69%	32,81%	15,63%	12,50%	3,13%

Source: own research

44.78 % of medium enterprises and 25.20 % of small enterprises regularly reevaluate and subsequent formulate of an innovation strategy. Very less of managers confirm that do not restate the innovation strategy (Figure 3).

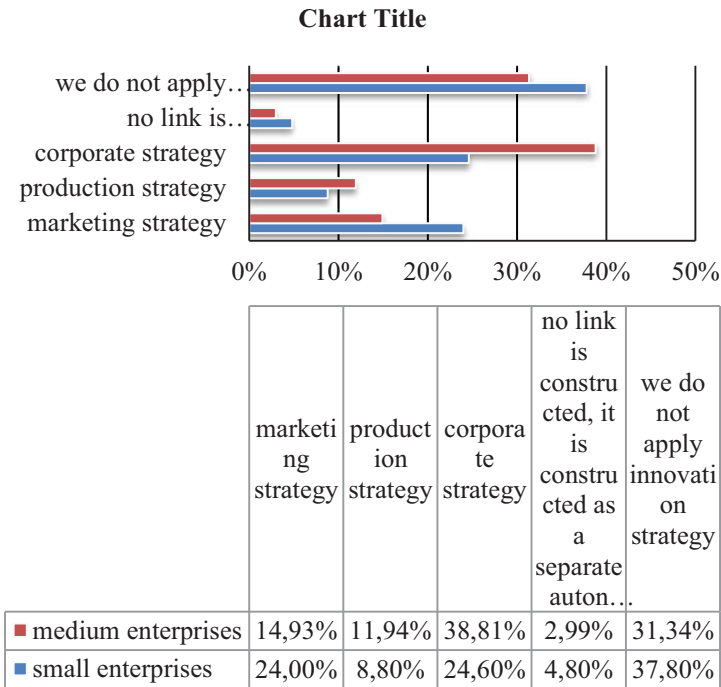
Figure 3. Evaluation and subsequent formulation of an innovation strategy



Source: own research

38.81 % managers of medium enterprises and 24.60 % managers of small enterprises say that the base for their innovation strategy is corporate strategy. Marketing strategy is base for 14.93 % medium enterprises and 24.00 % small enterprises (Figure 4).

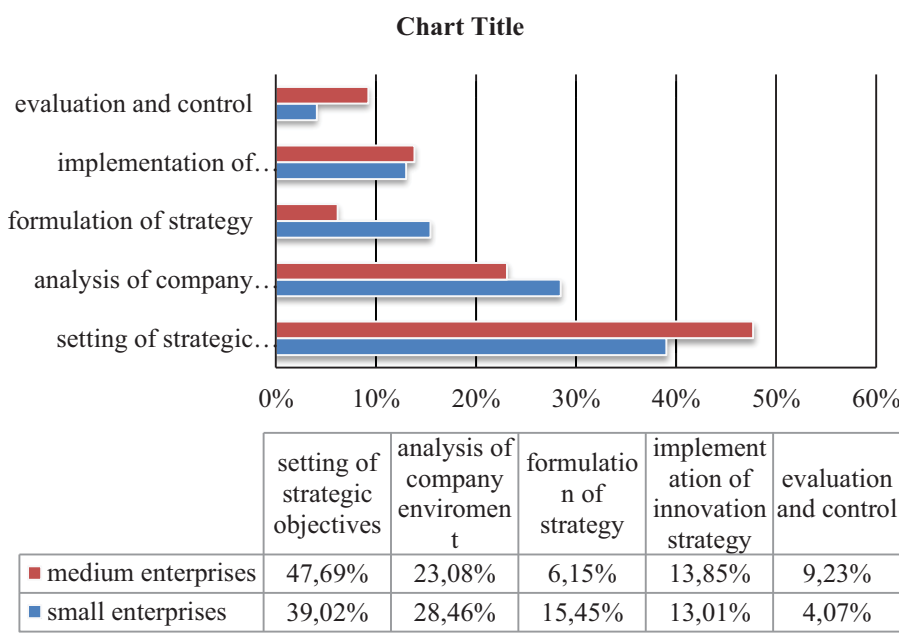
Figure 4. Base of innovation strategy



Source: own research

Setting of objectives of strategy is for managers the most important phase in the process of creating and implementation innovative strategies in enterprise. It confirmed 47.69 % managers of medium enterprises and 39.02 % managers of small enterprises. Then it is analysis of enterprise environment. Surprising is that just 6.15 % managers of medium enterprises consider formulation strategy as important phase of creating and implementation innovative strategies (Figure 5).

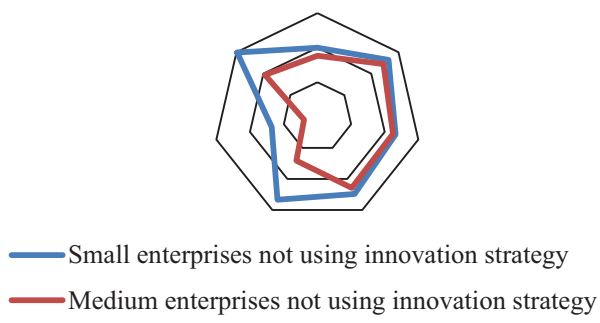
Figure 5. Important phases in the process of creating and implementation innovative strategies in enterprise



Source: own research

The small enterprises that not using innovative strategy indicated that after its implementation should improve working with information and knowledge, responding to change and work efficiency. For the medium enterprises it is fulfilment of objectives, work efficiency and market position (Figure 6.).

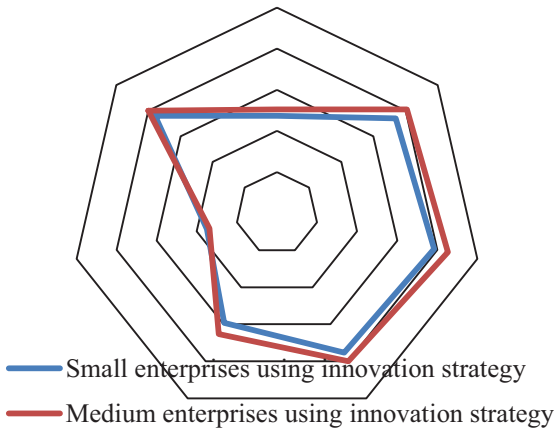
Figure 6. Expectance of enterprises



Source: own research

The small enterprises and medium enterprises that using innovative strategy indicated similarly that after its implementation was improved work efficiency, fulfilment of objectives, market position and working with information and knowledge (Figure 7.).

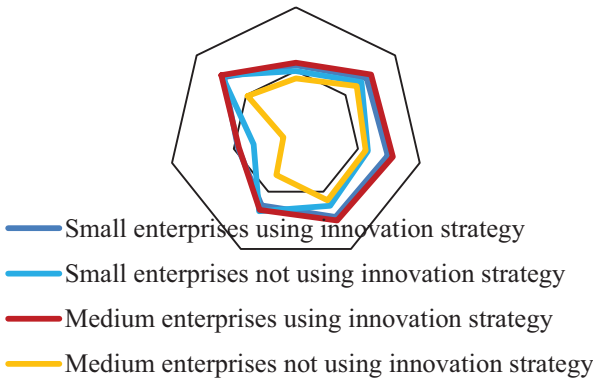
Figure 7. Experiences of enterprises



Source: own research

When we compare enterprises which have implemented innovation strategy and enterprises which have not implemented innovation strategy, we can see that experiences are better than expectance.

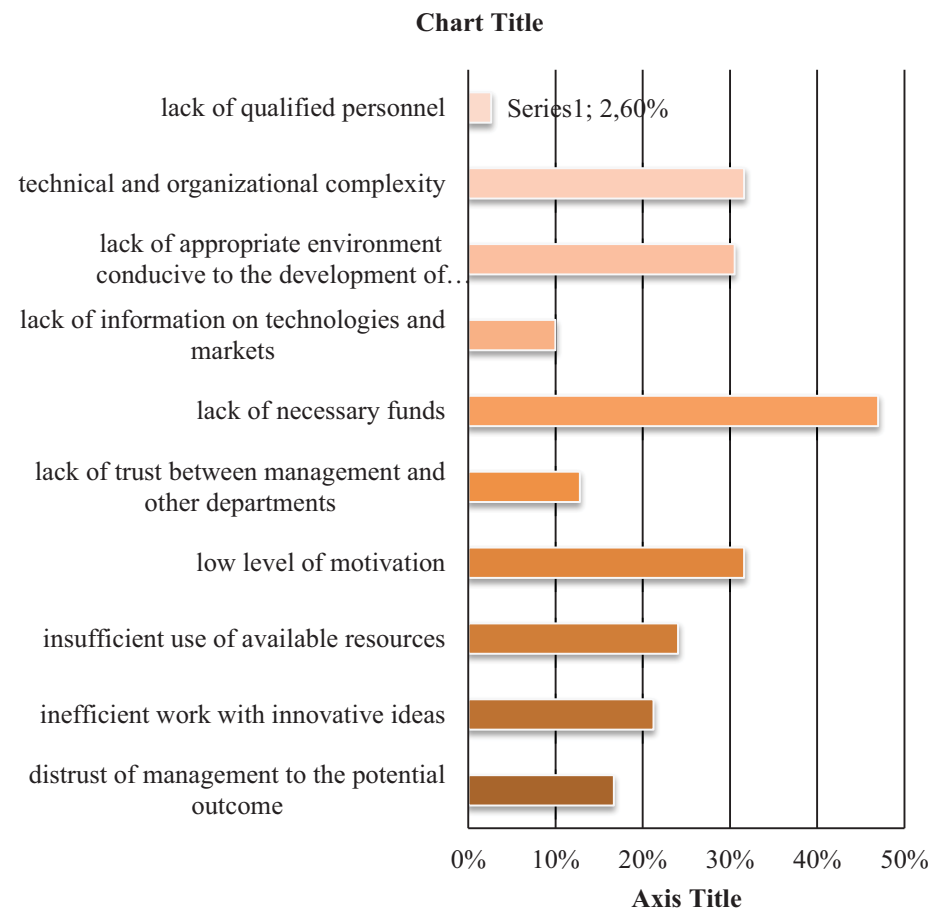
Figure 8. Comparison of expectance and experiences



Source: own research

The managers of enterprises says that the most obstruction of using innovation strategy are lack of necessary fund (46.97%), then technical and organizational complexity and low level of motivation (31.60). The smallest problem is lack of qualified personnel (2.60) (Figure 9.).

Figure 9. Obstruction of using innovation strategy



Source: own research

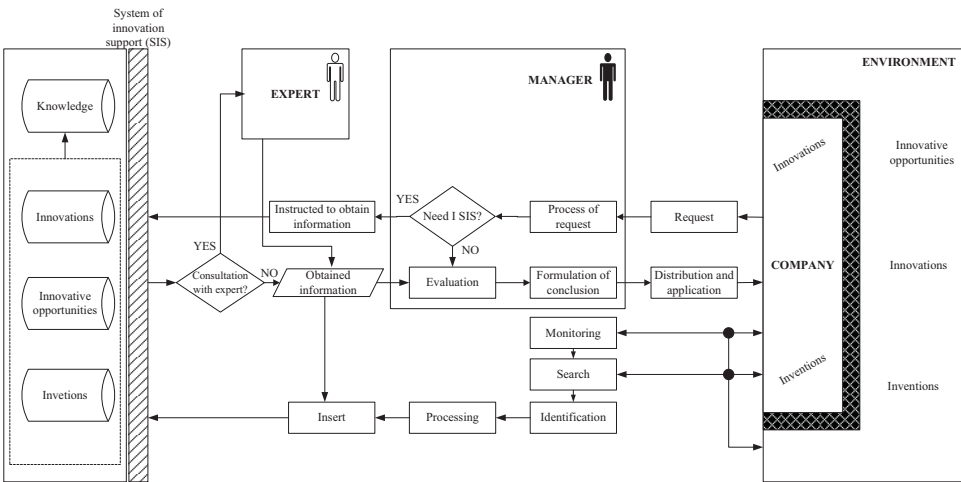
3. PROPOSAL OF SYSTEM FOR EFFECTIVE WORK WITH INNOVATIONS AND KNOWLEDGE IN THE ENTERPRISE

Successful implementation of innovations in management is subject of the existence of effective work with innovation and knowledge. The system is designed to ensure the smooth flow of necessary information required by

business managers in real time. Its main objective is to eliminate most common problems arising in the work of innovation (Figure 10.).

In the proposed expert system will act two basic actors: the user and the expert. The user is a person who uses the ability of innovation support system in the practice. These are the top managers and marketers. Expert is a source of knowledge from innovations sphere.

Figure 10. The proposed system for effective work with innovation and knowledge in the enterprise



Source: own elaboration

The system performs three basic functions, namely the collection, recording and distribution of information and knowledge in innovations sphere. These are the inventions, innovations, and innovation opportunities that come from external or internal environment of company.

The company must be ready to capture this information, suitably process it and then take advantage. For this purpose, it is the proposed system, which aims not only to collect but also actively seek opportunities and innovative ideas that can bring the company an advantage in future market. Its essential core is the system of innovation support (SIS), which consists of:

- *Knowledge base*: provides space for the collection of all knowledge that can be used in the innovation process,
- *Data base*: contains all the unique information relating to innovations. It consists from Bank of inventions, Bank of innovative opportunities, Bank of innovations, which represent the space to record and work with the identified innovation opportunities, inventions and created innovations.

4. IDENTIFICATION OF POTENTIAL PROBLEMS AND PROPOSAL OF RECOMMENDATIONS

The most common problem is *missing pro-innovation environment*. It absents of confidence and subsequent support for the creation and use of innovation by management of company. An important prerequisite for success is the creation of such an atmosphere that encourages the development of creative ideas and allows them to spread through regular communication of marketing workers and managers, encourages the use also non-traditional methods to solve marketing problems.

Another problem is *the absence of evidence of innovative ideas, opportunities and innovations* (what showed the results of research). Marketers then have not an overview of the inventions coming from external or internal environment, which usually takes the situation, when marketers devote only to one invention. It can be recommended for business managers to record innovative ideas and opportunities and even those that currently do not apply.

Resting of innovation potential is reflected by creation of misunderstandings, and implementation costs of inefficient processes (often several times). Firstly, it is necessary to analyze in detail the innovative capacity of the enterprise. The company must keep track of own knowledge, experience, resources, assets and managerial capabilities and skills to be available and can be fully exploited in the creation and management of innovation in product policy.

Very serious problem is *elimination of human error in preparing the system to work with innovations and knowledge*. The result is often inaction marketers or negative reaction to the new changes. Can be recommended for business managers to provide the necessary information for marketing workers, dealing with their ideas and explain the significance of these changes and their contribution to the company.

5. CONCLUSION

In the current post-crisis period, the rivalry begins again on redistribution markets. Successful will be only small and medium enterprises that invest in research and development, will use innovative potential of their employees, systematically approaches to innovative and will manage their innovation activities.

The result of these activities is to develop innovative corporate culture that encourages creativity of employees, their skills necessary to manage innovation. Research results indicate a positive trend of innovation in the management of small and medium-sized enterprises in Slovakia. These companies recognize the importance of innovation and the need for fixing the clear goals for innovation.

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**ORGANIZATION AS A SYSTEM OF COMMUNICATION -
WITH A SPECIAL EMPHASIS AT SMALL AND MEDIUM
ENTERPRISES**

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Metropolitan University
Belgrade**

Abstract: Successful organizations understand that achieving success in today's workplace is closely tied to the ability of employees and managers to communicate effectively with each other and with people outside the organization. Communication is the process of sending and receiving messages. However, communication is effective only when the message is understood and when it stimulates action or encourages the receiver to think in new ways. In small and medium enterprises it includes the internal and external structure through which messages pass and the way information is presented, as well as the actual content of the messages themselves.

Key words: organization, communication, small and medium enterprises, forms of communication, effective communication, communication challenges.

1. INTRODUCTION

Whether an organization is large, small, or virtual, sharing information among its parts and with the outside world is the glue that binds the organization together. In fact, communication is the lifeblood of an organization, and so of small and medium enterprises. Communication is the process of sending and receiving messages. It includes the internal and external structure through which messages pass and the way information is presented, as well as the actual content of the messages themselves.

Ability to communicate effectively increases productivity, both of persons and organization's. With good communication skills, one can anticipate problems, make decisions, coordinate work flow, supervise others, develop relationships and promote products and services. One can shape the impressions he/she and his/her company make on colleagues, employees, supervisors, investors, and customers in addition to perceiving and responding to the needs of these stakeholders (the various groups to interact with). Without effective communication, people misunderstand each other and misinterpret information. Ideas misfire or fail to gain attention, and people and companies flounder. In fact, studies show that on average, 14 percent of each 40-hour work week in small and medium enterprises is wasted because of poor communication between staff and management. [1]

2. THE PROCESS OF COMMUNICATION IN SMALL AND MEDIUM ENTERPRISES

Communication doesn't occur haphazardly in organizations. Nor does it happen all at once. It is more than a single act. Communication is a dynamic, transactional (two-way) process that can be broken into six phases. [2]

1. The sender has an idea. One conceive an idea and wants to share it.
2. The sender encodes the idea. When one puts its idea into a message that its receiver will understand, one is encoding it. One decides on the message's form (word, facial expression, gesture), length, organization, tone, and style - all of which depend on its idea, audience, and personal style or mood.
3. The sender transmits the message. To physically transmit its message to receiver, one select a communication channel (verbal or nonverbal, spoken or written) and a medium (telephone, letter, memo, e-mail, report, face-to-face exchange). This choice depends on message, audience's location, need for speed and the formality required.
4. Receiver gets the message. For communication to occur, receiver must get the message. If one sends a letter, receiver has to read it before understand it. If one is giving a speech, listeners have to be able to hear him/her, and they have to be paying attention.
5. The receiver decodes the message. Receiver must decode (absorb and understand the message). The decoded message must then be stored in the receiver's mind. If all goes well, the receiver interprets message

correctly, assigning the same meaning to one's words as one intended and responding in the desired way.

6. The receiver sends feedback. After decoding the message, the receiver responds in some way and signals that response to the sender. This feedback enables the sender to evaluate the effectiveness of his/her message. If audience doesn't understand what the sender means, one can tell by the response and refine its message.

The communication process is repeated until both parties have finished expressing themselves. Moreover, effective business communicators don't cram too much information into one message. Instead, they limit the content of message to a specific subject and use this back-and-forth exchange to provide additional information or details in subsequent messages.

3. THE FORMS OF COMMUNICATION IN SMALL AND MEDIUM ENTERPRISES

In small and medium enterprises communication occurs in many forms. One can pick up the phone and have a conversation with its supervisor or leave her a voice-mail message if she's unavailable. One can choose, instead, to write her a memo and send it by e-mail. In turn, she can respond to his/her message in the form of her choice. A supervisor may decide to forward a message to other employees or managers, and they may communicate it customers and other outsiders. The process is fluid; the form in which a message communicated changes constantly. Communication can be internal or external, formal or informal, spoken or written. In fact, it can even be a simple smile.

3.1. Nonverbal Communication

The most basic form of communication is nonverbal communication: all the cues, gestures, facial expressions, spatial relationships, and attitudes toward time that enable people to communicate without words. Anthropologists theorize that long before human beings used words to talk things over, our ancestors communicated with one another by using their bodies. They gritted their teeth to show anger; they smiled a touched one another to indicate affection. Although we have come a long way since, those primitive times, we still use nonverbal cues to express superiority, dependent dislike, respect, love, and other feelings.

Nonverbal communication differs from verbal communication in fundamental ways. For one thing, it's less structured, so it's more difficult to study. One can't

pick up a book on nonverbal language and master the vocabulary of gestures, expressions, and inflections that are common in our culture. Even experts don't really know how people learn nonverbal behavior. No one teaches a baby to cry or sir yet these forms of self-expression are almost universal. Other types of nonverbal communication, such as the meaning of colors and certain gestures, vary from culture to culture. [3]

Nonverbal communication also differs from verbal communication in term of intent and spontaneity. We generally plan our words. However, when we communicate nonverbally, we sometimes do so unconsciously. We don't mean to raise an eyebrow or to blush. Those actions come naturally. Without our consent, our emotions are written over our face.

3.2. Verbal Communication

Although we can express many things nonverbally, there are limits to what we can communicate without the help of language. If we want to discuss past events, ideas, or abstractions, we need symbols that stand for our thoughts. Our communication consists of words arranged in meaningful patterns. To create a thought with these words, we arrange them according to the rules of grammar, putting the various parts of speech in the proper sequence. We then transmit the message in spoken or written form, anticipating that someone will hear or read what we have to say.

Given a choice, people would rather talk to each other than write to each other. Talking takes less time and needs no composing, key boarding, rewriting, duplicating, or distributing. Even more important, oral communication provides the opportunity for feedback. When people communicate orally, they can ask questions and test their understanding of the message; they can share ideas and work together to solve problems.

Nonetheless, oral communication has its drawbacks. We have far less opportunity to revise our spoken words than to revise our written words. We can't cross out what we just said and start all over. Furthermore, at times written forms, such as letters, memos, reports, and proposals, are more appropriate and effective: when the information we are conveying is very complex, when a permanent record is needed for future reference, when the audience is large and geographically dispersed, and when immediate interaction with the audience is either unimportant or undesirable. [4]

People spend more time receiving information than transmitting it. Listening and reading are every bit as important as speaking and writing. But most of

people aren't very good listeners. A major reason is that we are distracted by a number of challenges in the workplace.

3.3. Internal Communication

Internal communication refers to the exchange of information and ideas within an organization. As an employee, one is in a position to observe things that its supervisors and co-workers cannot see: a customer's first reaction to a product display, a supplier's brief hesitation before agreeing to a delivery date, an odd whirring noise in a piece of equipment, or a slowdown in the flow of customers. Managers and co-workers need little gems of information in order to do their jobs. If they don't pass that information along, nobody will - because nobody else knows.

In most businesses, much information can be exchanged internally by phone, e-mail, fax, interoffice memo, or company intranet. Internal communication helps employees do their jobs, develop a clear sense of the organization's mission, and identify and react quickly to potential problems. To maintain healthy flow of information within the organization, effective communicators use both formal and informal channels. [5]

The formal communication network information may travel down, up, and across an organization's formal hierarchy

Downward flow. Organizational decisions are usually made at the top and then flow down to the people who will carry them out. Most of what filters downward is geared toward helping employees do their jobs. From top to bottom, each person must understand each message, apply it, and pass it along.

Upward flow. To solve problems and make intelligent decisions, managers must learn what's going on in the organization. Because they can't be everywhere at once, executives depend on lower-level employees to furnish them with accurate, timely reports on problems, emerging trends, opportunities for improvement, grievances, and performance.

Horizontal flow. Communication also flows from one department to another, either laterally or diagonally. This horizontal communication helps employees share information

and coordinate tasks, and it is especially useful for solving complex and difficult problems.

3.4. External Communication

Just as internal communication carries information up, down, and across the organization, external communication carries it into and out of the organization. Companies constantly exchange messages with customers, vendors, distributors, competitors, investors, journalists, and community representatives. Sometimes this external communication is carefully orchestrated - especially during a crisis. At other times it occurs informally as part of routine business operations.

Whether by letter, website, phone, fax, Internet, or videotape, good communication is the first step in creating a favorable impression. Carefully constructed letters, reports, memos, oral presentations, and websites convey an important message to outsiders about the quality of organization. Messages such as statements to the press, letters to investors, advertisements, price increase announcements, and litigation updates, require special care because of their delicate nature. Therefore, such documents are often drafted by a marketing or public relations team - a group of individuals whose sole job is creating and managing the flow of formal messages to outsiders.

The public relations team is also responsible for helping management plan for and respond to crises - which can range from environmental accidents or sabotage situations to strikes, massive product failure, major litigation, or even an abrupt change in management. To minimize the impact of any crisis, expert communicators advise managers to communicate honestly, open and often. If handled improperly, a crisis can destroy a company's reputation, drain its financial strength, erode employee morale, and result in negative publicity. [6]

Although companies usually communicate with outsiders in a formal manner, informal contacts with outsiders are important for learning about customer needs. As a members of an organization, we are an important informal conduits for communicating with the outside world. In the course of your daily activities, we unconscious absorb bits and pieces of information that add to the collective knowledge of your company. Moreover, every time one speaks for or about your company, one send a message. Many outsiders may form their impression of organization on the basis of the subtle, unconscious

clues one transmits through tone of voice, facial expression, and general appearance

Top managers rely heavily on informal contacts with outsiders to gather information that might be useful to their companies. Much of their networking involves interaction with fellow executives. However, plenty of high-level managers recognize the value of keeping in touch with "the real world" by creating opportunities to talk with and get feedback from customers and frontline employees. Receiving feedback is a key phase of the communication process

4. COMMUNICATION CHALLENGES IN SMALL AND MEDIUM ENTERPRISES

Good communication skills have always been important in the workplace of small and medium enterprises. They are even more vital today, when the changing workplace has brought these communication challenges: advances in technology, globalization, an increasing culturally diverse workforce, and the adoption of team-based organizational structures, which influences small and medium enterprises.

Advances in technology is one of the challenges. The Internet, e-mail, voice mail, faxes, pagers, and other wireless devices have revolutionized the way people communicate. Such technological advances not only bring new and better tools to the workplace but also increase the speed, frequency, and reach of communication. People from opposite ends of the world can work together seamlessly, 24 hours a day. Moreover, advances in technology make it possible for more and more people to work away from the office - in cars, airports, hotels, and at home.

This increased use of new technology requires employees to communicate more effectively and efficiently. Furthermore, intranets (private corporate networks based on Internet technology), and extranets (the extension of private networks to certain outsiders such as suppliers) facilitate communication among employees, managers, customers, suppliers, and investors. The challenges of communicating effectively with people inside and outside the organization are magnified as more business install such networks and as they increasingly engage in electronic commerce (e-commerce), the buying and selling of goods and services over the Internet.

Each form of electronic communication has its limitations, and individuals must learn when it's appropriate to use each form. One have to think not only about

what you he/she is going to say and how to say it, but also about which technological tools used to do so. [7]

Team-based organizations is another challenge. The command-and-control style of traditional management structures is ineffective in today's fast-paced, e-commerce environment. Successful companies no longer limit decisions to a few managers at the top of a formal hierarchy. Instead, organizations use teams and collaborative work groups to make the fast decisions required to succeed in a global and competitive marketplace. Although working in teams has many advantages, it also offers many challenges, as team members often come from different departments, perform different functions, and come from diverse cultural backgrounds. To function in a team-based organization, one must understand how groups interact, reach decisions, work collaboratively, and resolve conflict. Moreover, one must be able to listen to and understand others, give balanced feedback, explore ideas, keep everyone involved, and credit others' work. Doing so requires a basic understanding of the communication process in organizational settings.

5. EFFECTIVE COMMUNICATION IN SMALL AND MEDIUM ENTERPRISES

Effective communication is critical to organization and can help it in many ways, which is especially obvious in small and medium enterprises. In fact, communication plays a role in product development, customer relations, employee management - virtually every facet of a business' operations. Employees are a key audience because they often serve as the conduit to other audiences. If employees are informed and engaged, communications with other constituencies are likely to be strong as well. Effective communications help to establish clear expectations for employees and, perhaps surprisingly, for customers as well. For employees, clear expectations will convey how their performance will impact the company and give them an indication of what they need to do to achieve positive feedback. For customers, clear communication can help manage their expectations about service issues or even about how best to interact with the organization.

Effective communication builds strong relationships. Trust and loyalty are key factors in any relationship and both are boosted by communication that is focused on meeting individual needs, conveying important information and providing feedback - positive and constructive. Strong relationships with external audiences also build strong solid communication about products, services and company culture and values.

Open channels of communication can lead to new ideas and innovation in a number of areas. Employees that understand what's important to their companies can focus on making improvements and spotting opportunities for innovation that can help further success. When employees know their ideas will be sought after, that company leaders will have open minds and be responsive to their feedback, they're more likely to contribute their ideas. Customers also can be a source of great ideas to help improve products and services. [8]

The more employees know about the company, its culture, its products and services, and its response to any negative issues, the better job they can do of serving as ambassadors to the community, their friends, relatives and other business connections. Employees who feel they have a strong, positive relationship with their employers and trust the information they receive from their employers will be more likely to share that information with others. Employees can be a highly valued and trusted source of information about a company and its products and services.

Effective organizational communication will lead to strong teamwork and the ability for employees at all levels of the organization to work together to achieve company goals. In addition, effective organizational communication will provide employees the knowledge, structure and positive work environment they need to feel comfortable dealing with conflict and resolving issues effectively.

5.1. Characteristics of effective business messages

Effective business messages have a number of common characteristics, they: [9]

- *Provide practical information.* Business messages usually describe how to do something, explain why a procedure was changed, highlight the cause of a problem or possible solution, discuss the status of a project, or explain why a new piece equipment should be purchased.
- *Give facts rather than impressions.* Business messages use concrete language and specific details. Information must be clear, convincing, accurate, and ethical. One must present hard evidence (not just opinion) and present all sides of an argument before one commit to a conclusion.
- *Clarify and condense information.* Business messages frequently use tables, charts, photos, or diagrams to clarify or condense information, to explain a process, or to emphasize important information.

- *State precise responsibilities.* Business messages are directed to a specific audience. Therefore, one must clearly state what is expected of, or what one can do for, that particular audience.
- *Persuade others and offer recommendations.* Business messages frequently persuade employers, customers, or clients to purchase a product or service or adopt a plan of action. To be effective, persuasive messages must show readers just how a product, service, or idea will benefit them specifically.

6. CONCLUSION

Successful small and medium enterprises today understand that achieving success in today's workplace is closely tied to the ability of employees and managers to communicate effectively with each other and with people outside the organization. Communication is effective only when the message is understood and when it stimulates action or encourages the receiver to think in new ways.

Open channels of communication can lead to new ideas and innovation in a number of areas. Employees that understand what's important to their companies can focus on making improvements and spotting opportunities for innovation that can help further success. When employees know their ideas will be sought after, that company leaders will have open minds and be responsive to their feedback, they're more likely to contribute their ideas.

Effective organizational communication will lead to strong teamwork and the ability for employees at all levels of the organization to work together to achieve company goals. In addition, effective organizational communication will provide employees the knowledge, structure and positive work environment they need to feel comfortable dealing with conflict and resolving issues effectively.

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**IMPORTANCE OF RISK MANGEMENT FOR SMALL AND
MEDIUM-SIZED ENTERPRISES**

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Abstract

The paper clarifies the importance of quality risk management existence for Small and Medium-sized Enterprises as an integral component of ongoing business management that can contribute to better achieving of defined goals and long-term viability. It deals in detail with the first two phases of risk management forming risk analysis. It will present risk-analysis matrix as the tool that enables to consider in a systematic way the effect of each source of risk on each category of assets and resources. In conclusion the paper emphasizes that for risk management to succeed, it is essential for managers to see it as ongoing process and not just only one-time project. In this age of business globalization changes are an inevitable part of the business and also the risks they bring with them. Managers in small business need to be aware of what can happen, do their best to defend against adverse events or use opportunities and plan how to deal with these events that will certainly occur.

Keywords: small and medium-sized enterprises, entrepreneurship, change, risk, crisis, risk analysis, risk management.

**1. SMALL AND MEDIUM-SIZED ENTERPRISES IN THE SLOVAK
REPUBLIC AND THE EUROPEAN UNION**

Support for Small and Medium-sized Enterprises (SMEs) plays an important role in the Slovak economy. This reality results from the fact that SMEs form 88,22 % of the total number of the enterprises, i.e. 126 159 from 143 001 enterprises (December 2010). The very important indicator is also proportion of SMEs in employment rate in the SR. From the total average number of 1 510 394 employees (not self-employed persons) in year 2009, people employed in

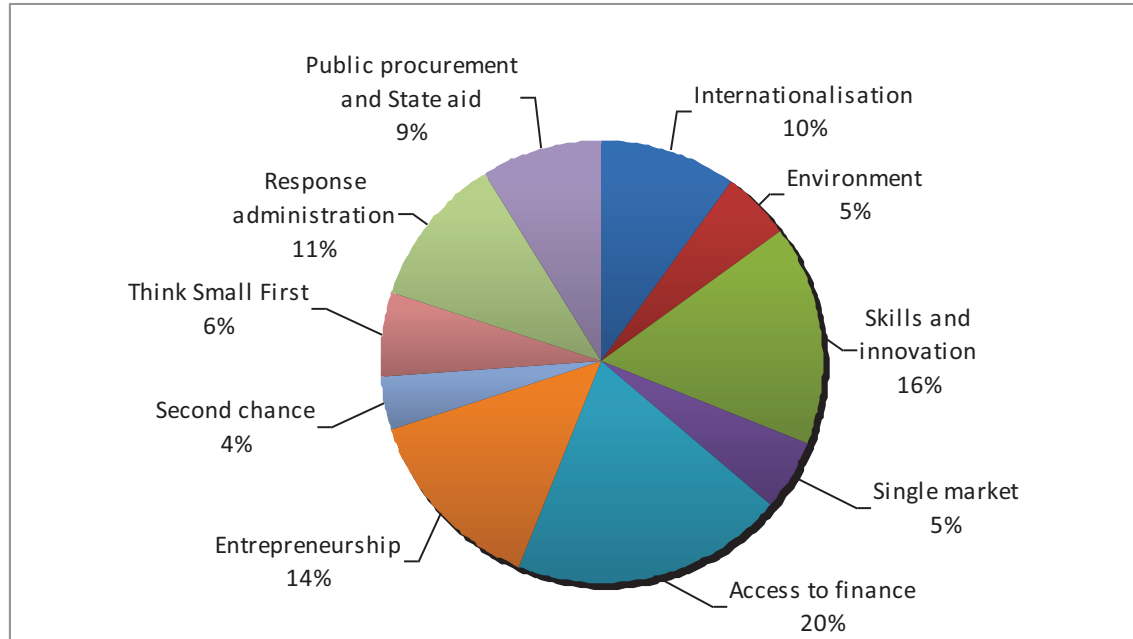
SMEs present 56, 81%, i.e. 858 156 persons. The share of SMEs in the GDP is 54% (2009) [9].

These enterprises need help for achieving the positions they lost during economic crisis when 3, 25 million of working positions were cancelled within the SMEs in the European Union. Since the SMEs employ two thirds of all employees in the private sector within the EU, the support of their growth and generation of working positions are essential if the target of the EU - a 75% employment rate by 2020 is to be achieved. Small and Medium-sized Enterprises meet with many problems connected with obtaining the financing, performance of administrative requirements and access to markets in other countries of the EU and outside. In the last Review of the "Small Business Act" for Europe, new proposals of the European Commission include measures focused on [10]:

- reducing the administrative load. Associated administrative centre, where the entrepreneurs can ask for the European, domestic and local grants, should be established. Similarly accounting and other legal requirements should be simplified,
 - improving the access to the financial means thanks to simplification of the procedures and extended application of programmes for provision of guarantees,
 - support of the SMEs in their entry to the transatlantic markets through higher support and agreements about free trade,
-
- harmonization of income tax of legal persons and simplification of debts recovery from companies in other EU countries,
 - support of entrepreneurship and working positions generation through shortening the time necessary for obtaining registration certificates and permissions in one month.

The Small Business Act (SBA) for Europe was published by the European Commission in August 2008. This Act is the European Commission's ambitious plan to address the needs of Europe's small and medium-sized businesses. It aims to make Europe more entrepreneurial and help its businesses thrive as it improves framework conditions for SMEs while taking full account of their diversity. It comprises a set of common principles to guide SME policy as well as a number of proposed actions to translate the principles into practice.

Graph 1. Distribution of policy measures by SBA principles in the EU-27



The last Review of the "Small Business Act" contains also proposals for better supervision how the member states apply the initiative of Small Business Act.

2. RISK MANAGEMENT

Except the above mentioned problems, the SMEs as well as each entrepreneurial activity are affected by many risks that result from their business activities. Therefore it is necessary to support the prosperity of the enterprise by implementation of risk management directly to the strategic management of the SMEs.

Unlike many other enterprise processes, risk management can be specific for each enterprise regardless of its size and activities. Many worldwide and national regulations can be used for the risk management process, but neither international standards ISO 31000:2009, ISO 31010:2009 or A Risk Management Standard nor other standards for risk management are binding for the enterprise. Certification is only a key for introduction and improvement of the risk management processes in organization.

The most known standards for risk management in the Slovak Republic are as follows:

- STN 01 0380 AS/NZS 4360:1999 Risk Management (issued 3/2003) (the Slovak Republic)
- STN EN 31010:2009 (010380) Risk Management. Techniques of risk assessment (Standard for direct use as STN) (issued 12/2010) (the Slovak Republic)
- ISO 31 000:2009 Risk Management – Principles and guidelines
- Australian/New Zealand Standard AS/NZS 4360:2004 (Australia)
- ISO/IEC Guide 73:2002 Risk management – Vocabulary – Guidelines for use in standards
- A Risk Management Standard (2002) (Great Britain)
- Enterprise Risk Management – Integrated Framework (2004) (USA)
- CAN/CSA-Q850-97 Risk Management: Guideline for Decision Makers (2002) (CAN)
- KonTraG, [II-E-21], vom 27.04.1998 (BGBl. I S. 786) (Germany)

Risk Management is an integral component of management of the managing subject oriented on ensuring the security or stability of controlled system, risk analysis and possible threats and finding suitable corrective and preventive measures to minimise negative impacts of risk events and their growing into hazard and crisis.

2.1 ISO 31000 for Effective Risk Management

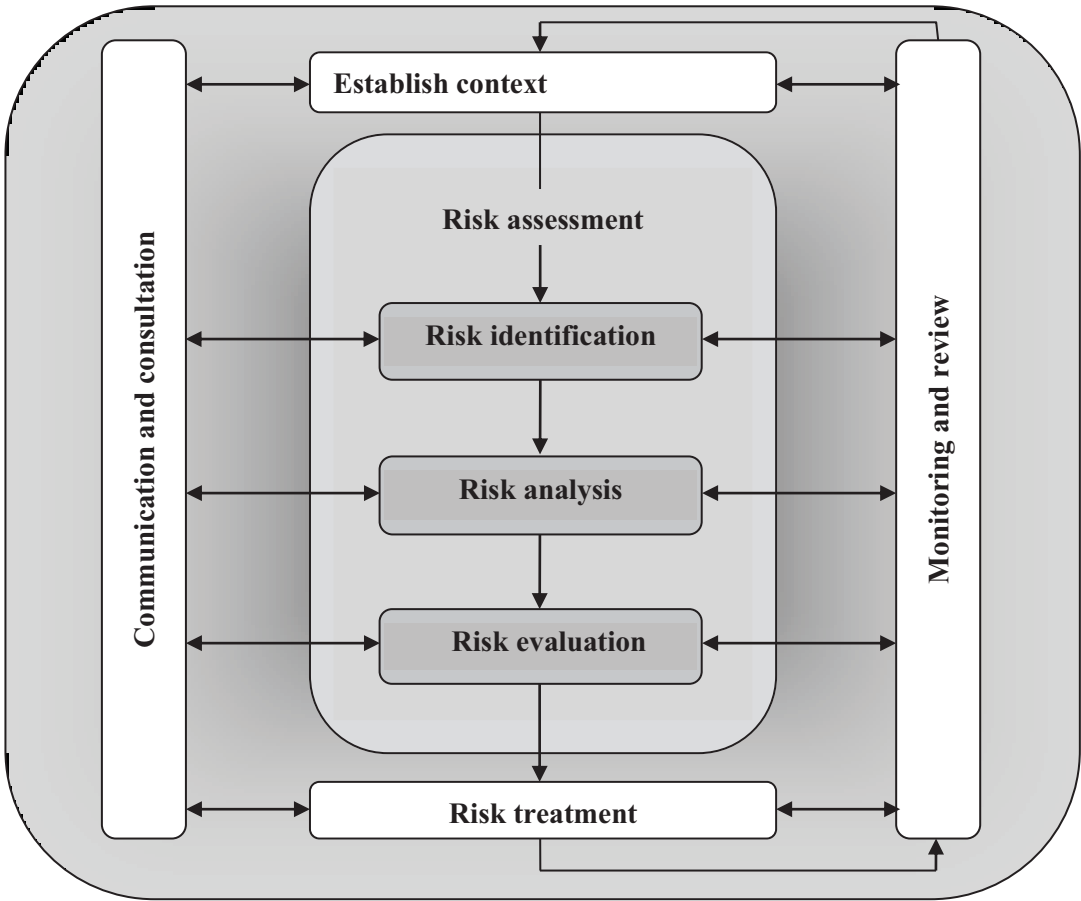
ISO 31000:2009 helps enterprises of all types and sizes to manage risk effectively. It provides principles, framework and a process for managing any form of risk in a transparent, systematic and credible manner within any scope or context.

ISO 31000:2009 defines the enterprise internal arrangements for communicating on risk issues in the form of the risk architecture, risk strategy and risk protocols [12]:

- Risk architecture specifies the roles, responsibilities, communication and risk reporting structure.
- Risk strategy, appetite, attitudes and philosophy are defined in the Risk Management Policy.
- Risk protocols are presented in the form of the risk guidelines for the enterprise and include the rules and procedures, as well as specifying the risk management methodologies, tools and techniques that should be used.

The risk management process is provided by Figure 1. Risk assessment and risk treatment represent the key stages in this process. The risk management process takes place within the context for risk management, i.e. it should be a continuous process that addresses all the risks associated with all enterprise activities.

Figure 1. Risk management process (based on ISO 31000) [12]



Risk identification requires knowledge on market where the enterprise operates, the legal, social, political and cultural environment in which it exists and understanding of strategic and operational objectives. The methodical way that ensures evaluation of all value-adding activities and risks following from them is required.

The risk analysis is used for producing risk profile that gives a significance rating to each risk and provides a tool for prioritising risk treatment efforts. It assists the effective and efficient operation of the enterprise and facilitates the ability to prioritise risk control actions in terms of their potential to benefit the enterprise.

Risk treatment is activity aimed at selecting and implementing appropriate control measures to modify the risk. Risk treatment includes risk control, risk mitigation, risk avoidance, risk transfer and risk financing. Any form of risk treatment should provide efficient and effective internal controls.

The enterprises must be in compliance with laws and regulations. Financial protection against the impact of risks can be achieved e.g. through risk financing including insurance. But some losses may be uninsurable, e.g. damage to employee morale or enterprise reputation.

Small and middle entrepreneurs have particularly good conditions for risk management since they are situated in close proximity of all aspects of specific operations and are acquainted with many strengths as well as weaknesses of their enterprise.

Although the Small and Medium-sized Enterprises owners are aware of usual risk sources that influence their daily life, there is a very small probability they will be aware of such risk sources they have any direct experience with. This fact indicates a need for active and systematic work with risk that is the substance of risk management. Risk management absence can be, especially in considerably variable business environment in consequence of economic globalization, one of the basic reasons of business failure.

3. RISK ANALYSIS IN RISK MANAGEMENT PROCESS OF THE SMEs

Risk analysis is a very important part of risks management process. It is very closely associated with identification of risk factors and includes assessment of their importance and of risk estimation and its evaluation. Within the context of business risk identification there are two approaches in understanding risk analysis. The first approach considers business risk identification as a part of risk analysis and the second one understands risk identification as separate phase of risk management.

Thus risk analysis is usually understood as a process of defining the threats, probabilities of their realization and impacts on subject (assets), i.e. risk estimation and assessing their importance. Quality solution of a problem in any

field is always based on quality risk analysis that is the basic entry for risk management [4].

Generally, to identify the assets and resources that enterprise needs to be able to work and produce earnings are the assumption for effective risk analysis. Tangible and financial enterprise assets and resources as machinery, employees, and capital and enterprise premises can be easily identified. Other assets and resources can be less visible, e.g. owner's abilities, market share, credit reliability, customers' base, enterprise reputation, budgeted costs of inputs that enterprise use for production of goods and services. Some risk sources as e.g. natural disasters, fires, car accidents are well known. Other risk sources, that produce rare losses, relate to small enterprise segment or are generally considered to be out of enterprise activities, are more difficult identifiable. But since such risks have serious consequences, from serious financial losses to complete enterprise bankruptcy, it is decisive to identify and address them.

3.1 Risk-Analysis Matrix

Another step is to analyse thoroughly how the potential risks can influence enterprise assets and resources and cause difference between outputs and planned results. The best way of risk analysis is to carry out it systematically. Construction and use of risk-analysis matrix is simple. "Assets and resources" are given in the left column and "risk sources" are given in upper line. Each matrix cell presents potential effect of one risk source on one category of assets and sources. These effects can be positive (profit) or negative (losses) and can be described more neutrally than the consequences. Utilization of this tool enables to consider each risk source from each category of assets and sources in systematic way. Matrix can be used as check list that motivates risk consideration and also as working document – place for recording primary ideas.

Figure 2. Risk-Analysis Matrix [5]

Assets and Resources	Risk Sources						
	Commercial and Legal Relationships	Economic Circumstances	Human Behaviour	Natural and Man Made Disasters	Government Activities	Technology	Management
Tangible Assets and Financial Resources							
Intangible Assets							
Human Resources							
Business Revenue and Entitlements							
Budgeted Costs							
Customers							
Suppliers							
Community							

3.2 Risk Estimation and Evaluation

The first step of the second phase of risk analysis is to estimate potential financial impacts of negative risk events as well as the positive opportunities. These impacts may have origin in various resources and may have various forms e.g. financial liabilities towards the third parties, expenses for compensation of destroyed property.

One way how to estimate the financial effect of negative risk event is to estimate occurrence and importance of expected losses connected with various business activities. Occurrence means how often is expected that the event will happen in certain time period, e.g. one year. Importance is given in financial costs arising as a result of specific event. Multiplication of these two values

provides estimation of the total sum of loss that can be expected in specific category of negative risk factor.

It is also important to note that this traditional way of revealing the negative impacts of has serious restrictions:

1. Small and Medium-sized Enterprises have seldom such experience to be able to determine numerical estimation of occurrence and importance reliably. Micro-enterprises even need not have any experience. Moreover the losses can be considerable different from year to year.
2. Some events (e. g, earthquakes, terrorist attacks, floods outside known flood areas) occur so rarely that probably they will never influence an enterprise. But if they sometimes happen the enterprise can be totally destroyed. Although rare but potentially possible catastrophic events should be considered at any risk assessment, their low probability and potentially high financial costs make more difficult to assign them certain priority in relation to other events that are less expensive but more probable.
3. At the end the analysis of occurrence and importance does not always identify or measure non-financial factors that the enterprise should consider during decisions concerning the risk management. Direct costs of negative risk events do not reflect e.g. less apparent losses as aggravated relations with customer, unfavorable image of a firm in eyes of society, legal vulnerability for the reason of non-observance legislative requirements.

One of the ways how to adjust the analysis of occurrence and importance for its better usability from the side of the Small and Medium-sized Enterprises is to specify “high or low” value of occurrence and importance for each potential type of loss. “High importance” means that the loss caused by risk event can have significant impact on enterprise ability to keep the operation, on the contrary “low importance” means non-probability of significant influence. Similarly “high occurrence” means that high frequency of risk event is expected in comparison with other risk events. “Low occurrence” means that frequent occurrence of risk event is not expected.

These evaluations are subjective, in a large extent they depend on enterprise resources and ability to respond to adverse event. Generally, Small and Medium-sized Enterprises deal with losses worse than larger companies that have greater resources and developed effective plans of response to adverse events.

When prioritizing risk management it is necessary to consider not only direct financial losses but also profit loss that can arise from operation break. Operation break can occur whenever when the enterprise loses its access to assets and resources necessary for operation. Loss of decisive equipments, key employees or credit line can stop work in enterprise. Events that directly do not influence enterprise assets or resources can also cause operation break if they have impact on suppliers, customers or company.

For prioritizing it is important to consider also opportunities (positive risks). Opportunities differ from purely negative risks. Opportunities produce profit or loss while the negative risk produces only loss. When enterprise misses the opportunity to increase revenues, e.g. for the reason of inobservance or insufficient resources, the results can be so devastating as well as the consequences of negative risk event.

For each risk source is recommended to elaborate “Financial Impact Worksheet” that provides good survey for risk assessment (Figure 3).

Figure 3. Financial Impact Worksheet [5]

Risk Source: _____

Effect on Assets and Resources	Description of Possible Loss or Opportunity	Financial Effect	Comments and Potential Strategies
Tangible Assets and Financial resources			
Intangible Assets			
Human resources			
Business Revenue and Entitlements			
Budgeted Costs			
Customers			
Suppliers			
Community			

Risk evaluation should lead to conclusion about acceptability or unacceptability of certain risk and influence forthcoming preparation, choice and realization of measures to reduce risks or to avoid new activities accompanied by this risk.

The last phases of risk management dealing with risk acceptance or risk treatment present respective risk management.

4. Conclusion

Successful risk management is a never ending process. It is not matter only one project. Although the enterprise owner can think that his enterprise does not change, the enterprises that do not change are very seldom prosperous. Changes are an evitable part of enterprise life together with risks associated with them. But not only the enterprise but also its environment are changing. Changes in enterprise environment are risky and dangerous for enterprises that are not prepared for them. List of potential risk sources is constantly increasing. Existence of quality risk management as a certain subsystem of enterprise management can considerably contribute to improvement of achieved results and long term viability. Inclusion of risk in management activities is the way how to help to ensure its prosperity and avoid stress that comes with a risk appearing just in the most inappropriate time.

Small and Medium-sized Enterprises that create 99% of all enterprises in Europe and employ more than 90 million persons are the core of the EU economy [10]. Development of Small and Medium-sized Enterprises is the key factor also of the Slovak economy development. This can be achieved not only by adjustment of legislation and forming the enterprise networks that will constitute suitable conditions for development of the firms but also through quality risk management that will support their competitiveness and success on the market.

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**INTERNATIONAL PERSPECTIVES AND CHALLENGES
OF SMALL AND MEDIUM ENTERPRISES**

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ABSTRACT

With the process of globalization is not restrictions for small and medium enterprises (SMEs) because global market offers great opportunities and prospects for various forms of international business companies small and medium size. With the development of new communication technology SMEs obtain additional major opportunity and challenge for expanding its business in international relations.

Many of our SMEs is not sufficiently capable of independently dealing with international management and international marketing. For this reason, in the world there is a long practice merger of companies, especially through certain partnerships and cooperative arrangements, and various forms of export involvement.

Our SMEs must first examine their qualifications and competence in international business, because they lack a clear strategy and business goal. Only with a clear strategy and business goals, structural changes and really set a competitive standpoint, these companies could make the effects of various forms of international business.

European policy of stimulating development of small and medium enterprises can help them in this process through the European regulations to promote development of entrepreneurship, research and development, innovation, knowledge and use of latest technology with the aim of improving competitiveness and incentives to form international operations of our SMEs

Key words: small and medium-sized enterprises (SMEs), globalization, exports, internationalization, competitiveness

JEL codes: F23

1. INTRODUCTION

Innovations in information technology, computer networks, telecommunications and transportation systems have contributed to the linking of markets at all distances and a booming international movement of capital, goods, services and people. Since 1989, the countries from the Central European region going to the transformation of their political, economic and social systems. SMEs should become a driving force in economic development and stimulate private ownership and entrepreneurial skills.

Many of our SMEs is not sufficiently capable of independently dealing with international management and international marketing. For this reason, in the world there is a long practice merger of companies, especially through certain partnerships and cooperative arrangements, and various forms of export involvement.

The article presents the problems that SMEs face in doing business in the international market and propose specific measures and assistance to their successful operations in international markets.

2. THE AGGRAVATION OF INTERNATIONAL COMPETITION - RESPONSE TO GLOBAL CHANGES

The largest part of the last century was a period of strengthening and creation of national states, as in the second half of the twentieth century formed two-thirds of 208 existing countries. The last decades of last century makes the turn toward economic nationalization and globalization of the world by production, financial, political and other determinants. In recent decades, speed of these changes has been almost exponential. Innovations in information technology, computer networks, telecommunications and transportation systems have contributed to the linking of markets at all distances and a booming international movement of capital, goods, services and people.

Representatives of the Harvard Business School (1, pp.225-234) interpret globalization through three global centers of power that define the world economy, the absurdity of economic nationalism, the state and the dominant role of global firms.

Competition becomes more and more global character, thanks to all the turbulent environment and the growing interdependence of the enterprise. Global competition assumes direct competitor firms in all markets, without changing the product or service and without adaptation to local requirements.

In the modern business environment, more emphasis is on competitiveness and competence. In terms of globalization, companies are independent of their size or industry affiliation to adapt and survive are not the strongest but the most

flexible. Unlike the competition, competence refers to the synergy of knowledge, innovation, flexibility, research and development, new products, new technologies, organizational change, marketing and management. In this way, all companies adapt to change.

Interest and profit motives of globalization are numerous and the most important motives are accessing new markets, reduction of various types of costs, sales growth, access to cheap resources of foreign countries, the achievement of competitive advantages and lower taxes. The liberalization of foreign investment and international business cooperation stimulate global thinking in business. Opening the economy is both a challenge and danger. Challenge if it stimulates new thinking and actions, and the risk if the passively respond to offers of foreign partners. The globalization process has significant influence on the competitive position of certain undertakings. Globalization has reduced the variety of barriers, but has intensified international competition.

Internationalization and globalization have evolved at the same time, sometimes as substitutes, sometimes as complements, with the improvement of transport and communications facilitate their development and put them to use gain competitive advantage. In doing so, the process of globalization is related to changes in business thinking companies that are willing to accept risk and any changes imposed by the global business environment. On the other hand, internationalization is seen as a strategy of growth and development of the company outside its national borders. Internationalization is a possible direction of growth strategy and development companies across national borders. The process of internationalization is based on the respect of modern tendencies of development of world markets and technology. All companies is very important to find new ways of entry and operations in certain international markets and meet the challenges of the global business environment.

A large number of internationally oriented companies and the gradual evolution gained his international business experience abroad. The most common path of evolution was of indirect and direct exporting through cooperative arrangements (license, franchise, direct production and business cooperation with foreign partners, international business cooperation on a project basis), joint ventures, partnerships direct investment (acquisition, merger), independent of direct investment (greenfield investment) to the international strategic alliances. With the process of globalization in countries in transition is possible starting with the cooperative arrangement, which affects the change of ownership of enterprise status and initiating the process of internationalization of business.

Since 1989, the countries from the Central European region going to the transformation of their political, economic and social systems. Essential element of political and economic transformation in any country is to create private sector, development of entrepreneurship and creation of SMEs. SMEs should become a driving force in economic development and stimulate private ownership and entrepreneurial skills. They are flexible and can adapt quickly to

changes in supply and demand in the market. They create employment, promote the diversification of economic activities, support sustainable growth and contribute significantly to the export of their country. For this reason, it was evident that the process of globalization does not lead to restraint of small and medium enterprises, but encourages it. The world market offers great opportunities and great challenges for the development of SMEs, ranging from exports as a strategy of entering the international market to the most complex forms of international business.

The situation of small and medium enterprises to a large extent depends on the global repositioning large. There are three trends of the global transformation of the leading group of international competitors. (2, p.53)

1. Centralized decentralization and downsizing of large, including SMEs and the establishment within the corporate system
2. Major transformation in the confederation of small autonomous, entrepreneurial and action-oriented firms
3. Trend Alliance

SMEs of new generation (created after 1989.) are much faster internationalized when it comes to their growth and development across national borders. One key reason is their attachment to the leading hole of large international companies. SMEs to large companies see their target markets and emerging markets come through large international companies. In doing so, SMEs are consciously opting for satellite strategy to pre-solve many problems of marketing and management who are not trained to perform independently. SMEs generally avoid applying the larger ones, by targeting niche markets where large companies have a negligible impact.

For example, *Logitech* has a value of \$ 1.3 billion, is produced by every possible variant of the mouse for computers that can be imagined. The company produces and left-handed mice, wireless mice and then working on using radio waves, mice for kids that actually resemble the shape of the mouse and 3-D mice to the appearance of moving objects behind the monitor. The company sold to manufacturers of original equipment manufacture, but sell them as their own brand. Its global dominance in the category of mice for computers enabled her to expand to other peripheral computer components such as headsets, components for games and web cameras. (3, pp.43-6)

As can be seen from this example, companies that occupy a small part of the market can achieve significant profitability of targeting niche markets. Thus, a family company *Tire Rack* has annual sales of two million special tires over the Internet, phone and mail from the company's headquarters-South Bend, Indiana.(4,p.3B)

Therefore, SMEs should seriously consider a market niche, because the market niche so well acquainted with the target customers to meet their needs better than other companies that only occasionally doing their shopping in that market niche. Because of this niche can charge a much higher price compared to its

costs, because he takes a high margin, while mass marketers taking high volume.

For a successful business in niche markets is a key specialization, and some of the possible role of the niche are: (5, p.364)

1. Specialist for the end user (company specializing in one type of end user)
2. Specialists on the vertical level (the company specializes in a particular vertical level of production and distribution value chain)
3. Specialist for buyers of a certain size
4. Specialists for specific customers (the company restricts its sale to one or few customers)
5. A specialist in geographic area
6. Specialists for the product or product line
7. Specialist for product characteristics
8. Specialist for a free business
9. The specialist for quality-price (the company operates in markets that include parts or poor or high quality)
10. Specialist Service
11. Specialists for distribution channel

On the other hand, the use of market niche is very risky because a market niche can be exhausting and may be attacked. The company then left with a highly specialized resources that may have no alternative use.

3. RELEVANCE SOME FORM OF INTERNATIONAL BUSINESS OF SMEs

Traditional and classic forms of business in international markets, primarily indirect exports, are the most common form under which Montenegrin and Serbian SMEs (as well as companies from the Western Balkans) have the greatest preference. On indirect exports its products manufacturer realized through experienced brokers from their country and they are a foreign trade company, specialized export company, commission agents, complementary manufacturers and foreign companies located in your country.

Wholesalers are the main holders of export activity, which releases the manufacturer of the significant costs and activities related to the problems of international business. Many export companies are highly specialized for certain activities and for specific markets. For example, some export companies may be specialized in exporting agricultural products to European markets and some export of electronic products in the Asian market.

Indirect exports, which prefer our company has the advantage of low cost, low risk for the manufacturer, specialized expertise and experience of export companies that have employees with the knowledge of several languages, excellent knowledge of local customs, law and culture.

On the other hand, the main disadvantages of indirect export the loss of choice and selection of foreign markets, there is no direct relationship with end customer, lack of control of the export business. Indirect export does not allow the production company that has its own strategy in the international market.

When it comes to our company, this statement does not apply to those varieties of indirect exports, which are based on solid business relationships through certain forms of partnership exports (export group, piggy back export, loan and international leasing).

A more complex variant of the business in international markets that may be appropriate to our companies is a direct export (especially with the development of electronic commerce). If an exporter sells products directly through its dealers and representatives abroad on a commission basis, it allows him to avoid the large brokerage costs, reduce risk and reduce liability. Manufacturers who want a more active approach towards the international market choose this variant of exports. In this way it provides complete control over the foreign market and lead to an independent policy of return and profitability of exports. However, this business form is much more expensive because the high starting cost and a business risk is much higher.

When the Montenegrin companies in question, the practice is much different. Montenegrin companies export very little in the case of Montenegro most often we talk about indirect exporting as a business format in international business.

Montenegro is now confronted with insufficient training of the local economy that is struggling with competitors in the international market. Inadequate quality of local products uncompetitive pricing and lack of quality standards are the main reasons for the increasing imports into Montenegro, which is visible in Table 1.(6, p.1)

Table 1: Foreign trade of Montenegro from 2007 (in thousands EUR)

Period	Import	Export	Trade balance
2007	2,072,480	487,119	-1,585,362
2008	2,527,151	433,158	-2,093,993
2009	1,654,043	276,982	-1,377,061

Source: Statistical Office of Montenegro (2009), *Statistics of foreign trade*, available at www.monstat.org/annual data (01 April 2011)

When it comes to 2009, total foreign exchange of Montenegro amounted to 1.931 million EUR, indicating a decrease of 35% compared to 2008. Exported goods worth 277 million EUR, a decrease of 36.06% over the same period last year, and imported goods for 1654 million EUR, which is lower by 34.55% compared to 2008. Export-import ratio was 16.75% and less than the coverage in 2008. when it was 17.14%. The structure of non-ferrous metals exports amounted to 113.16 million EUR and iron and steel in the amount of 32.8 million. The structure of imports, the most represented products Food and live

animals in the amount of 299.41 million, consisting of meat and meat processing facilities in the amount of 75.5 million EUR and grain products amounted to 50.46 million. This is further disconcerting, because we have the potential to reduce domestic production of this figure.

The export to the EU countries made up 48.3% of total exports in 2009 and it was 12.9 percentage points lower than in 2008. (7, pp.155-6) The import from the EU countries accounted for 39.5% of total imports, which is 1.6 percentage points less than in 2008. Of the EU countries, most of the visible exports was to Greece, EUR 47.8 million (17.3%), Italy, EUR 32.9 million (11.9%) and Slovenia, EUR 24.3 million, (8.8%), whereas most of the visible imports was from Italy, EUR 115 million (7%), Germany, EUR 104 million (6.3%), Slovenia, EUR 89.2 million (5.4%), and Greece, EUR 85.9 million (5.2%). Visible exports to CEFTA countries made up 46.2% of total exports, which is 9.5 percentage points more than in 2008. Most visible exports was to Serbia, EUR 77.3 million (27.9%), Bosnia and Herzegovina, EUR 17.8 million (6.4%) and Kosovo, EUR 16.3 million (5.9%). The import from the CEFTA countries made up 44.5% of total imports, which was 4 percentage points less than in 2008. Most of the visible imports was from Serbia, EUR 505.5 million (30.6%), Bosnia and Herzegovina, EUR 100.9 million (6.1%) and Croatia, EUR 99.5 million (6%).

So, based on these and previous data, we can generally conclude that over the past few years, the higher growth rate of imports of goods from the export growth of Montenegro, thus increasing the imbalance of foreign trade balance. It is true that our foreign exchange last ten years has a negative balance and the main causes were mainly due to three key factors that were related to the dissolution of Yugoslavia, the war in the region and the sanctions the international community, as well as drastic reduction of economic relations with foreign countries.

Currently, Montenegro is facing problems of inadequate training SMEs to fight with competitors on the international market. Low competitiveness of domestic economy and lack of quality, price competitiveness, the lack of quality standards, decline in purchasing power and channel capacity from domestic production activities to the service area are the main reasons for the increasing imports of goods in Montenegro. Additionally disconcerting was that of 2 / 3 of Montenegrin imports makes the import of meat, food and drinks, although we have the potential to reduce domestic production this percentage.

Montenegrin SMEs must start to seriously think about a more intensive trade with EU countries. To have a competitive export must be narrowly specialize and create a home base for the group of products that might be of interest to the EU market. In addition to the existing export supply, agricultural products typical for the region such as wine, beer, spirits, cheese, water and meat products, can have significant participation in future export offer in EU markets.

It must be accompanied by increasing product quality and production plan for these markets, and to monitor the quality system needed to enter the international market. In the future, Montenegro should take into account the possibility of expansion in fish and seafood, which is currently small, but has the potential for further development.

We should not fool ourselves that the Montenegrin SMEs have the capacity to produce in such quantities that they become commodity in the international market. Emphasis should be placed first on those competitive products that meet the shortcomings in the domestic market and highly specialized goods exported to the international market.

Although the globalization is a challenge and a chance to succeed in the international market, Montenegrin SMEs do not yet have enough quality products, not price-competitive, they have not the necessary quality standards required by the international markets and, perhaps the biggest problem, lack of necessary knowledge. Our SMEs have certain products that we can offer the international market, but first must meet a number of conditions that this market requires them.

From all these data we can conclude that the Montenegro's import dependent, to have high trade deficits. SMEs from Montenegro must consider more lively trade exchange with countries in the region and the EU markets. Montenegro must offer those markets only necessary goods and services. But, some of them lack competitive products and prices, quality standards and knowledge. Generally, countries from Western Balkans have to respect a lot of conditions in terms of time, resource, rule of law, infrastructure and preparation of exit from the jig „the best in the village“.

In addition to traditional exports, as a widespread strategy for SMEs in this region are much more suitable partner export arrangements, as well as specific forms of business cooperation in the framework of international marketing, with the aim of increasing sales and active participation of partners.

One way partnership of the export business, which in practice often used by companies from Serbia, is a *lohn* or a specific form of partnership arrangement in which a goods temporarily imported or exported for its further processing, finishing and processing.

If the production of services performed on behalf of foreign principal on its raw materials, it is called the active *lohn*. If the domestic company exports its raw materials for their processing abroad, then we are talking about passive *lohn*.

For example, in Serbia are often used by the active *lohn* (export services at pre-specified orders from foreign partners), particularly in the textile industry. To the result of insufficient use of business facilities, lack of own ideas and hard currency.

However, if too many rely on the form of *lohn*, you're at risk of restraint creativity, passivity and restrict marketing and management initiatives. At the

beginning it is necessary to see a suitable opportunity to move to long-term and stable forms of cooperative arrangements with foreign partner.

Cooperative arrangements are the following forms:

1. The contractual right of use - license, franchise
2. Direct production - business cooperation contract processing, contract management, assembly production, long-term production cooperation, business and technical cooperation
3. Collaboration on a project basis-engineering, consulting and technical support, product sharing

Cooperative arrangements to be made by transfer of technology, knowledge and experience and thus, instead of competition and direct confrontation, cooperate with foreign partners.

On the basis of written, we can conclude SMEs can attain a high international rating only if they become competent, competitive and oriented with a clear strategy. Also required is the maximum professionalism and disregard for clerical logic, deeply rooted in the mentality of almost all Western Balkan countries.

4. POLICIES TO STIMULATE THE EXPORT OF SMEs

State export promotion is particularly important for SMEs. State export promotion has a duty to promote and adopt international standards in business, to increase customers' dependence on national product, to ensure the stability of the domestic market and the inflow of various currencies.

For example, "Made in Montenegro", focuses on the institutional campaign, which generally the potential of Montenegro, local products and producers. The main objective of this project is the introduction of standards (laws, institutions, education, implementation) - as a precondition for the creation of the Montenegrin brands, the quality of which will be manufactured in accordance with EU standards and be competitive in domestic and foreign markets.

Montenegrin wine, fruit and vegetables, mineral water, beer, ham, smoked cheese and Durmitor and numerous other products, assume a very important mission - to quality, supported by the label "Made in Montenegro", after confirming the leading position at home, way to the European market and win the favor of foreign consumers. (8, pp.1-2)

This campaign takes place in three strategic phases.

First phase of the project is aimed at consumers and producers: it presents the numbers and the future of domestic-product, initiates and the necessity of forming a "Made in Montenegro" as a prerequisite for a quality domestic product in the domestic and international markets.

In the second phase of the Directorate for Development of SMEs in cooperation with private enterprise Gemax, ended the first set designed gift packages "Your part of Montenegro".

The third phase of the campaign to encourage Montenegrin producers to export to the Balkan region.

On the other hand, one of the important priorities of EU is the development of SMEs. In this way, the EU wants to contribute to solving unemployment problems, promote creative skills and stimulate economic development. (2, pp.58-61)

1. Program of development of SMEs, which the European Commission adopted in 1996, supported by all the specific actions of individual member states which contribute to increasing employment through SMEs
2. In addition to direct support to the development of SMEs, the EU uses indirect measures of development dare relating to regulations for European competition policy and behavior.
3. The third course of action over a large economy. European administration support cooperation between large and small enterprises.
4. There is a strong influence of European programs PHARE and JOPP to development in countries in transition and new members. FARE has a centralized model of decision making, as project selection, and model making. This program does not have its own funds, but the funds set by the European Commission
5. In the framework of PHARE, the development of SMEs in countries in transition is the most important program JOPP. JOPP finances new projects and has actively participated in all stages of development, from conception to final realization of the project and its market commercialization.
6. European chamber system is aimed at supporting the development of SMEs. In Europe there are two types of chambers and the club (United Kingdom) and institutional (France). Chamber's activities are open and registration of new companies in the region for 20 minutes, representing companies, administrative operations, use of modern databases, search for partners abroad, check the long-term reliability of the partner.

5. CONCLUSION

With the process of globalization is not restrictions for SMEs because global market offers great opportunities and prospects for various forms of international business companies small and medium size. For this reason, in the world there is a long practice merger of companies, especially through certain

partnerships and cooperative arrangements, and various forms of export involvement.

Specifically, Montenegro is facing problems of inadequate training SMEs to fight with competitors on the international market. Low competitiveness of domestic economy and lack of quality, price competitiveness, the lack of quality standards, decline in purchasing power and channel capacity from domestic production activities to the service area are the main reasons for the increasing imports of goods in Montenegro. The situation is similar in other Western Balkans. Generally, countries from Western Balkans have to respect a lot of conditions in terms of time, resource, rule of law, infrastructure and preparation of exit from the jig „the best in the village“.

SMEs have a wide range of business format business in the international market, from indirect export to complex cooperative arrangements. SMEs can attain a high international rating only if they become competent, competitive and oriented with a clear strategy. Also required is the maximum professionalism and disregard for clerical logic, deeply rooted in the mentality of almost all Western Balkan countries.

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**THE PERSPECTIVES OF MOTIVATING THE
EMPLOYEES IN THE GLOBALIZATION SETTING, IN
SERBIA**

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ABSTRACT: Both the employers from the West and the employers from the Far East expect their workers in Serbia to work extremely hard, and offer these workers a low labour cost. The work motivation is based on “constraints”. The predominance of the extrinsic over the intrinsic motivation contributes to keeping a high level of the performance, but it doesn’t promote the organizational commitment, and would increase the work pathology such as absenteeism, turnover, the “burnout” phenomenon and the developing of the strike initiatives.

The research conducted in Serbian cities indicates the underused potential of the intrinsic motivation, i.e. the psychological influence based on the implementation of the social and ego motives of the organizational behaviour of the employees. Its improvement represents the developmental opportunity for the human resource management of the SMEs.

Keywords : extrinsic motivation, intrinsic motivation, organizational commitment, organizational behavior, human resources

The paper consists of two relatively separate parts. The first part comprises the observation of the tendencies which exist in the human resources management in the certain companies in Serbia in the circumstances of the globalization, whereas the second part is a review of the research results which looked into the motivation structure of the employees in the cities of Serbia and Monte Negro. The motivation problem in the circumstances of globalization was formulated by the authors in the first part of the paper based on the free observation and without the application of the quantitative research methods. The problem was researched in the second part of the paper using appropriate quantitative methods, and the acquired results point to the possibility of its diminishment.

1. THE GLOBALIZATION AND THE MOTIVATION STRUCTURE OF THE EMPLOYEES

The globalization changes the motivation structure of the employees. In search of the cheap workforce the investors from the West offer a lower work price in Serbia than the one they offer in their countries of origin. The investors from Far East also offer low work prices, the level of which equals the one in their own countries. Both types of employers demand that their employees perform extremely tiring workload, whereas the domestic employers follow in the footsteps of the foreign employers' criteria. The employees consider their salaries compatible neither with the invested work, nor the living expenses, and they are not satisfied, but they keep their job posts as they have no other choice. Numerous researches have shown that dissatisfaction of employees leads to different types of work pathology, and above all brings about the absenteeism and turnover [1, p.104-131]. The absenteeism itself is the most significant turnover behavioural predictor within the "withdrawal behaviour", but its predictive value decreases when the possibility to get a job is reduced [2, p.879-889]. In our circumstances, this probably means that the tensions between the employees and the managers grow, without the possibility for them to be solved through turnover. As in an overheated boiler without the safety vent, the motivation is at the same time primarily based on the existential constraint of the employees to accept low salaries. Other powerful sources of motivation of the employees as the achievement motivation, the consciousness of the significance of one's work, self-respect (so-ego motivation), or the feeling of belonging to a certain company and human relations at work (as the social motivation) are mainly neglected, and thus present an underused motivation potential. The prevalence of the extrinsic motivation- such as the salary- for the work performed over the intrinsic motivation which stems from the very nature of work, keeps the working tempo at satisfactory level, but without the psychological stimuli which would increase the dedication to the organization, the creativity at work, and those which would reduce the work pathology such

as absenteeism, turnover and the ``burnout`` phenomenon and the development of the strike initiatives.

The picture of the motivation structure of the employees in the globalization circumstances in other less developed and third- world countries is probably very similar to the one we have just described. This picture is almost the same as the one in some other Balkan countries, and especially in the ex-Yugoslavia region.

In order to fully understand the described problems of the motivation structure of the employees, one should note that they are not the outcome of the globalization solely, but that they to a greater extent also stem from the other two current processes- the transition of the social and economic systems (from socialism to capitalism), and the effects of the world economic crisis. In the case of the countries which accessed the former Yugoslavia, the current motivation structure of the employees is also under the influence of their expectations which can be marked as ``the self-government stereotype``. The stereotypical observation of the managers , unions or production workers , inherited from the self-government system is not only the characteristic of the older people who have their personal experiences from that system, but also of the young who have adopted them as their cultural patterns in their social milieu.

In this context, when the Korean manager, for example, hits a worker who translates for him into English the remarks and objections of his colleagues concerning mobbing at work, it is not only the conflict between one manager and one worker in one company, but is also an expression of the differences of the industrial culture in Korea and the industrial culture in Serbia. The incident mentioned, got a big publicity a few months ago and is in connection with the dismissal of workers of the Korean company in Serbia. Another example of the motivation problems concerning such cross cultural incompatibility is the experience of a Serbian construction manger who was employed by a local company in Africa. He got a much higher salary than the one he had in his country; he got a company car and a company house with servants at his disposal and a several-year- long contract. However, after working there for a short while he got back home. When the amazed friends asked him why he had done that, he replied: ``I can't beat people! `` As soon as he left the premises the Africans would stop working and started dancing and singing. His bosses demanded from him to take a pole and stop the dancing and thus implement the working discipline. The factor of the work discipline that we pointed out here as the cross cultural incompatibility of the organizational behavior was not noticed at the level of an anecdote. One research was carried out recently, the aim of which was to investigate the reasons why the Japanese companies-transplants in the US have a lower level of productivity than in Japan, although the same principles of management were applied in them as in Japan, and it was noted that the cause lies in the difference between the cultural patterns of the Japanese and American workers [3,].

One more factor which determines the relations between the managers and the employees in the globalization setting, and thus the motivation structure of the employees, concerns the lean model of the production and management, which was first developed by Toyota and Honda. [4,] The essence of this model is to organize the production not within one large and complex company, but for it to be organized in such a way that relatively small company of the finalists has a contract with the first circle of suppliers, this first level has subcontracts with the second line, and that one with the third and so on till the seventh circle in which the suppliers are small firms or craft workshops. Each higher level dictates the prices and the working tempo to the next lower level, and small companies accept even very unfavourable conditions, due to being afraid of the competition and their possibility to squeeze them out from the position of the suppliers. The original lean management was confined to a small industrial site where the sub-suppliers supplied spare parts and components to the finalists in short time sequences by the "just in time" principle. The globalization, however, meant that the suppliers were spread all around the world, but the logic of the lean management to separate the finalists, suppliers and sub-suppliers was kept. Stemming from the experience of the holding companies of the second part of the previous century, it contributed to the new global practice for the small and medium enterprises to become overly stressed suppliers. Surely, the business pressure on the companies –suppliers leads to the shift of the motivation focus of the employees from the psychological stimuli to the means of constraint. Such practice is illustrated by a famous case of a rich UK company which set up a contract for the production of trainers according to its brand name with a factory in Indonesia. The price of these trainers was ten times bigger than the factory / production price, and the salaries of the employees barely covered the life expenses of living in extreme poverty.

The described problems of the position and the motivation of the employees are most frequently observed from the point of view of the business ethics and the point of view of the working rights. For the employers it is, however, important to understand the connectivity of these problems to the organizational efficiency. What is this connectivity like? The shortest scientifically based answer to this question is: *the optimal activation of the human resources is achieved when the existential motivation is supplemented with the social and ego motivation* [5, p 47-53].

The strategic standpoint of the managers in respect of the motivation of their employees boils down to, in its essence, the dilemma *whether it is better for a certain company to base the motivation of its employees solely on the existential constraints, or it is better to balance such motivation with the social and ego motivation*. It is important to note that the decision should not be based on a short- term cost-benefit analysis, but also on the complex utility analysis based on the business ethics. In order to solve such managing dilemma the employers (entrepreneurs, top managers and the investors) should bear in mind

the consequences of the employees' dissatisfaction such as the expenses caused by the absenteeism, turnover and strikes, but also the costs of the probable court cases and damage fees in respect to the breach of the working rights of the employees, concerning mobbing or the more and more frequent accidents at work the cause of which is the tiredness of the workers and similar. Among the effects of the improved motivation, apart from the reduction of the level of the dissatisfaction, one should bear in mind a greater creativity, spirit of enterprise, commitment to the organization's aims, the greater endurance at work, a better quality of work, the reduction of the complaints, conflicts and court cases, turnover and the absenteeism, and the reduced probability of the strike initiatives. A long-term effect is based on creating the image of a socially responsible company.

The balance of the existential, social and ego motivation does not only bring about the better complex and fuller motivation but also accepting the perception of the employee as a "universal man" in stead of the outdated, one-sided perceptions of the employees present in the scientific theories which treat them as "economic", "social" or "creative" beings. The concept of the employee as a solely economic being according to the theory of "the scientific management", became outdated in the first half of the previous century and was replaced by the theory of "the human relations at work" and later by the "human resources" theory [6, p.52-56]. It is also inseparable from the application of the classical but unsurpassed style of the successful management known as the supportive management [7, p.165-172]. The fact is that *good perspectives of the improved motivation of the employees must have an adequate systematic context which encompasses the wholeness of the industrial relations and the management system.*

2. THE RESEARCH OF THE MOTIVATION STRUCTURE OF THE EMPLOYEES

The results of the research presented here are based on survey of 1307 employees from 14 cities in Serbia and 2 cities in Monte Negro. The paper comprises 43 sureveys of a rather small scope which the students of the management and business psychology carried out individually or in groups, mainly as their seminar papers from the beginning of 2009 to the mid 2010. The unique procedure and the unique questionnaire made by the first author enabled the acquired data to be used both by the students for their seminar papers and for the broader research by their professor at the same time. The cities appearing in the research were not chosen systematically; rather, those were the places where students and their families live. The subjects were not systematically chosen either; rather students found them among their acquaintances or in the companies they had access to. The choice of the subjects had certain characteristics of the purposeful sample, but any individual from the population

of employees had equal opportunity to take part in the survey. Thus, it can be concluded that our subjects represent a random purposeful sample of the employees in the observed cities.

2.1. The theme and the goal of this paper

A part of the previously mentioned broader research was presented in this paper. **The theme** of that part of the research was the motivation potential of the employees, seen as a network of motives or the motivation stimuli by which a certain company can in the given circumstances activate the working motivation of its employees. The practical problem for the management of every company, in this sense, lies in the constant search of the answer to the question which of the known and available motivation means to use in order stimulate people to work. The theoretically and experientially based assumption is that the relative applicability of a certain stimulus is prone to change, i.e. that the motivation stimuli that worked in one situation are often not applicable in a changed situation. The connoisseurs of the motivation theories will easily remember that such assumption lies at the root of the motive hierarchy in the Maslov's and Alderfer's model, and the managers-practitioners know that for some of their colleagues the most important thing is the salary, and for others or in other situations the most important things are the professional achievement or reputation; sometimes the working conditions are important and at other times the personal dignity. Apart from this changeability, i.e. the variation from one individual to another, from one company to the other, from one situation to the other, a certain general motivation structure can be expected that would characterize the whole population of employees in a certain country or a certain region, or a certain general working and social situation. **The Goal** of this part of the research was to establish this very general motivation structure of the employees in the cities of Serbia and Monte Negro in the conditions of globalization and the current economic crisis. The practical aim, furthermore, was to indicate the motivation potential which can be used in managing the human resources of the companies.

2.2. Instrument, Variables and Operationalisation

The focus of the motivation structure in this research were 10 stimuli which organizations usually use to motivate their employees. The list of the organization stimuli which was taken from a classical research [8, p.50] was described at the beginning of the questionnaire in the following way :

SALARIES ACCORDING TO WORKLOAD (the compliance of the salary distribution with the amount of work invested by a certain individual)

THE SALARY LEVEL (the amount of one's salary in reference to invested amount of work and the livings costs)

THE PENSIONS AND OLD AGE INSURANCE (the payment of the retirement insurance)

NOT MAKING A BIG EFFORT (the possibility to work without effort)

GETTING ON WITH PEOPLE AT WORK (good human relations)

GETTING ON WITH THE BOSSES (good human relations with the managers)

A POSSIBILITY OF GOOD QUALITY OF WORK (i.e. the possibility to express all of one's capabilities at work)

A POSSIBILITY OF INTERESTING WORK (doing interesting things at work)

THE POSSIBILITY TO ADVANCE (preparing for better jobs through current work)

GOOD PHYSICAL WORKING CONDITIONS (the temperature, airing, cleanliness and similar) .

The stimuli defined in this way were operationalized further in the three groups of variables concerning the importance which the subjects ascribe to certain stimuli, the presence of such stimuli at their work place, and at last the motivation potential of certain stimuli which was established by working out the difference between the importance and the presence of a given stimulus.

The ten variables of the importance of the stimulus (1.1 to 1.10) were operationalized by the question 1 in our questionnaire which said:

For each of the 10 named ways of motivating in the working organization please mark **how much each of these is Personally important to you.** Please answer by circling one of the 7 numbers at the side. The significance of the numbers is: 1- it is not important for me, ..., ..., 4- it is semi important , ..., ..., and 7- it is extremely important for me.

The ten variables of the representation of the stimulus (2.1 to 2.10) were operationalized by the question no.2:

For each of the 10 named ways of motivating in the working organization mark **how satisfactorily it is presented on your work** . Answer by circling one of 7 numbers at the side. The significance of the number is the following: 1- not present, ..., ..., 4- represented to a certain extent , ..., ..., and 7-highly present.

The ten variables of the motivation stimuli were operationalized in such a way that in the further analysis of the questionnaire material the differences between the ``importance`` and the ``presence`` was counted for each of the 10 ways of stimuli (1.1 – 2.1, 1.2 – 2.2 and so on till 1.10 – 2.10). *The meaning of the variables of the motivation potential* lies in the fact that if the particular

stimulus is very important for an individual, but is insufficiently present, it makes it possible for the to motivate the given individual additionally by implementing that very stimulus. This way of connecting the importance and presence was developed by the first author [9, p.227-235] by using the model of a famous research of contentment with work [10, p.19-20].

2.3. Earlier works

The classical research of the human work relations and the human resources, which the expert audience is familiar with, will not be described here. We will only mention the research by Roberta Kahn (Kahn, R.L. 1958) by which the authors of this paper were directly inspired. Kahn carried out a survey of 2499 employees, and offered the subjects a list of 10 stimuli by which their companies can motivate them, and asked them to grade how much each of these stimuli is important for them. Among the stated stimuli there were some which referred to the economic stimulating, i.e. to the existential motivation (the level of salary, the pension and security / insurance for the old age and similar), and others which referred to the psychological stimulating, i.e. the social and ego motivation (getting on with people at work, the possibility to do quality work, the possibility to advance and similar). The results have shown that the stimuli concerning the economic stimulation seen as a whole were marked as the most important but that some of the "social" stimuli proved to be more important individually than certain economic stimuli. Kahn's research also comprised a sub-sample of managers, who apart from grading the importance of the stimuli for themselves personally also estimated how the questions will be answered by their employees. In connection to that was the main result of this research – that *the managers as a rule overestimate the importance of the economic stimuli for their workers, and underestimate the importance of the social motivation. The practical outcome of this is that they fail to use the precious psychological stimuli which they have at their disposal.*

The first author of this work has organized a number of series of seminar papers by the students in the past ten years for the subject of "the management of the human resources"; they used the same questionnaires designed according to the Kahn's model / questionnaire and carried out the survey on a greater number of rather small samples in different cities. By accumulating the survey material it was possible to examine the value of Kahn's conclusions, in our social setting and in our time. One of the earlier examinations was carried out based on doing the survey of 275 employees in 5 domestic work organizations, at the end of 2004 and the beginning of 2005. The results were very similar to Kahn's results of 50 years ago in a completely different social setting, and in different circumstances. (Čukić, B. 2006).

The first results of the current series of such works, with a slightly improved questionnaire were got and published in 2009 [11, p.352], and this paper shows a part of the final results.

2.4. The analysis of the results of research on the accumulated sample

The descriptive analysis of the answers to the first two questions of our questionnaire, the mean value of the importance and the evaluation of the presence of the observed stimuli was connected. Instead of the complete analysis for each of the ten stimuli, we will present hereonly the fragments which refer to `` the level of salary`` as a type of the existential motivation (Table 1.).

Table 1.
The Importance, the presence and the motivation potential of the ``level of salary``

	Mean	N
1.2 The importance of the stimulus „ the level of salary “	6,50	1307
2.2 The presence of the stimulus „ the level of salary “	4,32	1307
1.2 - 2.2 = the motivation potential „ the level of salary “	2,18	1307

These results tell us that the importance of the level of salary was marked, i.e. estimated as very high by our subjects (6, 5 out of 7 maximum), and that at the same time „ the level of salary “is modestly estimated in their case (4, 32). The discrepancy between the salary the employees would like to have and the one they get in reality, presents actually the motivation force of the level of salary which their companies could use in order to improve the work motivation.

The main result of our research is shown by the review of the motivation potential of all the ten observed stimuli in table 2.

As can be seen in table 2, the biggest motivation potential goes to the two stimuli from the sphere of the existential potential. Ranked first is the stimulus ``salaries according to workload`` which means both getting the salary but also the just distribution of the salaries. It further means that the companies activate this stimulus by a better re-distribution or a better criteria for establishing the salaries, so without the additional assets.

Although the „the level of salary “ ranked second the practical motivational potential of this stimulus cannot be so high, because the companies most often cannot afford it in the circumstances of the chronic lack of money.

Table 2.

The differences of the mean values of the importance and the presence, as

The motivation potential of the *stimuli*

Motivation stimuli	Type of motivation	Mean
V1.1 - V2.1 Motivation potential Salaries according to the Workload	Eexistential motivation	2,2190
V1.2 - V2.2 Motivation potential the Level of Salary	Eexistential motivation	2,1737
V1.9 - V2.9 Mot.potential the Possibility of Advancement	Ego motivation	1,7116
V1.8 - V2.8 Mot.potential the Possibility of Interesting Work	Ego motivation	1,5260
V1.10 - V2.10 Mot.potential Good Physical Working conditions	Existential motivation	1,4996
V1.3 - V2.3 Motivation potential The Pensions and old age insurance	Eexistential motivation	1,4973
V1.7 - V2.7 Motivation potential The possibility of good quality work	Ego motivation	1,4843
V1.5 - V2.5 Motivation potential Getting on with your co-workers.	Social motivation	,9128
V1.6 - V2.6 Motivation potential Getting on with the managers	Social motivation	,7965
V1.4 - V2.4 Motivation potential Do not make a great effort	Eexistential motivation	,2900

Apart from that, the financially more powerful companies count on the “constraint” factor because in the conditions of great unemployment in the economic crisis, employees would rather accept even very low salaries than lose their jobs. Small and medium enterprises which are in the position of the suppliers for large multi-national companies in the circumstances of the globalization are not ready either to increase the salaries of their employees, because they have to adjust their labour prices with the ones on the global workforce market.

The limitedness of the utility of the „level of salary “ enlarges the importance of also highly ranked stimuli of „the possibility to advance“ and „the possibility of interesting work“. These types of ego-motivation, alongside with the medium ranked stimulus „the possibility of doing good quality work“ *indicate that a relatively high and relatively accessible motivation potential lies in the stimuli from the sphere of ego motivation.*

3. THE CONCLUSION

The processes of globalization, transition and the economic crisis in Serbia rendered the motivation of employees reduced to their existential constraint to work, without the psychological stimulus by satisfying the social and ego needs. It means at the same time the application of the retrograde management methods. Overcoming such ``New-Taylor's`` could be made possible by the new research of the more humane and more efficient methods of management and the motivation methods in the new situation of the globalization.

The empirical research presented in this paper has shown that in the situation when the most important and the only left stimuli for the employees are the economic ones, which are at the same time reduced to a minimum, it is still possible to greatly improve the employees' working motivation by introducing the psychological stimuli. This should be done first of all by offering the possibilities for advancement and doing interesting and quality work.

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**LOGISTICS AND SUPPLY CHAIN MANAGEMENT IN
SMALL AND MEDIUM ENTERPRISES IN MACEDONIA**

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Abstract

Globalization of economy as a process enables a creation of a single market and logistics and supply chain management are important tools in this process. A market with efficient logistical and supply chain management capacities has a comparative advantage over other economies. Trade logistics and supply chain management are critical for developing countries to improve their competitiveness, reap the benefits of globalization, and fight poverty more effectively in an increasingly integrated world. Success in integrating global supply chains starts with the ability of companies to move goods across borders rapidly, reliably and cheaply. In order to connect the Macedonian economy to the world trends and processes and connect the Macedonian market to the European and the world market, the highest priority should be given to the development of logistics and supply chain management in Macedonia.

This paper elaborates the current level of logistics and supply chain management development in Macedonian small and medium enterprises (SMEs).

Key words: logistics, supply chain management (SCM), Macedonia, small and medium enterprises.

JEL codes: M10, M20

1. LOGISTICS AND SUPPLY CHAIN MANAGEMENT DEVELOPMENT IN MACEDONIA

The current level of development of logistics and SCM in Macedonia cannot be assessed as satisfactory, but Macedonia has a strategic territorial position that offers opportunities to develop effective business logistics and SCM. The main advantages of Macedonia to develop a logistics concept and to build a logistics center are the favourable geographical position and the level of development of traffic and other infrastructure. A positive trend in the development of logistics and SCM in Macedonia is the entry of the famous logistics companies such as: Logwin, Kuehne + Nagel, Gebruder Weiss, DHL, DB Schenker, Mediterranean Shipping Company (MSC), etc.

The following limiting factors facing the development of logistics and SCM in Macedonia can be identified:

- Macedonia is landlocked country;
- Unsufficient foreign trade;
- Existence of a small number of companies offering integrated transportation, logistics and forwarding services. These are only the foreign companies mentioned earlier, while most of domestic companies operate only customs brokerage;
- Bureaucratic and administrative obstacles;
- Lack of support from all previous governments.

Despite the limitations specified, the geographic position of the country enables the function of a bridge across the center of the Balkan Peninsula and it makes it a special place to implement long-term logistics concept within the region. Therefore efforts are necessary to evaluate these favorable factors, and will connect with the modern logistics structures.

2. SMALL AND MEDIUM ENTERPRISES IN MACEDONIA

According to the data of the State Statistical Office the number of active business entities in the Republic of Macedonia in 2010 was 75497. The sectors with the highest share in the structure of business entities were: Wholesale and retail trade; repair of motor vehicles and motorcycles with 28326 entities or 37.5% and Manufacturing with 8263 entities or 11.0%, whereas the least represented were the sectors Electricity, gas, steam and air conditioning supply with 107 entities or 0.1% and Mining and quarrying with 164 entities or 0.2%.

The data on the structure of active business entities according to the number of persons employed show that the highest share of 78.5% belongs to business entities with 1-9 persons employed, followed by business entities with no persons employed (or the entities did not provide information about persons employed) with 14.2%, and entities with 10-19 persons employed with 3.3%. The share of entities with 20-49 persons employed was 2.1%, those with 50-249 persons employed participated with 1.6%, while entities with 250 or more persons employed had a share of only 0.3%. [1, p.1]

Nearly 99% of the companies in Macedonia are registered as small enterprises, employing nearly 55% of the employees in the private sector. According to the main activity registered, the majority of businesses are in the wholesale and retail trade sector (47%), manufacturing sector (13.1%), and the transportation, storage, and communications sectors (approximately 10%). The largest employer is the manufacturing sector, with 35.6% of the total number of employees in the private sector.

The Macedonian Government puts a high priority on the development of the SME sector, focusing on measures and activities to support the development and competitiveness of SMEs, and to improve the business environment in general.

The strategic framework for support of SME development is defined by the following documents: the Small Business Development Strategy, Program on measures and activities for the promotion of entrepreneurship and creation of competitiveness of the SMEs in the Republic of Macedonia, the European Charter for Small Enterprises, the Law on Realization of Handicraft Activities, and the Law on the Agency for Promotion of Entrepreneurship of the Republic of Macedonia (APERM).

In order to achieve a higher degree of coordination among the relevant factors, the National Council for Competitiveness and Entrepreneurship was established as an advisory body to the Government, linking the private and public sector to improve the climate for entrepreneurship development.

The Agency for Promotion of Entrepreneurship of the Republic of Macedonia is the major player on the national level for the implementation and coordination of national and international support to the small businesses. The Agency works in cooperation with various foundations, development centers, centers for technology transfer, Euro Info centers, as well as private consultants. [2]

From the aspect of its size and flexibility the SMEs represent the most dynamic but in the same time and the most vulnerable segment in the global economic structure of the country. That's why, the policy makers responsible for SME development, necessarily need a reliable mechanism for systematic follow up and assessment of the condition of the sector. It will further on, help them to select and carry out adequate measures providing the desired level of SMEs development. [3]

2.1 The SME Strategy 2007 – 2013

Already in 2002 the Ministry of Economy has published an SME Strategy paper covering a ten year period (2002 to 2013), together with an action plan for implementation of the strategy for the period 2003 to 2006. The overall approach to the development and support for the SME sector that has been outlined in this Strategy paper remains valid. However, a number of developments have made it necessary to revise the SME Strategy and Programme:

- A new Government was elected in July 2006 with an election manifesto and programme which places strong emphasis on increasing the competitiveness of the economy, and on promoting domestic and foreign investment; the Government moreover recognises the important role that the SME sector must play in achieving these objectives.
- With attaining Candidate Country status for accession to the European Union (EU) in late 2005, the harmonization of the National legislation and regulatory framework with EU norms and standards has become a priority. This pertains in particular to numerous laws and regulations affecting the SME sector. Candidate Country status also requires that the Government implement the EU Charter for Small Enterprises, and pursues the goals of the Lisbon Agenda.
- New EU initiatives such as the EU Commission's Instruments for PreAccession Assistance (IPA) and the Competitiveness and Innovation Framework Programme (CIP) present new challenges, in particular in relation to Science, Technology and Innovation (STI) and Information and Communications Technology (ICT) as a means of enhancing the competitiveness of SMEs. The Government must respond proactively to these challenges, in order to create a business environment in which SMEs not just survive, but thrive and are enabled to compete within the EU markets.

Therefore, the SME Department undertook a major revision of the existing strategy paper in the course of 2006, leading to the revised SME Strategy 2007 – 2013. This document has identified the following key areas for policy improvements in relation to the SME sector:

- ♦ The legal, regulatory and institutional environment;
- ♦ The business climate;
- ♦ Support to small businesses;
- ♦ Access to finance;
- ♦ Taxation for SMEs. [4, p. 15-16]

3. HOW SMEs CAN BENEFIT FROM BEST SUPPLY CHAIN MANAGEMENT PRACTICES?

Chapman et al believe that SMEs can take advantage of the supply chain management strategy for various reasons: [5, p. 31]

- SMEs are critical links in many supply chains.
- SMEs are very flexible. Many SMEs are still young and developing and it is therefore easier for them to re-engineer existing business processes and adopt a supply chain management approach than for large organisations with a long-standing organisational structure and culture. The integrated approach is inherently part and parcel of SMEs.
- SMEs follow an integrated approach by nature. Various business functions are usually performed by one or a few persons working together.

- Computer software programmes are more SME friendly. IBM, for example, started the service Smart Start, which allows SMEs to use IBM's expertise with information systems along with their own business expertise to find and implement ERP system solutions that work for their business.
- SMEs can also benefit from global competition. Supply chain management provides a method of addressing the competitive challenges facing business today.

Small businesses are therefore already vital links in the supply chains in which they participate. By virtue of their size, flexibility and expertise they possess advantages that they can use to benefit their supply chain and strengthen their own businesses.

Technology is increasingly affordable and available to help SMEs take advantage of supply chain strategies. Because of the competitive pressures facing small businesses it is critical for them to use supply chain perspectives and associated strategies to create synergies with supply chain partners in order to succeed in the global competitive environment [5, p. 34]. Despite the optimism of Chapman et al there is reason to doubt the general implementation of the supply chain management approach and willingness and ability to implement the approach by small businesses. [6, p. 5]

4. LOGISTICS AND SUPPLY CHAIN MANAGEMENT - KEY FACTORS FOR IMPROVING MACEDONIAN SMEs' COMPETITIVENESS

In recent years, effective logistics and supply chain management have been recognized as key opportunities for improving the profitability and the competitive performance of the companies. Also in the last few years, a significant progress in the field of small and medium enterprise development in Macedonia has been seen.

The reason for the existence of the supply chains is that there are very few companies that can produce end products for end-customers from raw materials on their own, without the assistance of other organizations. The company that produces the raw material is often not the same company that sells the end products to the end-customer. In order to provide end products to the end-customers, a network of actors is involved in activities (as purchasing, transforming and distribution) to produce products and/or services. All of these actors add value to the end product. The series of companies that interact to produce end products, and to contribute to the value of end products, is actually the supply chain. [7]

SC performance will be a key indicator of overall corporate success in the upcoming period and core advantage when entering foreign markets and compete with low cost countries.

Consequently, the competition is no longer between companies but between supply chains. The goals of the entire supply chain become the common objective of each company. Cost and service improvements that were not achievable by individual companies will now be attained by cooperating companies. [8, p. 5]

SMEs with efficient logistics and SCM will be able to maximize their profitability and improve their competitiveness.

The large companies in Macedonia, although they exist in small number, have developed logistics and SCM system. This is especially the case with the companies that were privatized during the transition period and where a foreign investor is a dominant shareholder. Usually in these companies the main advantage is that they use the experience, the know-how and the benefits from the already well established logistics and SCM system in the parent company, located in some foreign country.

The successes achieved by organizations that implement the strategic supply chain management approach will certainly have a positive impact on the popularity of the approach and a trend towards implementing the supply chain management approach by increasingly more organizations is to be expected. This trend will undoubtedly influence small and medium-sized businesses (SMEs). Many SMEs are already supplying materials, products and services to large organizations. Hence, the adoption of the strategic supply chain management approach by large organizations in supply chains will have a definite impact on them (SMEs). [6, p. 2]

It is obvious that the position of the SMEs regarding the SCM is not as favorable as for the large companies. If we have in mind the fact the SMEs dominate in the Macedonian economy, we can say that the development of the Macedonian economy is based on the development of the Macedonian SMEs. That is why this paper is focused on research about the level of development of logistics and SCM in the Macedonian SMEs.

5. RESEARCH FINDINGS

The research was made through a web based questionnaire, which was sent to 68 managers of small and medium enterprises from various industries in the Republic of Macedonia. The questionnaire was answered by 55 managers and only those answers are included in the analysis.

Out of the 55 interviewed managers, 28% are from SMEs from the manufacturing sector, 44% from the service sector, and 28% are offering both products and services.

It is disappointing that only 37% of the SMEs have a *separate logistics department* and 63% do not have. From the companies that do not have a separate logistics department, 77% plan to establish one in near future, 13% do not know if they will and 10% do not plan at all. Of course this is an

encouraging fact. 54% of the interviewed managers think that there is a need for organizational change for SCM adoption in the company, 33% think that there is no need for organizational change and 13% do not have opinion about this issue.

Regarding *the current public policy towards SCM*, 34% of the the interviewed managers are not satisfied, 27% are satisfied and 19% are very satisfied.

On the question *How do you manage your supply chain?*, we got the following answers: 34% have close partnership with suppliers, 39% have close partnership with customers, 25% use outsourcing, 23% are holding safety stock, 21% use subcontracting, 14% use Supply Chain Benchmarking, and 12% use Vertical integration. These are the most popular methods among the Macedonian SMEs, while we got negligible percentage (i.e. almost no one) for using other sophisticated methods, such as: Electronic Data Interchange (EDI), e-procurement, Just-in-Time (JIT) supply, Third Party Logistics Providers (3PL), Fourth-party logistics provider (4PL) and similar.

13% of the interviewed managers think that their company is not *successful at all in managing its supply chain in general*, 34% think that they are just not successful, 28% think they are somewhat successful, 17% think they are successful and only 8% think that they are very successful. These figures are disappointing, but the managers are aware of the fact that there is a need of *implementing different systems in the companies for supporting the Supply Chain Management*. More of the half of the interviewed managers believe that the Supply Chain Management in the company will be supported strategically by the implementation of the following systems: Material Requirements Planning (MRP), Manufacturing Resources Planning (MRPII), Enterprise Resource Planning (ERP), Warehouse Management System (WMS), Customer Relationships Management (CRM), Supplier Relationships Management (SRM), E-commerce, Radio Frequency Identification (RFID), Bar coding and Electronic Data Interchange (EDI). Nearly three-fourths of the interviewed managers strongly believe that the companies will achieve great *benefits with the implementation of those systems*, such as: better quality and quantity of information, reduced lead-time in production, reduced inventory level, better operational efficiency, increased coordination with suppliers and customers and flexibility. But, they are of course aware that the implementation of these systems is very expensive and a long-run project, probably as SMEs they will not be able to implement most of these sophisticated systems, so as a solution for overcoming the unfavourable level of logistics and SCM development in the SMEs, they are planning to implement the following *future measures for supporting the company effort in logistics and SCM by raising the awareness of the importance of these topics*: More funding and financial support (73%), More formal education (65%), Easier access to vocational training (62%), Better infrastructure (61%), Increased regional cooperation between institutions (59%), Closer cooperation between companies and governments (57%) and Improved information provision (54%).

6. CONCLUSIONS

Success in integrating global supply chains starts with the ability of companies to move goods across borders rapidly, reliably and cheaply. In order to connect the Macedonian economy to the world trends and processes and connect the Macedonian market to the European and the world market, the highest priority should be given to the development of logistics and supply chain management in Macedonia. It is obvious that for the large companies it is easier to reap up the benefits of the well established logistics and SCM division. The position of the Macedonian SMEs regarding the SCM is not as favorable as for the large companies. If we have in mind the fact the SMEs dominate in the Macedonian economy, we can say that the development of the Macedonian economy is based on the development of the Macedonian SMEs. That is why this paper is focused on research about the level of development of logistics and SCM in the Macedonian SMEs. Macedonian SMEs must fully understand the supply chain management approach and their role. Large organizations, however must realize that, despite their size, SME suppliers are important partners who can contribute substantially to savings in the supply chain. Only in this way they can increase their profitability and competitiveness and become integral parts of the global supply chains.

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**THE USAGE OF ENGLISH LANGUAGE IN ENTERPRISES
IN SANDZAK**

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Abstract:

Internationalization of business activities in the late twentieth century, due to the process of globalization, imposed the English language as unique medium of communication. Many enterprises, worldwide, for the sole purpose of cooperation with partners in different business and cultural areas, started using English language and western models of communication for their business correspondence. It could be discerned that small number of enterprises in Sandzak maintain communication with international enterprises in English language, and furthermore, if the communication exists the usage of English is on an unsatisfactory level.

The author in this paper emphasizes the importance of effective business communication in English for success on a global level.

Key words: Business, communication, English language, success, globalization, enterprises, Sandzak

Changes due to globalization and technological development affect people's lives, demanding and creating more opportunities for communication and thus the imperative of successful global communication is a language that will be shared by all its participants.

Since English spread around the world, the number of people who speak it increased in large as well as its diversity and functional usage, therefore English became the *lingua franca*. Dr. Viacheslav A. Chirikba defines the *lingua franca* (originally Italian for “Frankish language”) as “a language systematically used to make communication possible between people not sharing a mother tongue in particular when it is a third language, distinct from both mother tongues.” [1, p.31]

An increasing number of non-native speakers of English and the use of new communication technologies have led to changes in the language itself along with socio-linguistic context. As a result there are new variants of English and its original norm is less and less relevant in the global communications.

Familiarity with English today is a form of basic literacy required for international contacts, scientific research, information and communication; in general, it serves as an instrument for acquiring knowledge. It can be heard on television, politicians speak it worldwide, wherever you travel you see signs and advertisements in English, and whatever hotel around the world you enter the staff will understand the English language and menu will be in English.

“A language achieves a genuinely global status when it develops a special role that is recognized in every country.” [2. p.3]

To achieve such status certain language should be accepted by other countries around the world. When country accepted a particular language it gives this language a special place within its community i.e. that that language is studied in schools, at Universities, or even is used as a second language. Today, we can freely say that English is the most studied foreign language in over hundred countries around the world, such as China, Russia, Germany, Spain, Egypt, Brazil and other countries, which are at the same time great economic producers and consumers.

The importance of using English for communication is great since modern Europe, for decades, is dealing with issues of language and enabling of communication among European countries. As Council of Europe, by Resolution 69, with the aim of an intensified modern language teaching programme for Europe, decided that:

“- if full understanding is to be achieved among the countries of Europe, the language barriers between them must be removed;

- that linguistic diversity is part of the European cultural heritage and that it should, through the study of modern languages, provide a source of intellectual enrichment rather than be an obstacle to unity;

- that only if the study of modern European languages becomes general will full mutual understanding and co-operation be possible in Europe;

- that a better knowledge of modern European languages will lead to the strengthening of links and the increase in international exchanges on which economic and social progress in Europe increasingly depends; [...]”[3]

We can presume that, due to all these facts English language has become a key instrument of globalization, it is the only language that the Germans, Chinese, Japanese and the Russians want to learn, even though their native languages are developed as much as English. Books and technical literature are written in English, softwares are set in English, equipment is

named in English, international trade transactions around the world are carried out in English, diplomatic negotiations are conducted in English, and much more, for the globalization of market is one of the factors that influenced the fact that English language gain the status of international language.

Adoption of a business vocabulary in the English language is one of the main goals of successful entrepreneurs. Economic terms in the field of business, global trade, production, sales, finance and marketing will in large facilitate the exchange of business information among diverse groups of global communities, since, in terms of communication, the world became a single market where English language prevailed as the only mean of business communication. There is a logical conclusion that knowledge of business English has become one of the prerequisites of a successful business.

In the business world, time, money, strategy, communication skills and confidence are just some of the pillars of modern business. If the entrepreneur has all the features as well as knowledge of business English, the success is guaranteed, because during business negotiations, meetings, parties will not be wasting time on misunderstandings due to poor translation or disclosure of a business strategy by the person in charge of the translation.

However, if the entrepreneur has all the above characteristics and has no knowledge of business English, his business is being exposed to certain risks, and, possibly, failure. The key feature of today's businessman is the communication ability, and at the same time one of the characteristics of the business English is that it emphasizes communication and business skills. Experts in the business language have grouped those in writing skills (writing of notes, summaries, reports, business correspondence: e-mail, mail, faxes, letters; from which each has its structure and follows the model set, in accordance with its task of a "genre, ") and oral communication skills (such as telephoning, making presentations, negotiations, meetings, which also follow the default model, even the conversation with business partners follow the cultural and language model). Violation of any of these models leads to misunderstanding and incomprehension, i.e. to inefficient linguistic communication, which can have bad implication on a business.

Since not many businessmen in the Sandzak have adequate knowledge of English which allows them to communicate effectively with foreign partners, they largely express a willingness, if the models of business communication in English are presented, to use them in their entrepreneurship especially when it comes to Western model of business communication, which is today the most common way of communication.

The Western model of business communication is a model that is standardized in all areas and levels of communication. It has its particularities when it comes to - business letters, e-mail, meetings, negotiations, telephone conversations.

The classic example of the Western model of communication is a CV (Curriculum Vitae, Latin - course of life) that all applicants must submit for employment within certain company together with a Covering Letter.

CV contains brief information on the candidate (such as personal information, education, work experience, references) and covering letter contains information regarding the reason for application (to which position the candidate applies, where he heard about the ad or business, reasons for applying). Written correspondence, in accordance with the Western model, should not be a long, confusing, but concise and clear.

According to the research conducted among small and medium enterprises in Sandzak, interesting results are achieved, namely the entrepreneurs in the Sandzak region declared that they are not sufficiently familiar with Western models of communication in English, only 54% of them are adequately introduced with western models of communication in English language.

Vesna Špiljak famous Croatian linguist, notes that : "Appropriate level of politeness in international business communication in English, create the default formats, phrases, style and tone. Nowadays, almost all managers in international business, not only native speakers, have "trained ear and eye" for these conventions. The right choice of format, phrases, style and tone creates a combination of business efficiency and humanity, without negative formulation, redundant words, digressions and emphasis. Knowledge of that "building material" in language creates a concise, definite, personal communication, which serves as a "cultural bridge"."[4. p.87-98]

In order to use English language as a unified cultural language, through this paper, entrepreneurs in Sandzak are offered the model of oral communication which can help them to develop their knowledge of English language what should ease their understandings with foreign business partners during business meetings, telephone conversations, presentations and conferences.

Oral business communication is the oldest form of business communication. This is also the simplest form of communication between people and is therefore referred to as personal communication. The oral form of communication takes a central place in business communication and has the advantages over the written communication. When the oral communication is in question, information are not just exchanged, but business partners have the opportunity to complement and adjust them as appropriate.

The forms of oral business communication have the task to gather people, and are realized through:

- business meetings,
- telephoning,
- presentation,
- conferences, etc.

Business meeting is a set of business people who gather in order to establish business cooperation. Many business people have to participate in business meetings and to speak English. There are different aspects of language used during the meeting. The scope ranges from formal language to be used when running / chairing of meetings and official language to be used for an opinion,

agreement, disagreement, persuasion and etc. Business meetings can be: formal and informal.

- Formal meeting includes discussion of common ideas in business, negotiation and conclusion of the work. Since the formal meetings are prepared according to the particular scheme, the model of the business meeting can be applied on most business meetings (formal stages of the business meeting are: - Introduction, information and argumentation-positions, - the interviewee's reactions and adjustment of attitudes, - the decision.)

- Informal meeting considers periodic planning of meetings (weekly, monthly) with the aim to meet and establish contacts or business partners.

Phrases in English language which are used during the meetings are [5]:

Asking for someone's opinion:

- a) What do you think of ... ?
- b) What's your opinion of ... ?
- c) Could we hear your opinion of ... ?.

Expressing the opinion:

- a) My opinion is ...
- b) I'm absolutely sure that ...
- c) Well from my point of view ...

Agreeing:

- a) I completely agree with you.
- b) I agree.
- c) That seems reasonable.

Disagreeing:

- a) I do not agree at all.
- b) I totally disagree with you.
- c) That's completely wrong.

Talking about agenda:

- a) On the agenda today...
- b) Okay everybody, thanks for coming
- c) Right then... let's get down to business

Giving of proposals:

- a) Shall we postpone the launch of the new product until the spring?
- b) Can I make a suggestion?
- c) Perhaps we should rethink the whole project?

Accepting of proposals:

- a) Ok, let's do that.
- b) Yes, that might be worth trying.
- c) Right. I see what you mean.

Refusing the proposals:

- a) That sounds like a good idea, but I don't think it would work.
- b) Do you think so?
- c) I am not really sure about that, to be honest.

During the business meetings it is very important to use sentences on diplomatic way. Instead of verb *can*, *will* and *seems*, businessman should use the verbs *could*, *might* and *appears*.

1. Can I go back to the point about timing – Could I just go back to the point about timing.
2. There will be a delay - There might be delay.
3. It seems we have a problem – It appears we have a slight problem.

To explain something, during the meeting, businessman should use expressions like:

- For instance,
- If I can give an example,
- For example,

Example: *Spanish food has some excellent dishes. For instance, paella is famous all over the world.*

If right and surprising information are given, during the meeting, following expressions should be used:

- In fact,
- As a matter of fact,
- Actually.

Example: *French food is very good. In fact, many people think it is the best in the world.*

For making contrast between things, following expressions are used:

- However,
- Even so,
- In spite of this.

Example: *Mexican food is becoming more and more popular. However, some people find it a little too hot.*

If there is a need for something to be defined, these expressions are used:

- At any rate,
- At last,
- As a rule.

Example: *The food in Portugal is very good. At last, you can usually eat near the coast.*

Expressions used in order to give results or consequences:

- Therefore,
- As a result,
- Because of this.

Example: *English people want healthier diets. Therefore, the food is slowly getting better.*

To sum up:

- To put it simply,
- In a word,
- In short.

Example: *In a word, our product is number 1 on the market.*

To talk about something in general:

- On the whole,
- In general,
- Typically.

Example: *In general, English is spoken worldwide.*

Example 1: Business meeting – expressing of agreeing and disagreeing

Sean: The office move, as you know, the plans have been up by the main exit for a week now.

I just wanted to see what kind of feedback you've got.

Tim: Yeah, Sean, I'm sorry, but I really strongly disagree with the new floor plan. I think it's divisive to separate the secretaries and the assistants out from the editors and managers. I'd be much happier if we could be located in teams.

Carrie: Actually, I think Sean is right. I've been chatting to some of the secretaries and they're quite keen to all be sitting in the same area, and, speaking as an editor, I think I'd like to be with other editors so that we can bounce ideas off each other and things. So I think Sean's floor plan is right.

Example 2. Business meeting- introductory part

Sarah: Right then, Alex, let's get down to business. On the agenda today for our public relations

meeting are the research project, the launch of the website, the timeline for press releases, and the secretary of the year award.

Are you quite happy with those points?

Alex: Yeah, that's fine. If you could go through them in order, that'd be great.

The phone is one of the most common mean of communication in today's business world. Not only that phoning became inevitable for business, but it is the custom to communicate over the phone prior any

business meeting. Telephone communication has an important role in building successful business relationships. Most people create an image of a person who talks on the phone. In order to establish successful communication, it is necessary to make a good impression over the phone. When it comes to communication by telephone in English, usually the question is how to receive a call, invite someone, and leave a message and other various tasks. Phrases commonly used in English language over the phone are [6]:

- Introducing yourself
This is Ken.
Ken speaking

- Asking who is on the telephone
Excuse me, who is this?
Can I ask who is calling, please?

- Asking for Someone
Can I have extension 321?
Could I speak to...? (*Can I* – is informal expression while *May I* – is formal expression)
Is Jack in? (Informal idiom meaning: Is Jack in the office?)

- Connecting Someone
I'll put you through (put through – is a phrasal verb meaning *connect*).
Can you hold the line? Can you hold on a moment?

- Replying when someone is not available
I'm afraid ... is not available at the moment
The line is busy...
Mr. Jackson isn't in... Mr. Jackson is out at the moment...

- Taking a Message
Could (Can, May) I take a message?
Could (Can, May) I tell him who is calling?
Would you like to leave a message?

Presentation represents specific form of the activity with the aim to present the person, the subject, company or an organization. Presentation is usual form of advertisement of a product with the concrete aim to influence the buyer.

Useful expressions [7] to be used in different parts of a presentation are given in the chart:

Useful expressions

General form of presentation	
Function	Language
Introducing the subject of the presentation	<ul style="list-style-type: none"> • I'd like to start by... • Let's begin by... • First of all, I'll... • Starting with... • I'll begin by...

Concluding of a subject	<ul style="list-style-type: none"> • Well, I've told you about... • That's all I have to say about... • We've looked at... • So much for...
Opening a new subject	<ul style="list-style-type: none"> • Now we'll move on to... • Let me turn now to... • Next... • Turning to... • I'd like now to discuss... • Let's look now at...
Analyzing and giving recommendations	<ul style="list-style-type: none"> • Where does that lead us? • Let's consider this in more detail... • What does this mean for ABC? • Translated into real terms...
Giving examples	<ul style="list-style-type: none"> • For example,... • A good example of this is... • As an illustration,... • To give you an example,... • To illustrate this point... •
Dealing with questions	<p>We'll be examining this point in more detail later on...</p> <p>I'd like to deal with this question later, if I may...</p> <p>I'll come back to this question later in my talk...</p> <ul style="list-style-type: none"> • Perhaps you'd like to raise this point at the end... <p>I won't comment on this now...</p>

Summarizing	<ul style="list-style-type: none"> • In conclusion,... • Right, let's sum up, shall we? • I'd like now to recap... • Let's summarise briefly what we've looked at... • Finally, let me remind you of some of the issues we've covered... • If I can just sum up the main points...
Enumerating	<ul style="list-style-type: none"> • Firstly...secondly...thirdly...lastly... • First of all...then...next...after that...finally... • To start with...later...to finish up...

Example of introductory part:

“I'll start by describing the current position in Europe. Then I'll move on to some of the achievements we've made in Asia. After that I'll consider the opportunities we see for further expansion in Africa. Lastly, I'll quickly recap before concluding with some recommendations.”[7]

The proposed models of oral communication in English can serve as a basic platform to be developed so entrepreneur in Sandzak could acquire satisfactory knowledge of English language can use in order to make their companies ready and available to the global market.

Based on these findings, we conclude that the businessmen in the Sandzak necessary knowledge of English that will allow them access to modern economic trends and facilitated communication with foreign partners and will be able to freely present their products to the global market without employing intermediaries which will greatly contribute to development not only certain companies, industries and countries but the region as a whole.

In this sense there is full justification for study and further research of the problem.

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**THE INNOVATIONS AND COOPERATIVE
MANAGEMENT IN SMALL AND MEDIUM ENTERPRISES**

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Abstract:

The paper points to the main streams in relation to cooperative innovation strategies based on changes in the domain of general government policies, establishing of national innovation systems (NIS), and changes in the orientation of firms in implementing innovation strategies based on cooperative competencies. Competencies in creating cooperation, network and alliances, cooperative competencies, are determined as the key factor of competitiveness and the orientation towards strengthening of these competencies is considered as strategic dimension of innovation policies for enterprise and for the economy and society in general. Results based on empirical research of companies point a degree of correlation between innovative strategies, cooperative competencies and profitability.

Key words: innovation, cooperation, management, changes, enterprise, environment ;

1. Introduction

The process of innovation is considered to be critical for competing technology management, the strategic and operational level, the level of economy, industry, sector or firm. Basically all forms of cooperation, networks and alliances that create a global, world scale is the innovative potential, competence and strategy management. Competence of innovation, to be supported by modern technology, but relevant to all areas of the organization, is a key factor in the competitive competence of enterprises and companies (regardless of the level achieved technological development). On the other hand, competence, innovation is at the same time and incentive element, beginning to create a qualitatively new competencies, which are the only real backbone of strategic competitiveness. Dynamic and continuous development of technology products, services and processes becomes inevitable in the business of modern enterprises. However, in addition to this process intensifies and becomes more expensive, and countries and companies, seeking to meet the competitive challenge, direct

their efforts towards that provide financial and material resources. In addition, companies seek to ensure, as soon as possible, creative human potential for innovation and change projects in order to ensure growth and development of enterprises through business success. Ways to achieve development competitiveness of firms (and national economies) are: the transfer of technology through various forms of cooperation, which includes the formation of networks and partnerships, expansion into new global markets.

2. Innovative economic strategies

Modern technological development is a key lever of economic growth and prosperity in this regard is significant innovation policy. At the same time this should serve as the basis for interpreting basic events and relationships in the economy, but also throughout society. Theory of cycles in the economy, based on empirical research, point out their smoothness and periodicity. Innovation, investment behavior and demand factors thought to be key causes of the phenomenon of long waves and their shifts. Bearing in mind that innovation and entrepreneurship related to the recovery phase, which begins at the end stages of depression and crisis, economic policy and the difficulties faced by states and governments affect their readiness to deal with issues of innovation and entrepreneurship incentives. It can be concluded that there is a strong link between economic growth and innovation policies, so that at the state and the company level acceptance policy development relies on innovation. However, the recession and then a dramatic financial crisis has proved that efforts at defining the strategic technology are not sufficient or have not provided the expected results in terms of competitiveness and job creation. Empirical studies show that as the economic problems more evident, it is a radical change of science and technology policies and strategies at the national level. Only when the reform has led technology policy in connection with the economic crisis, there is a critical and essential changes. This is evident from the experience "of those who were first on the move", and to the Netherlands, Denmark and Finland, which are open and full power support "innovation paradigm" at the beginning of the nineties. They are, above all, the redesigned instrument of national policy and administrative structure in accordance with the cooperative imperative of innovative national policies and strategies. In other countries (npr.Slovenija, Hungary, Malta) which have accepted the necessity of turning to inovativnos strategy that has been done at the same time with the general administrative changes and the transformation of the political and social system. Thus, the new innovation paradigm is introduced with other measures which included the transition process, and this group of countries innovation policies adopted in the general economic and administrative changes.

3. Innovative policy of the European Union

In the future consideration of the characteristics of innovation policy that created the European Union deserves special attention. This innovative policy and strategy will, in large part to mark the main directions in this field for all countries in the region. Problems, issues and implementation of innovations in recent years, come to the center of interest and, therefore, the EU outlined six initiatives to address them:

1. planned to establish the "European Research Area" - a unique space for research and production of knowledge within the European Union;
2. becomes a priority activity of creating a single regime for intellectual property rights of the EU (patents, copyright, trade marks);
3. seeks to establish a single EU market, where the space provided for the market risk capital;
4. standardization activity - setting up joint bodies to the standards that will apply in the EU, which would particularly affect the development of technology and markets;
5. harmonization and standardization of research and innovation systems in the EU using the "open coordination system";
6. development of Europe means for using ICT in business and social behavior, improve organizational changes at the enterprise level and public services;

However, new innovative policy and strategy does not completely break with the previous orientation, characterized by: support on strategic technology, help and support.

Integration processes and organization linking businesses

Integration process and business networking are the main features in the company, and are part of a wider process of economic integration. These processes represent the organization's external factor that may affect the company if it is included in the integration process. However, integration processes and cause changes in companies not directly involved in integration. For example, if the market offers a product or service a small number of large companies decide to integrate and connect, and all other companies that are out of this process must implement the organizational changes that could stay on the market with its products and programs. Integration processes cause significant depth changes in the organization of, except that in some cases will take that approach to integration can manage change, and sometimes a company that has remained outside the integration must be adjusted to the changes caused by integration. This means if an integrated company with a high degree of concentration of its products or services on the market, and process integration are changing their internal structure and the structure of supply and demand, such integration causes changes in other companies in the same activities, which

are not directly involved in the integration. Integration processes of organizational change caused primarily by companies that are involved. These changes are as a rule, significant and profound and affect the entire organizational structure and fabric of the company, from production to all other business functions and management structure. In practice, there are several forms of integration processes (solid forms of connectivity such as mergers and acquisitions, and soft, such as partnerships or strategic alliances)

(1) fusion, the joining of two or more companies in the new company;
- Organizational changes are profound and radical and include all elements of organizational structure, because in this case two or more existing companies formed a new company;

(2) merger, usually smaller companies more
- Organizational changes are small scale and limited scope because, usually, the newly merged company is interpolated into the existing organizational structure of large enterprises, as one of its business, regional or organizational units;

- In the case of mergers, minor changes occur in the organization of non-production functions and operations companies (some jobs while retaining the level of the existing companies, while others are transferred to an integrated enterprise level);

- Introduces a new division of labor and specialization of tasks and functions, depending on the business connections of connected and integrated companies, which generally causes divisional organizational structure (by product or territory), but some drives dislocated outside the seat of the parent company, and then applied combined (network) organizational structure;

(3) partnerships and strategic alliances
- Are forms of "soft" business cooperation and networking, but that may significantly affect the changes in their organization;

5. The interdependence of environment and organizational structure

Basic and priority management, in the process of reorganizing the company, is to determine the extent and significance of changes in the environment business. We should take into account several types of environments that occur in the business of tourism enterprises. Functional environment is everything outside the company and affect its operations and conduct. It is part of the outer world, enterprises with which it comes in the interaction. In this sense, there are three levels of environment:

1. interorganizational networks
2. general environment, and
3. global and international environment;

Interorganizational networks is the nearest environment of the company, which consists of companies and organizations in the region, with which the company

has business cooperation. From the standpoint of management process and business operations, this network is the most important because it enables business effectiveness and achievement of company goals. In the general environment include: social, legal, political, economic, technological and physical environment, while the international or global environment include all aspects of the environment between national borders.

Modern market environment, which is more aggressive and influential, causing a violent change and the emergence of new forms of organizational structures. Companies that are able to successfully cope with rapid and uncontrolled changes in market conditions, become dynamically stable organization. They serve a number (range) of consumers and are able to, in a relatively short period of time, changing the characteristics of their products to market and introduce new types of products.

If the environment is dynamic, the more his match flexible organic structure of the company, while more complex environment requires dissected divisional organization. On the other hand, developed and diversified market prefers a divisional structure, and the unpredictable and hostile environment cause the centralized structure.

Stable business environment appropriate to the classical, and centralized organizational structure, and an unstable environment is more appropriate adaptive or organic organizational structure. In the volatile and complex business environment there is significant differentiation between the subsystems, units and parts of the organization, and the need for adaptation, integration and control their activities and jobs. Very important institutional conditions and government regulations (including state regulation, and measures of the economic system and economic policy of the state, as well as legal and other regulations governing the operations and organization of companies). The impact of these factors on the structure of the company is dominant in terms of frequent changes in laws and regulations. These changes caused by constant organizational change and creating new cycles of restructuring the company. Given their importance and scope of the company, if the institutional arrangements frequent and numerous, they are unstable external factor for the company, that company management can not influence its activity, but it must be adjusted and adapted. Ability and adaptation, and its effectiveness is often critical to the future position and success of business. However, if the institutional conditions that define and create a state legislative measures and economic policies, long term and stable (if it creates an appropriate and lasting business environment) then the organizational structure of companies is changing under the influence of others - both internal and external factors of the organization. **6. Necessary to adapt the organization**

The growth and development of small and medium enterprises, in terms of increasing use of new information technologies and telecommunications, shifting the emphasis from "hard" to "soft" structure and variables of the

organization. The conditions imposed by the globalization process, linking businesses in a broader, global, framework increases their interdependence, and the focus of organizational factors are shifting from internal to external factors. Investigation of the environment and organizational structure have proved to be very different organizational structures in stable or changing environment. Stable environment is more appropriate to conventional and mechanistic structure, and changing modern and organic structure of the company. Generally defines four types of environments with which the company may face:

- an environment that is at rest,
- more complex environment - with a small threat,
- upset - responsive, and
- turbulent - turbulent environment;

New competitive environment can be assessed from the perspective of products, and changes in the process. Product innovation involves changes and requirements that come from the market, and they relate to changes in properties of the products or services, and process changes include the introduction and application of new technologies and procedures used in the manufacture and operation of modern enterprises. Technological innovation, consequently, cause significant changes in the organizational structure of all types and forms of enterprises. As a result of technological change, are slowly disappearing traditional shapes and forms of organizations, and introduce a new, based on a combination of different types of structures. In the process of organizational change is so significant a factor. "Timing", that makes optimal instant access and implement changes. Managers of companies, as the main initiators and drivers of change, these factors must be given due consideration.

Lack of or lack of feeling for the "right time" change can have unpredictable consequences for the organization and employees. The success of organizational changes will depend on the extent to which employees know the company management and human dimensions of organization and personnel, what knowledge and skills employees have and what measures need to be taken in relation to employees, to secure and extend new capabilities of the organization.

7. The influence of markets and market conditions

Modern corporation, first of all, should provide a flexible, rapid and optimal response to market changes that are determined by a high degree of uncertainty and risk. This is the path that leads to strengthening the stability of enterprises and creating new development opportunities in the changing unstable conditions. Redesigning the company asks for a new approach to the market which, in modern terms, the main coordinator and motivator of the company. It causes permanent and profound organizational change in the company. If the design organization is formed and adapted to market demands, then the

organizational structure of companies to be less hierarchical and more horizontal and decentralized. Market-based organization will be significantly more enterprises evaluate the knowledge and entrepreneurship than a formalization and job descriptions of employees.

From the aspect of an enterprise, the market appears in a dual role: as the market supply and market sales. However, it seems to change in the organization, not only through the function of procurement and sales, but also other business functions of companies.

Modalities of companies reorganized under the influence of markets and competition may be different: the increased intensity of work and expansion of individual units, facilities or teams, to hiring new employees or the formation of new organizational units.

In addition to the classic model of organization in relation to the sale and purchase, modern enterprises are increasingly oriented towards customers. Therefore, the most important factors of the market, affecting the organizational structure customers, competitors, suppliers and labor.

Modern business strategy of any successful company is increasingly adapting to customers, a company organization is oriented towards the market, in their outer segments, while the process-and team-oriented in their internal relations.

Thanks to information technology leads to accelerated networking customers and their suppliers, so the JIT system is extremely fast and dynamic development in large companies. The design of organizational structure and competition act as a significant market vendor. Modern communications, especially telecommunications and information technologies, leads to almost every kind of production and every product with world competition, but competitors are no longer focused only on the products or services, the end result of business operations. Competition is developing the process capabilities with capacity for rapid transformation of production and products.

New forms of organizational structure

With changes in organizational structures (from the classic to the adaptive and innovative organizations) are changing the concept and role of management in the enterprise. The hierarchy is replaced by new models and forms of organization, with numerous networks, and the information-based organization of knowledge specialists.

Modern organization of businesses increasingly characterized by combined and network structures that include the use of classical and adaptive organizations. In these, conglomerate organizations and their parts or functions, can be represented and implemented various models of structures: functional, project, matrix, or other known types of organizational structures. Organization formed for a specific task, project, case, work, etc., An ad hoc structure. The practice of business organizations such structures is usually "extra" structure for a certain specific job or project, whose duration is, in

principle, time-limited. In the enterprise and process manufacturing, small manufacturing and service companies, and companies that operate in complex and turbulent environment, it is better organic structure. This structure is different from the classic by key dimensions of organizations, such as formalization, centralization, span of control and mode of communication in the organization, the complexity of the activities of the organization.

In addition, the organic structure is characterized by very low or low complexity and low regulation. Organic structure is a shallow organization, with a low division of labor and the broad scope of operations performed by an individual offender. Because of the complexity of the tasks that individuals perform in the organizational structure (Rapone control is narrow because of the high degree of decentralization) communication among employees is usually horizontal. Recently developed dynamic stable organization, which is used in those companies that are successfully coping with the sudden and unexpected changes in market conditions.

Dynamic stability is characteristic of those companies were founded to serve the larger circle of customers and that can quickly change the product properties (dynamic), and were built on existing process capabilities. New organizational structures, which are closely related to information technologies and telecommunications such as network, virtual, team, process, inverted, etc., Entered into a classical structure of organic elements, and the overall development organizations and their structure is moving towards organic structures

Comparison shows that the traditional and bureaucratic structures vertically and horizontally structured and complex, with rigid hierarchical relationships and formal channels of communication, and organic structures are characterized by low differentiation and control, vertical and horizontal cooperation, informal communication and decentralized decision making.

8. Instead of conclusion

Innovative strategies for the possibilities of the followers (firms, industries, economies, countries) closer to the limits of technological development set by the developed and leaders. The goal is to find the competitive game with the leaders, but also to the oderedenim jobs and outran the pursuit of ever greater business success. At the same time innovative strategies are key to maintaining a leadership position, because the lag in the innovative race punishes failure and leave the leadership to others.

Competence in achieving cooperation, networks and other forms of cooperation with the environment, basically driven by the need to strengthen technological, market and innovative potential, becomes the basic competency of the company and its response to opportunities and opportunities of globalization and changing nature of modern competition. Organizations based on information and communication are the new

organizational forms that "products" of today's environment. The concept of these organizations includes: improving efficiency, increase profitability, adequate utilization of human resources, communication, organizational culture and creating clear accountability profiling. Organizational changes companies, the most common include:

- Changes in technology and procedures,
- The organizational structure, and
- The structure and position of employees;

Changes in organizational structure resulting from growth and development of enterprises, and relevant factors of its organization. With changes in organizational structure and changes occur all the other essential components of enterprise. The company will be able to access the changes only if there is sufficient level of knowledge of what and how to change it. An important factor is the vision of managers about future directions of change, and the willingness of employees to accept changes to this vision, further developed and implemented.

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**THE BUSINESS DEVELOPMENT SERVICES SMEs
ACCORDING TO THE MODEL OF THE INTERNATIONAL
TRADE CENTER**

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Abstract

The paper is devoted to business indicators and factors for successful export competence of small and medium enterprises by the model of the International Trade Centre (ITC), which supports the economy in developing and transition countries, as well as its business sector in realizing the full potential for developing exports and improving import. ITC goals are to: facilitate the integration of developed countries and countries in transition into the multilateral trading system, to support national efforts to design and implement a strategy for trade development, strengthen core services and services to support trade, improve the efficiency of exports in sectors of critical importance, and adopt the basic principles for achieving international competitiveness, especially in the context of SMEs. Its activities are now organized around five major competitive areas, dealing with export strategies, trade policies, strengthening institutions that support trade, informations about the trade and creation of competitive exporters. The paper presents the results of external evaluation of the International Trade Center, and the results of research and consulting, with the aim of establishing the need for export development in small and medium enterprises, the needs of national and institutional partners and marketing service offers an ITC in relation to other international agencies.

Key words: business development services, model of the International Trade Centre, developing exports and improving import.

1. INTRODUCTION

In the contemporary global business environment, the large number of countries, the need for the realization of business activities in the international market is a key factor in development.

In order to determine which specific products and specific sectors of the economy are successful penetration of global markets, the analysis was chosen the appropriate methodology developed by the International Trade Centre (*ITC*). The most suitable is because his comprehensive analysis of contributions in the assessment of all relevant aspects related to the structure of competitive states. Also, on the basis of its development services to small and medium enterprises helps in determining which sectors of the economy and certain specific products which have the best export performance.

2. INTERNATIONAL TRADE CENTER

International Trade Centre is the agency for technical cooperation between United Nations Conference on Trade and Development (UNCTAD) and World Trade Organization (WTO). ITC supports developing economies and transition economies, particularly their business sector in their efforts to realize the full potential for developing exports and improving import.

ITC allows the export success of small enterprises in developing countries, providing, together with partners, sustainable and exclusive development and commercial solutions for the private sector, trade support institutions and policy-makers.

ITC aims are to [1]:

- Facilitate the integration of developed countries and countries in transition into the multilateral trading system.
- Support national efforts to design and implement a strategy for trade development.
- Strengthen core services and services to support trade, public and private.
- Improve the efficiency of exports in sectors that are of critical importance and significance.
- Adopt international competitiveness in the business community as a whole, especially in small and medium enterprises.

The strategic objectives ITC [1]:

- *Company*. Strengthening the international competitiveness of enterprises.
- *Institutions to support trade*. Capacity development of commercial suppliers of services to support businesses.

- *Policy makers.* Policy makers support the integration of the business sector into the global economy.

ITC instruments include: Market Access Map, Trade Competitiveness Map, Trade Map, Investment Map and Product Map.

1.1. Trade Competitiveness Map

Trade Competitiveness Map or Country Map, is available on the website of ITC, for about 240 countries. Each profile provides a series of instruments to facilitate a strategic market research, monitor national and sectoral trade and macro-economic performance and design a strategy for trade development.

It can be used to [2]:

- strategic market research,
- comparative economic analysis.

Site competitiveness store offers the following items for each country [2]:

Trade Performance Index (DPI) - to assess performance of commercial sectors. TPI provides a general profile and ranking of key sectors of the country, as well as a series of static and dynamic factor in determining the international competitiveness of each sector.

National export performance and profile of national import - Providing an overview of performance of import/export structure by looking at their store portfolio in terms of the dynamics of international demand and sector diversification.

Consistency of Trade Statistics and technical notes on trade data - comparison of trade statistics with the statistics of the country partners to identify gaps between them and to measure their reliability. Technical notes provide comments on the method of collection and limitations of national data on trade.

Trade & Employment - the country's export portfolio at the industry level and includes dimensions such as income and similar variables.

Simulating Market - an econometric model is based on a wide range of variables (such as GDP, FDI, tariffs, geographical data, conflict, cultural factors etc..) with the main objective of assistance in identifying markets with great potential. Trades also analyzes the impact of trade barriers and agreements on the direction of foreign trade of developing countries with their partners. It is updated every three years.

Aggregated Trade Statistics - at present the structure of import and export values and volumes by sector (three-digit SITC) and countries.

3. UNDERSTANDING CUSTOMER NEEDS

External evaluation of the International Trade Center conducted 2006th was recommended that the ITC conduct more systematic assessment of the scope of activities, to assess the actions needed to achieve greater impact at the country level and provide relevant services through strategic marketing. In this study, the ITC is expected to intensify work with institutional partners on establishing control systems to measure results and impact. In response, the ITC initiated an extensive research and consulting 2007th year. The aim of this study was to determine the needs for export development in SMEs, the needs of national and institutional partners and marketing service offers an ITC in relation to other international agencies and suppliers of technical support.

The study involved [1]:

- Focus groups with partners on the World Export Development Forum (World Export Development Forum in Montreux, 8-11 October 2007).
- Internet survey of 1500 SMEs, government partners and institutions from the private sector.
- Three regional conferences on aid for trade.
- Extensive consultations with regional groups in Geneva and elsewhere.

Customers were asked, what works and what does not? Answered the questions of how to ITC improve their services and what other agencies are working to meet their needs?

As a result, derive the following key recommendations [1]:

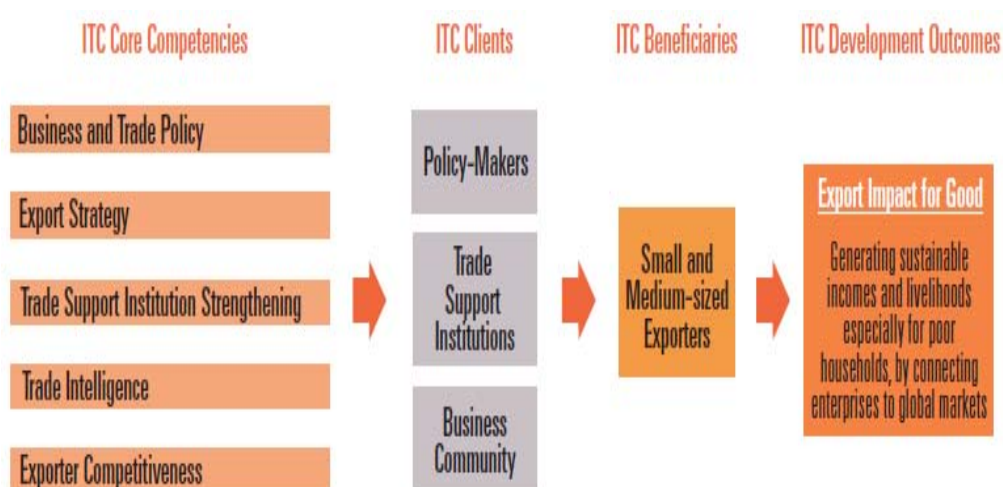
- *The development of exports* is an integral part of enterprise development. Services must be designed to meet the needs of business on the line from the initial exporter to international business.
- *Product development*. To meet the challenges which lay obstacles in the supply faced by our clients, services must comply with the development of new products, product innovation and added value.
- *Networks to support trade*. Companies want to offer a coherent and coordinated services from national and regional trade support network.
- *Capacity building*. Training needs to move towards the development of knowledge and building sustainable capacity.
- *Measurement* is critical for impact assessment. It is necessary to associate with partners to achieve this.

4. FIVE NEW BUSINESS LINES THAT ARE ORGANIZED IN COMPETITIVE AREAS

Key principles of re-setting lines of business are based on the following principles [3]:

- *Alignment with strategic goals ITC* - engineering the future of business lines, so that the aims, objectives and results provide measurable results and outcomes that enable ITC to achieve its goals.
- *Focusing on core competitiveness of the ITC* - make sure that new business lines reflect the intention of ITC to direct delivery where it can best achieve the mission ITC.
- *Integration and scope* - to ensure better integration of ITC activities to providing integrated solutions to its clients, not just products and services.
- *Relevance and impact* - increased customer orientation at the level of policy makers, TSI and the company.

Figure 1. Five new business lines.



Better focused organizations. ITC is organized in previous years around 17 business lines. Its activities are now organized around 5 main competitive field, dealing with the export strategy, trade policy, strengthening institutions that support trade, informed the trade and creation of competitive exporters. Guidance on their core business will avoid duplication of work with other agencies and create the possibility to intervene where ITC can do something, with the highest score impact on the export of goods.

From products to solutions. ITC for its customers is essential because it can provide them with an integrated and harmonious group of products and

services. New business lines will bring new talents, skills and resources of ITC for the needs of clients.

Relevant and measurable results. Performance indicators were developed for each business line, which is consistent with results based management practices, to ensure the adequacy of their interventions and to measure its impact ITC.

Standard, coordinated solutions to meet the needs of countries. In all countries where ITC is, there is a natural logic of the serial activities to improve the results of trade. Starting with the business environment, developing national strategies for ensuring effective distribution of resources, strengthening institutions to support enterprises and finally, helping agencies themselves, are subject to all measures of awareness in the trade. Sequencing allows ITC to identify any particular point of entry, depending on the demand of its customers and find links upstream and downstream. The advantages of this approach is recognition of the necessary preconditions for effective interventions so that there is a causal logic between activities and desired effect.

Any major change brings benefits and challenges. ITC brings changes after intensive efforts by all staff in consultation with its partners, donors and beneficiaries, which aims to bring tangible benefits for all trustees [3]:

- The governments of developing countries - a multidisciplinary approach that deals with the development of trade and private sector in the context of a wider development.
- For technical partners - engaging with other agencies to develop and actively participate in the design of integrated development programs at regional and national levels.
- For donors - a strong logistics interventions, which shows the desired results and connections between what ITC is the effect of development that has been created in countries where it is.

Table 1. Business lines and preliminary outcome indicators.

Business Lines	Preliminary outcome indicators
<p>Business and Trade Policy Goal: Business Priorities integrated in National Trade Policies Impact Indicators: Contributes to Strategic Objective 1 With a focus primarily on sub objectives 1.1, 1.2 and 1.3 Immediate Objective: Enabled policy makers to integrate business priorities in national trade policies and negotiations, and effective</p>	<p>Dialogue: 1. Number of engagements for formulating business friendly trade policies and negotiating positions through the joint national public private mechanisms Capacity: 2. Increase in the trade policies and negotiating positions jointly produced Partnership: 3. Increase in the number of trade policies and programmes that are implemented in cooperation with the private sector</p>

<p>collaboration between public and private sectors achieved</p>	
<p>Export Strategy</p> <p>Goal:</p> <p>Export Development Strategies that succeed</p> <p>Impact Indicators:</p> <p>Contributes to Strategic Objectives 1, 2 and 3 With a focus primarily on sub objectives 1.1, 1.2, 2.1, 2.2, 3.1</p> <p>Immediate Objective:</p> <p>Capacities created to design and implement competitive Export Development Strategies that meet the national development objectives</p>	<p>Representation:</p> <p>1. Average proportionality and seniority of stakeholder involvement in the institutional mechanisms for strategy design (e.g. % of public/private/civil society representation, seniority of people involved in the strategy design process)</p> <p>Design:</p> <p>2. Number of consolidated strategy documents published and average extent of dissemination (e.g. proportion of content developed by in-country capacity, breadth and scope of analysis, targets specified and extent to which strategy implications are communicated to stakeholders)</p> <p>Ownership:</p> <p>3. Average proportion of key stakeholders endorsing the strategy (e.g. level of buy-in and commitment to the end process)</p> <p>Implementation:</p> <p>4. Number of resource allocations made based on the strategy and programmes underway (e.g. quantum of resources made available by government and private sector to their own strategy, number of donors and quantum of resources made available for implementation, number of ITC programs assisting in implementation).</p>

<p>Trade Intelligence</p> <p>Goal: Better Export Decisions</p> <p>Impact Indicators: Contributes to strategic objectives 1, 2 and 3. Focus primarily on sub-objectives 1.1, 1.3, 2.1, 3.1 and 3.2</p> <p>Immediate Objective: TSIs, policy-makers and enterprises are enabled to make more informed decisions, and TSIs are enabled to produce and deliver trade intelligence services effectively</p>	<p>Access: 1. Number of clients receiving ITC's trade information products (website visits, downloads, by mail etc.) 2. Number of referrals to or requests for ITC's Trade Intelligence products & services from international organisations, donors and clients</p> <p>Customized: 3. Number of requests for analysis in relation to trade negotiations 4. Number of requests for analysis in relation to trade and exporter competitiveness and export potential</p> <p>Capacity Building: 5. Number of requests for capacity building and related institutional development i.r.t. trade intelligence 6. Number of trained, qualified Trade Analysis Trainers, specialists and/or trade information officers applying acquired knowledge</p>
<p>Trade Support Institutions Strengthening</p> <p>Goal: Sustainable and effective exporter-support</p> <p>Impact Indicators: Contributes to Strategic Objective 2 With a focus primarily on sub objectives 2.1 and 2.2</p> <p>Immediate Objective: Export service delivery channels enabled</p>	<p>TSI Capacity: 1. Number of enterprise demands for the services from assisted TSI partners (e.g. paid membership or level of co-funding) 2. Number of TSI networked members solicited for inputs to national strategy and policy development (e.g. official requests for submissions, attributions made in finished strategy/policy documents) 3. Number of new offers, activities, and programmes generated by TSIs which are attributable to ITC</p> <p>National Services networks: 4. TSI networks are featured in national export strategies (Y/N) 5. Number of referrals within the TSI network community</p> <p>International Knowledge networks: 6. Number of best practices adopted by network members 7. Level of resources secured by the network (e.g. self-sustainable)</p>

<p>Exporter Competitiveness</p> <p>Goal:</p> <p>Internationally Competitive Exporters</p> <p>Impact Indicators:</p> <p>Contributes to Strategic Objective 3 With a focus primarily on sub objectives 2.1, 3.2, and 3.3</p> <p>Immediate Objective:</p> <p>Potentially competitive new enterprises created and the competitiveness of existing enterprises strengthened</p>	<p>Equip TSI:</p> <ol style="list-style-type: none"> 1. Number of programmes that utilise the services of certified experts 2. Percentage increase in the uptake and utilisation of tools and methodologies by network partners 3. Percentage of assisted managers expressing satisfaction with the ITC partner network <p>Managing, Producing and Marketing:</p> <ol style="list-style-type: none"> 4. Number of enterprises developing proposals utilising ITC tools and methodologies 5. Number of cases where assisted enterprises secured resources 6. Number of non-exporting assisted enterprises that begin exporting
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5. GAUGE

Measure of the services to improve operations for testing software developed by the ITC [4]. It is aimed at small and medium enterprises through a network of industry associations. In essence, the measure helps individual companies to assess and review their own performance in relation to other national and international competitors. So companies can measure the gap in efficiency in key areas of management, finance, marketing and production and can use that information to develop plans for improving operations. All this is done in complete secrecy. Trade associations that use the test, help small and medium enterprises to analyze the results and expand advisory services.

International Competitiveness Gauge is part of the ITC to improve the competitiveness of small and medium enterprises (Competitiveness Improvement Programme - ProCIP) funded by the Global Trust Fund [4]. The program is based on access to production networks, which aims, reaching the greatest number of small and medium enterprises to work with networked partner organizations and their resources.

5.1. How the Gauge works?

International competitiveness is a measure for improving the services built around a specially developed computer software benchmarking for continuous diagnosis, evaluation and improvement of

export competitiveness of SMEs in specific sectors of production. It also allows the sector of national economy to perform a comparative analysis with all partners and competitors in other countries participating in the analysis. For small and medium enterprises, to function as a tool for business improvement, because the assessment provides an adequate basis for planning and is associated with the Advisory Services to promote business efficiency.

Factors of competitiveness. Questionnaire for collecting data from companies is a core group of growth factor of competitiveness that are processed and measured in order to express the reality of a particular economic sector, which determines the efficiency of enterprises and thus affect the competitiveness in international markets.

During interviews for collecting data, looking for all kinds of answers to 200 questions about the resources, advantages and disadvantages in the areas of production, finance, marketing and management. Among other things, the questionnaire also covers the competitive factors related to the macro environment of economic sectors and national economies, working conditions and investment policies [4].

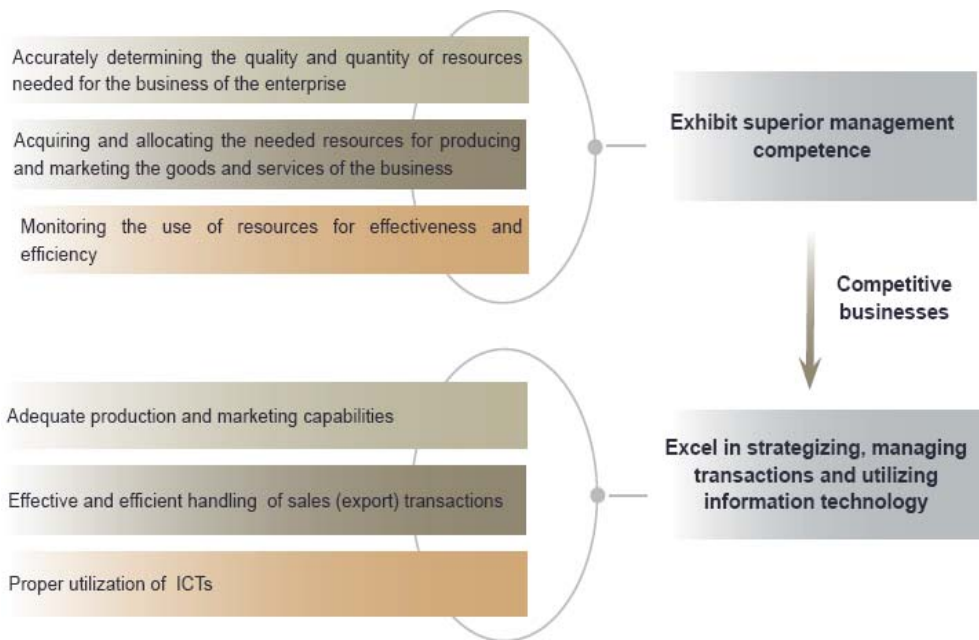
Services for business improvement. Association of the participants offer advisory services to members in addition to the initial assessment tests in relation to the payment. This provides security to individual firms, when monitored initial diagnosis and work towards improving the competitiveness of exports.

A measure creates various types of standard reports and analyzes competitiveness in economies and at the corporate level. It acts as a barometer of business, as commercial associations publish periodic indicators of business confidence [4].

6. BUSINESS DEVELOPMENT SERVICES

The Business Development Services (BDS) that match the needs and demands of businesses, help businesses become more competitive. This BizDevKit a methodology, tools and materials, which are integrated over the scope of business competitiveness. BizDevKit helps in assessing needs, confirm demand and determine gaps in service provision. We hope that the BDS suppliers in developed countries and developing countries see the usefulness of this model to determine which programs will be offered to their clients, "said O. Atac, director of trade support services, management companies for development [5].

Figure 2. Factors of business competitiveness in BizDevKit model.



Factors affecting the competitiveness of business. BizDevKit defines competitiveness in view of the competence of managers and their results in terms of management, export and e-readiness [5].

Evaluation tools. BizDevKit contains all the necessary instruments to measure in order to facilitate users to assess the needs, confirm demand and identify gaps in service provision:

1. Survey on the needs assessment.

Software to determine the needs and resources in the area of competitiveness of companies.

2. Questionnaire to evaluate the market.

Verification of the demand for resources and expertise.

3. Questionnaire to evaluate acquisitions.

Assessment of procurement of services and barriers.

Identifying market opportunities. BizDevKit allows users to match needs in the field of resources and competence for the business demand. It also allows the user to assess the business development services in connection with the needs and requirements. Classification markets and opportunities [5]:

Stable market. Has an adequate supply of services that are needed and requested. Depending on the life-cycle services, this market should be profitable and stable.

Open market. There are new product opportunities and inadequate supply of the services requested.

Underused market. An adequate supply of services that are requested but not required.

Latent market. Necessary services are not delivered, possibly because it did not confirmed the demand. Lucrative opportunities exist if the demand is properly encouraged.

Unstable market. There are unnecessary services, but are offered as if they were requested. Demand may suddenly to drop and make service unusable.

Risky market. The demand was confirmed for the services may not need, and supply is not adequate. Service offerings to meet the demand may seem attractive, but may have a short life cycle.

False market. BDS suppliers offer services that are not necessary nor required. Such services must be stopped.

Non-existent market. There is no market for BDS services.

7. CONCLUSION

Small and medium enterprises, because of its exceptional importance and impact on economic growth and economic development is a top priority of both developed and developing countries and transition economies. Therefore, the necessary review of all relevant aspects related to the structure of economic competitiveness, in order to determine on which specific sectors of the economy and the specific products, play an important role in the export competitiveness of the mentioned countries.

Development services to small and medium enterprises by the model of the International Trade Centre helps to enable small and medium enterprises to: understand what it takes for a company to survive and win in the global economy, undertake an evaluation of the competitiveness of enterprises, compared and put yourself in a relationship with the international best players, to improve understanding of the export process, assess their readiness to undertake export and identify priority areas for improvement.

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**SYSTEM OF STRATEGIC MANAGEMENT AND BSC IN
THE SMALL AND MEDIUM ENTERPRISES**

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Abstract

The process of company management should be created and realized in a way that can enable the realization of set goals in the performance of the company and increase its total success. Bearing in mind these two demands that should enable successful business activities of the company in the contemporary time, it is clear that appropriate instruments which support the management in the process of bringing high quality decisions are necessary. These decisions enable the process of management as a whole and therefore respond to new conditions in the business field. Management cannot rely upon traditional methods in result measuring when it comes to decision making in conditions full of turbulent changes and multiple challenges. Company management should provide appropriate flexibility and creativity within the company, as well as more rational use of resources. The goal of this paper is to research on holistic, concise and clear way, the role of Balanced Scorecard in the small and medium enterprises.

Key words: Balanced scorecard, business, performance, measure results.

JEL codes: M11, M13.

Introduction

For an enterprise to survive, develop and conquer new markets, it has to expand the development goals beyond basic financial goals. Even though they represent an excellent overview of changes in the past, financial measures represent a necessary but not sufficient condition of enterprise development. Financial measures represent *final indicators* because they are a result of previous activities. Successful enterprise development is possible if these final indicators are supplemented with future success drivers, i.e. *directional indicators* [1, p.23-

30.]. The question of determining *final* and *directional* indicator of enterprise success arises. The answer should be looked for in a clearly defined strategy of the enterprise. Thus, the organizations, after formulating a strategy having as a goal the improvement of their relationship with the customers, have to provide its effective implementation. Implementation of formed strategies emerged as a problem which demands an adequate solution. Enterprises in time of constant changes and strict market demand have to spend a significant amount of time and resources in order to measure the results of their own activities in strategy application. Statistical data point out to problems which arise in the process of new strategy implementation. Management has a need for an instrument which will allow them to effectively transfer the strategy to their employees and motivate them to direct their activities towards realization of goals which will at the same time enable continuous measurement of the success of the chosen strategy. This implies measurement of activity in relation to set goals of the enterprise and adaptation of the strategy towards eventual changes where the traditional measurement system directed only at financial indicators is not of great use because of its numerous flaws. In these type of conditions a system of strategic management is developed – the *Balanced Scorecard (BSC)*, which intends to transfer the defined strategy through the entire organization with a cascade process in a sense that every employee easily recognizes his own abilities towards its realization. Analyses show a significant BSC system success in understanding the strategy, which is a prerequisite for its efficient realization. *Balanced Scorecard is a system of connected and balanced goals, measures, target sizes and actions that enable the definition of consistent planned activities throughout the entire organization down to the individual and with it the realization of its vision and strategy* [2]. The classical representation of BSC is with four basic perspectives: financially-economic, users perspective, internal processes and learning and development. Four perspectives which are recommended from the BSC authors cannot be fitted into a universal frame. Therefore it is necessary to expand the number of perspectives, but the possibilities of balancing these perspectives have to be taken into account. BSC is a good methodology because it strives to balance all perspectives. *Balanced scorecard* puts balanced numerical indicators to disposal for the management from which is possible to determine *early* (non-financial) and *late* (financial) indicators. Organizations that implement BSC, should facilitate orientation, in a sense where the organization finds itself at the moment and which activities it needs to take. By introducing nonfinancial indicators in the measurement system, the conditions for integration of success indicators into a global communication system in which the employees have to know the financial consequences of their activities and decisions, while the management has to know all the elements of long term financial success. Therefore the BSC system has three important functions[5, p. 33]:

- Measurement system,
- Strategic management system and
- Communication tool

Originally BSC was supposed to represent just a measurement system which the defined strategy transforms into a sequence of strategic goals and the transform further into measures and activities for their realization.

This model has grown into a system strategic management system which simultaneously represents a very good communications tool for introducing the employees to the defined strategic goals and effect measurement in relation to these goals in order to provide a redefinition of the strategy in place through the four perspectives of organization development.

1. BSC as a system of strategic management

Application of BSC and strategic maps in companies results with significant changes in success achievement in a certain business. BSC puts the strategy in the center of strategic management process. Many companies used BSC in order to direct their strategy towards the realization of their organization goals. BSC is a valuable resource or a tool for strategy application which enables:

- That a certain business becomes strategically focused on goal realization;
- To introduce changes through efficient management;
- To center the organization around a strategy;
- To make strategy everyone's business;
- To transform the strategy into a continuous process.

If BSC is observed as a system of strategic management then it is used for [3]:

- 1) Understanding the mission, vision and strategy;
- 2) Communication between strategic goals and measures, and their connection;
- 3) Planning, defining goals and tactical coordination of strategic activities and
- 4) Improvement of strategic feedback and learning on all levels.

Figure 1 clearly shows that BSC represents the essence of the management system in an organization because it coordinates, supports and provides mutual correlation of key management processes directing them to a defined strategy.

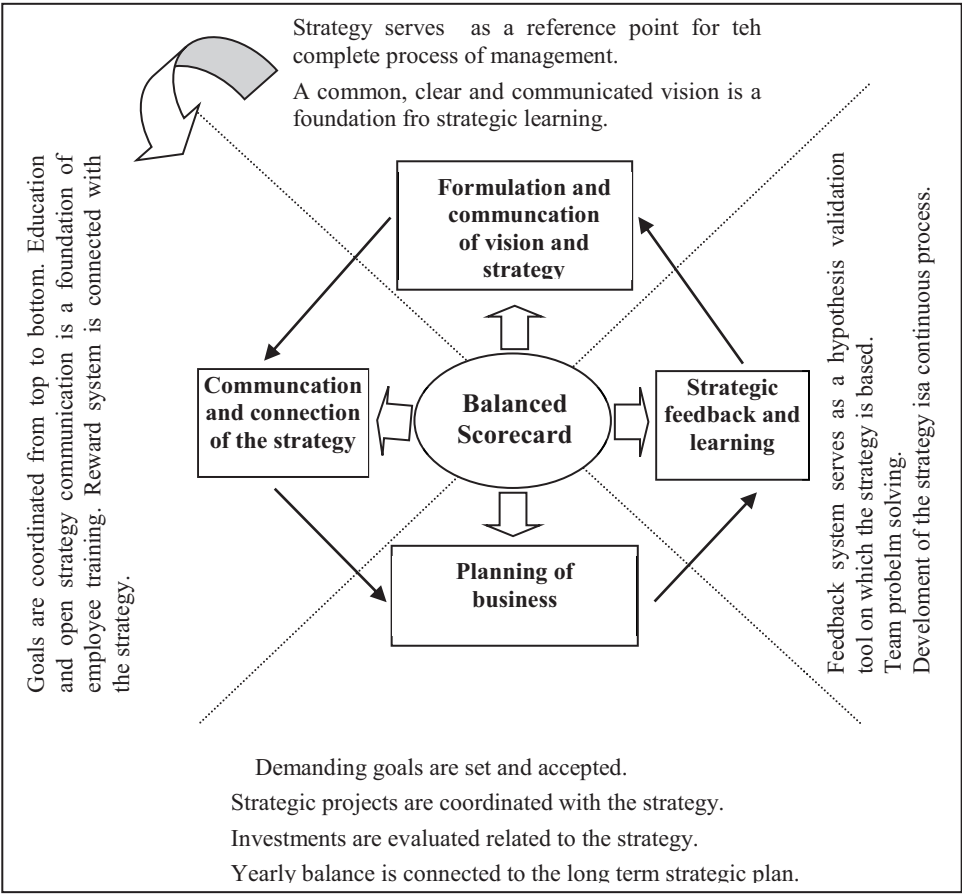
Formulation and communication of vision and strategy is a process with which the creation of a BSC model starts. Strategy is defined by teamwork in the top management which is translated into specific goals in a way so that every organizational entity, every process owner and even every employee can and has to recognize his role in the strategic directions and in that way determine their own goals and activities towards their accomplishment.

Process of ***communication and connection of strategy*** is the following management process in observation of the role of BSC in the management process. Process of communicating enables that by internal information system, all employees in the organization are informed of the strategic goals and indicators. It is a process of directing all employees and even external partners to recognize their personal abilities in implementing the strategy by understanding the vision and strategy of the organization. Transfer of strategy to employees is realized through [6]: communication, training, goal determination programs and material reward systems.

Process of **planning and setting goals** comes directly from the determined vision and strategy of the organization. Within this process the ability of the BSC model to initiate and conduct certain organizational changes arises. Many organizations in lack of necessary resources keep themselves on concretization and communication of strategy, but when the resources are included in goal realization i.e. when concrete steps are made, then the goals transform into clearly defined tasks which significantly additionally oblige the employees. In this way BSC model becomes a good base for permanent improvement, reengineering and transformational programs.

Improvement of strategic feedback and learning process as the last process in the management system puts the BSC model in the frame of strategic learning. This process provides the ability of strategic learning on executive level. It represents the foundation of successful realization of the strategy where by applying concrete indicators and their comparison with set goals a clear image of the entire organization's business is developed, where every employee exactly sees his place in the entire mosaic.

Figure 1. BSC as a system of strategic management

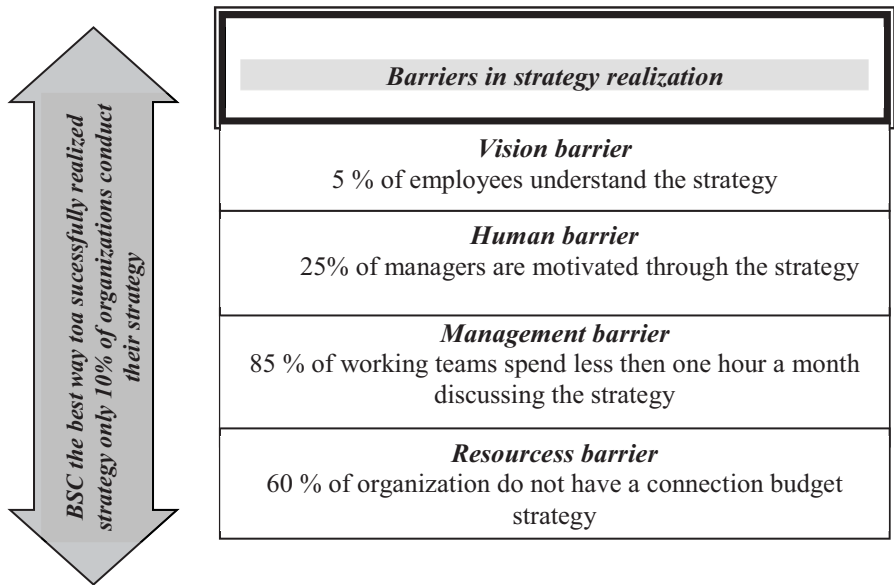


Considering that contemporary organizations do business in a very variable environment, it is impossible for an already determined strategy to be applied for realization of set goals, and to take actions with the goal of the organization's development in accordance with an already formed strategy. This *single loop* process is not appropriate and therefore contemporary organizations need a strategic feedback-process which enables checking, verification and alteration of strategies based on the set hypotheses. Two ways *double loop* process enables review and verification of former hypotheses and gives an insight into the necessary strategy alterations, based on some new assumptions, considerations and experience. Namely, learning in two circuits implies constant review of basic assumptions on which the strategy of the enterprise is based, which enables constant learning about the strategy, and its constant improvement.

2. Implementation of strategy by applying BSC

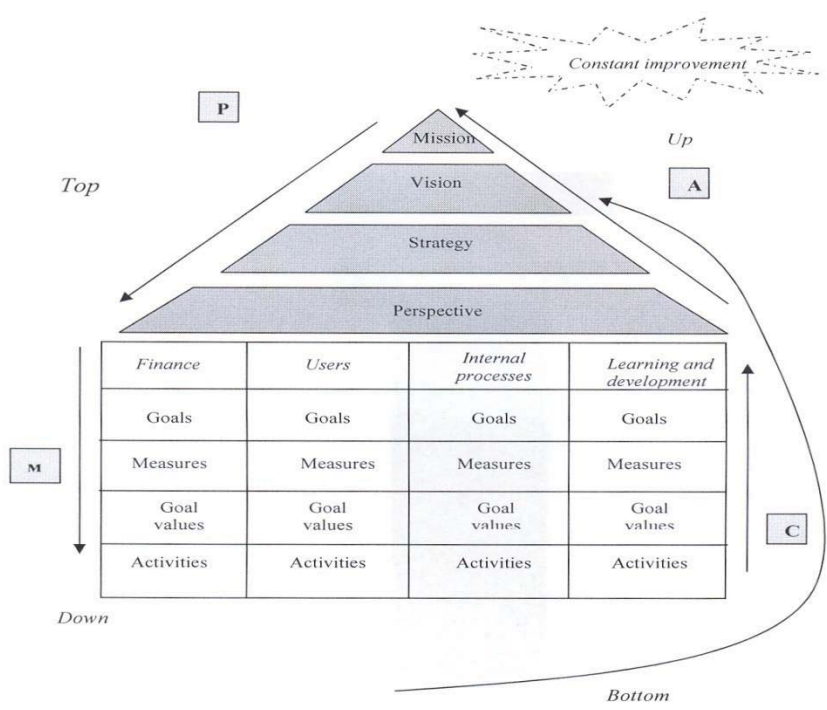
1. The role of the BSC concept in management process application is to fill up the void that exists in most management processes, and that is the lack of systematic strategy implementation process and supply of feedback about the strategy. Management process built around BSC enables for the organization to become coordinated and focused on implementation of the long term strategy. Used this way, the BSC model becomes a basis for organizational management in the informatics era. The power of the BSC model is seen when it transforms from a measurement system into a managing system. Researches imply that most organizations are not successful in implementation and execution of strategy because of different barriers (Figure 2).

2. Figure 2. Barriers in strategy realization [5, p.29]



BSC is the best solution in the process of translating the mission, vision and strategy of the organization into a clear effectiveness measurement system which is represented with a **Top-Down** path in Figure 3. Therefore, the strategy needs to be transformed into goals in every perspective, and then for each of these goals, indicators (measures), goal values and activities to accomplish these goals are defined.

Figure 3. Enterprise strategy based on the BSC method



On the other hand, an important role of BSC can be seen in the Bottom-Up path, where through activities directed towards goal values of measuring indicators the degree of fulfillment of set goals is evaluated and the effectiveness of the organization in implementing the strategy are determined. This way acting within the organization towards constant improvements is induced, because in the contemporary variable environment it is impossible to define a strategy once, and apply it for an unlimited amount of time, without it being reviewed and improved. Hence, BSC basically represents a coordinated correlation of short term results of the business strategy and their background long term

causes, and it that way it depicts the management system in a best way. From this point of view, BSC acts as a stimulant for effectiveness increase within the organization.

3. BSC in small and medium enterprises

Growth term for small and medium enterprises is the increase of strategic management process quality. BSC an efficient tool for a clear interpretation of long term goals through the vision, which can be transferred through the strategy into short term activities. A capability of focusing onto certain goals and priorities must be developed within an enterprise. Focusing onto a clear vision of the future and a strategy on how to realize it helps the company to fulfill its mission. It is necessary to develop organizational abilities of the management. Using BSC methodology it is regularly controlled whether the company does what it had planned, are the wanted results achieved, can the enterprise make strategic decisions, what it needs to do in the future based on former experience and in accordance with the changes in the environment.

The development of the Balanced Scorecard methodology significantly contributed to the application of the model in small and medium enterprises and in enterprises that have different business activities. The reason for this is, that the greatest advantage for small and medium enterprises comes from a possibility to formalize the description of the vision and strategic goals in a way so the general consensus is reached, as well as a support to development and application of successful process of strategic management, which are normally the biggest flaws of management in small and medium enterprises. There are differences in the organization of bigger and smaller enterprises. The advantages of smaller and medium enterprises are their simple structures. As growth is a part of every enterprise, mala and medium enterprises have to be ready to be transformed from small into medium, and in the end even into big enterprises. Knowing and application of the strategy, as well as understanding of the importance of financial and non-financial indicator systems can significantly simplify these transformations. In small and medium enterprises these advantages of BSC can be realized without the need to develop complicated and demanding measurement methods, using this method as a frame for solving strategic changes in the goal of realizing long term goals. Creating BSC in small and medium enterprises involves similar processes as in creating it for big enterprises. Basic and the greatest difference is the length of the process. It is assumed that this process within small and medium enterprises is conducted in a significantly smaller amount of time, keeping in mind the smaller number of employees and simpler business structure. Within small and medium enterprises it is easier to accomplish the involvement of the entire collective in building the model, which simplifies the implementation of the strategy. BSC model development helps the validation of the business model with a complete understanding of strategic, and operative demands, identifies the most important

strategic goals by focusing on the ways they have to be realized. However, the identification of the indicators is an important step towards the organizational solidification in the small and medium enterprises, with the necessity of keeping the flexibility which determines this type of enterprises. It is very important to adopt a system of corrective measures characteristic for bigger organizations. The fact that some performances are measured leads to an increase in attention and usually better results in the areas that are measured. The true value BSC has only when it is applied. Successful implementation of BSC within a company demands constant dedication of management in running and maintaining all necessary changes in the behavior within the company. Starting from these criteria, BSc can be a useful tool for the managers to accept the challenge and introduce more effective strategic planning into small and medium enterprises, in a way that they keep a relatively simple structure and with it gain competitive advantage. In order to maximize the effects of a BSC model, it is necessary to particularly pay attention to its design. Designing a BSC model is relatively simple, but following errors need to be avoided:

- [1] Avoid unreal expectations from BSC;
- [2] Model design process must suit/ the organization where it will be applied.
- [3] Management of the modeling process has to be conducted with the complete understanding of the system, whether it is done with or without the help of external consultants. Small and medium enterprises have a significant advantage because it is possible that all managers and employees are familiar with the processes within the enterprise.
- [4] The process of BSC introduction has to be coordinated with other processes in the enterprise. It is necessary that all previous processes are revised and coordinated with the goals set through the BSC model and in that way the possibility of goal conflict is diminished. This is also a recommendation for introducing the BSC model into small and medium enterprises.

The BSC way of thinking needs to be inwrought and supported within the organization in order to have the chances for success. Manager need to adopt this model as their own and to completely dedicate themselves to its execution and improvement. Design improvement, results preparation and comparison with the goals need to be a constant task of the management. In small and medium enterprises there is a higher chance for successful application of BSC and the results may be better then expected.

Conclusion

In contemporary business environment, strategy has a significant importance. However, research indicates that most enterprises fail to apply their strategy successfully. Strategy implementation within an organization is very important for management. The strategy is important, but the ability of application and

realization is even more important. We can conclude that introducing BSC in small and medium enterprises should be equally efficient as it is in the bigger enterprises. In small and medium enterprises the benefit comes from two reasons, which are: clear description of the vision and set goals which will create a consensus and a stimulus to develop and apply a more effective process of strategic management. Balanced Scorecard is today an important tool of strategic planning. The basic reason of failure or weak results in business of small and medium enterprises is certainly the inadequate attention of the management to strategic questions. Improving the quality of strategic management process is the key to growth of small and medium enterprises.

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**CONCEPT INTERNATIONALISATION OF SMALL AND
MEDIUM ENTERPRISES**

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Abstract

The internationalization of small and medium size businesses as an accelerator of the overall development of a national economy, it is a key element in increasing the competitiveness of companies in generating growth and job creation. Creating competitiveness and internationalization of small and medium enterprises acceptable solution that tries to answer the accelerated globalization of the world market with a clear message of survival of the national economy at the global level. The purpose of this paper is to present alternative concepts of access to global market, not a privilege of only large but also small and medium enterprises. Concepts are first and foremost based on the application of contemporary approaches to the consumer who expects an individual approach, innovative products, services originality, and the possibility of new strategies of internationalization. It will be shown that small and medium enterprises in the process of internationalization may be at an advantage through flexibility, openness, dynamism and innovation, but also a disadvantage because of lack of funds.

Keywords: internationalization, small and medium-sized enterprises, competitiveness, perspective

JEL codes :

F23 - Multinational Firms; International Business

F55 - International Institutional Arrangements

F59 - International Relations and International Political Economy

1.INTRODUCTION

Small and medium enterprises that contain the concepts of flexibility, resilience and innovation have a chance to make it easier and faster access to new markets and independent access to international markets. Apart from this it must be stressed that the very process of cross-border cooperation can be an

expensive, arduous, time-consuming demanding in terms of providing financial resources and managerial skills.

Global, economic and political changes have opened new ways of internationalization of small and sresnjih companies. It is certain that knowledge about different methods of internationalization of small and medium enterprises can help you make better decisions, but you need to know that only one method can not realize the goal. So you need to know that the future in an increasingly complex process of cross-border cooperation will be a mixture of many different methods, or some completely new model that will require the selection of the optimal option. Today, the unpredictability of the contest of cross-border cooperation of small and medium enterprises can be avoided application of the method of learning where the process will be conducted in phases or through precise systematization and successive planning as well as the method that is applied depending on the situation in which there are small and medium enterprises, and can can be done with the selection and merging the best of both of these methods.

It is because of the above important fact internationalization of small and medium enterprises is an adequate selection of the strategy of appearing on the international market. It is known that in most cases using strategies, joint ventures, trade missions, the establishment of international offices, franchises, and strategies specific license online. You need to know that each of these strategies has its costs and does not offer the same opportunities.

2. REASONS AND THE IMPORTANCE OF INTERNATIONALISATION OF SMALL AND MEDIUM ENTERPRISES

The term cross-border cooperation is contained in the process of internationalization, including expansion of economic activity beyond the domestic economy, leading the extensive organization of economic activity. [4, p. 142]. Cross border of small and medium enterprises come primarily from the political, economic and technological changes as well as all the more active process of market liberalization, creating a condition for international, harsh market competition. Thus, entrepreneurs and managers of these enterprises must take measures to adekavatne unfair competition, not only domestically but also in foreign markets. In such circumstances it is necessary to pay attention to: the method of production and costs, the possibility of development of innovation and introduction of new technologies, market research and access to financing.

The expansion of cross-border markets for small and medium enterprises is an important significance in particular for those enterprises that do not have sufficient funds, those that have satisfied the domestic market or are restricted in different circumstances.

The most important motives of entry of firms operating in foreign markets is the importance of competitive advantage, achieving more than market size

and high cost. I.e., expansion and differentiation of market, innovation of products or services and minimizing labor costs [9, p. 463].

Internationalization motives may vary according to whether the venture aimed only goal is profit, or profit from the self, the creation of something new or to cope with the challenges of globalization. Entrepreneurial desire for profit or self-certainty must passionately fall into consideration: increased competition in the international market, the differences in production conditions, the ability of innovation and introduction of newer products and knowledge of future market development. Motives access to international markets this way can be understood in two forms. PVI, a larger market for importers could be the finished products, raw materials, services and other components and found that they increase the share of the domestic market by lowering costs. Otherwise, exporters have access to cross-border competence and resources, cross-border activity and sharing decades of experience, which can lead to a more stable perspective.

Research European Commission has proven that small and medium enterprises over their national economy leads to constant and higher revenues, and companies that have activity only in the domestic market are often faced with changes in the volume of business. Investigations were starting to have companies that have decided on the more complex strategy for foreign markets, as for example the establishment of its mission, achieve much better results. As for the size of the company, the better the activities were recorded in the middle refer to a small and micro enterprises. The best results are achieved through alliances and partnerships with foreign companies, with the usage of foreign resources [European commission2007]. Would achieve the same goal of small and medium enterprises of the Republic of Serbia with the full membership of the European integration by overcoming obstacles associated with the cost of market research, promotions, communications, distribution, and in particular product differentiation.

Without a strong reason, or incentives, is unlikely to go to the internationalization of activities, little is likely to SMEs in general react to the emergence of opportunities for international markets.

One of the basic prerequisite for successful exploitation of international opportunities is the existence of strong reasons, or incentives, internationalization.

The six are the main reasons that encourage SMEs to internationalize [1, p. 211]:

- Compensation for the lack of growth in the domestic market, descending
- Reducing the dependence of the domestic market, especially if it is in the process of decline,
- Utilization of excess capacity,
- Expansion of product markets that are no longer attractive to domestic market

- Exploitation of unique competencies the company,
- Adapt to local competitors by conquering foreign markets.

Incentives for internationalization are not sufficient by themselves. They must be related to the existence of certain market opportunities. Basically, this insight into specific foreign market opportunities is acquired in three ways [5, p. 35] :

1. In the first case, the decision on internationalization is related to the specific stimuli that draw attention to the existence of business opportunities in foreign markets. Research and identify foreign market is irregular and accidental, since the occurrence of certain stimuli. In this case we can say that the choice of foreign markets opportunistically.

2. Insights to certain market opportunities can be reached through a process of systematic investigation and comparison of potential markets. It is a systematic approach to market choice.

3. The third situation is a combination of the previous two approaches. Small and medium enterprises starting with opportunistic approach which then evolves into a system.

3. INTERNATIONAL MARKET SELECTION PROCESS

The reality of the modern business environment demands that small and medium enterprises systematically and continuously explore international markets. Unfortunately, there are still many companies ignore this approach. The procedure involves the application of market logic and objective approach to gathering, analyzing and presenting data and conclusions. Personal information dooprinosse reducing uncertainty and making appropriate decisions.

Research of foreign markets should provide an answer to important questions, such as [3, p. 28]:

- To which markets, produces small and medium enterprises can be sold profitably,
- What countries offer the best conditions,
- That the volume of sales expected in every market.
- Does a foreign market requires a modification of products,
- Do you require special country-specific channels of distribution, or other arrangements
- If demand is sensitive to the price of the product, what the new prices can be expected.

Appropriate, successful selection of international markets means creating opportunities for survival and growth of small and medium enterprises. Conversely, the wrong choice of international markets has far-reaching consequences because of this error is far more expensive than those in the national market.

3.1. Systematic selection of foreign markets

In fact, a logical process of small and medium enterprises for system selection of foreign markets is establishing criteria for selection, research potential markets, their classification, in accordance with standard criteria and the selection of markets that allow current and future enterprise development.

In accordance with well-known scholars, in the beginning of the process should be used preliminary research, the purpose of the preliminary investigation is to identify markets of which draws attention. Preliminary research is trying to minimize the two types of error: error to ignore countries that have good opportunities for products of small and medium enterprises, and the error to lose too much time to research the market of countries with stable features.

The purpose of the preliminary investigation is the quick fix potential markets in many countries. Since we used the criteria are quite broad and includes economic and social statistics. Such reports are available for most countries and comparable for different countries.

Preliminary research includes [3, p. 30]: demographic and physical environment (size, growth, population density, distribution of the urban and peasant population, climate and weather differences, physical distribution and communications, natural resources), political environment (nature of the system, political stability and continuity, ideological orientation, degree of involvement government in business, government involvement in communication, attitudes of governments towards foreign business, economic and development priorities), economic environment (level of development, economic growth, a place of international trade in the economy, inflation, exchange rate stability, balance of payments, income per capita nacionlani inhabitants) the socio-cultural environment (literacy and their education, the existence of the middle class, the similarities and differences in the local market, language and other cultured considerations).

During preliminary investigations it is learned on the Fick and geographic, demographic, economic, socio-cultural and other characteristics of the market.

3.1.1. Market potential

The aim was to identify countries with the greatest market potential for the product category. These findings have great significance, since it is clear that there is no point wasting time and money on research if there is no market for the product category the company.

For this purpose, several criteria are important to small and medium enterprises: certain categories of import products, consumption, or images of actual sales of product categories. For the purpose of selling the company must

take into account social habits, the specific requirements and preferences, market trends and so on. So, assess the likely value of these quantities in the future.

3.1.2. Sales potential

It is necessary to evaluate the potential sale of the company for a certain category of the advertised product. The potential sale of the company is defined as the most likely volume of sales of products that the company can achieve in a particular country for a certain period of strategic planning. Also, the potential sale of the company is likely to be viewed through the participation of companies in the market potential of the country [3, p. 30].

Level of participation in research companies in a given market potential must be taken into account numerous factors, local import regulations, tariff barriers, rules on product quality, competition, distribution channels and so on.

Competition research on the potential market is important for the development of small and medium businesses. First, in order to determine actual benefits, a company must examine their own products to competitors in each market. There is little benefit to the company if he tries to perform in foreign markets without some competitive advantages. Second, you must have a careful analysis of market share competition, their size, price policies, resources involved.

Of market structure is another element competition analysis. The character of the market in which company performance is an important determinant of success. In certain markets there is a strong competitor whose characteristics are a large number of competitors with undifferentiated products, there are no restrictions of entry, information flows are fast and accurate.

3.2. Influence on the market

Of the important factors that influence the selection process of foreign markets are mainly: the size of export sales, goals, corporate strategy, the value of market information.

Companies that import a large extent, dependent on the international markets as a source of stability and growth. Such companies must devote greater attention to the selection of international markets, as opposed to those companies that have a smaller share of exports in total sales. Importance which it attaches to the company, to create specific goals, can also affect the selection process of the market. The objectives of the exporting companies could be like say, the marketing of surplus production. For many small and medium enterprises there is no difference in the objectives in the domestic or foreign markets. Example goals, such as the desire to achieve stable sales growth, war profits from export sales, and faster growth of export sales turnover [5, p. 46].

The strategy of small and medium enterprises also have a major impact on the selection process of international markets. Its influence can be seen, above all, through market concentration, market segmentation and ways of entry into international markets.

The value of information that is made at the country level are typically used for preliminary research and assessment of market potential of certain industries. Information relating to the product in detail, related to specific product markets, and assess the market potential of the company.

4. INTERNATIONALISATION STRATEGIES SMALL AND MEDIUM ENTERPRISES

To collaborate or export domestic companies with foreign enterprises are faced with a choice stregije internationalization and cooperation. Entrepreneurs are faced with numerous problems, such as political, cultural, legal and economic inherent in large and not only small and medium enterprises. Rise in foreign markets requires not only an investment in market research, product promotion, selection of modes of distribution and price strategies of innovation but transforming the business philosophy of constant innovation and use of superior quality products [11, p. 293].

The decisions of ways of entering foreign markets affect both characteristics of the external environment and the characteristics of the company. The most important external factors are the characteristics of the country of entry, trade barriers and regulations issued by the Government of that country and the characteristics of the product market. Choice of country strategies and management of a firm belonging to a specific, internal characteristics of those companies [5, p. 48].

The most important characteristics of entering the country are its size and market growth, political and other characteristics of the environment and economic and market infrastructure, trade barriers and product characteristics [6, p. 155].

Among the world's best-known scholars are the following strategies: Internet, brokerage, joint venture, license, franchise, export and establish their own facilities.

The simplest and easiest way to reach more consumers and beyond the national economy is the Internet. This strategy is applied entrepreneurs specialized products and entrepreneurs who provide tourist services.

The next strategy is to use an intermediary to serve as distributors in foreign countries for domestic small and medium enterprises. In this way, the entrepreneurs in their country related to consumers in other national economies. The mediators are flowing high confidence in their knowledge and experience in understanding local consumers and markets. Most SMEs do not have enough knowledge, capital and confidence in their ability to embark independently on

the foreign market. It is for this reason, this strategy presents a favorable circumstance.

The third strategy is a joint venture in the form of capital investment: research, development, manufacturing, sales and purchasing functions, as well as joint investment in know-how, the protected and unprotected property. The main reasons for this kind of investment are: the lack of internal funds for modernization, expansion and construction of new facilities, technology; Obtain experience and knowledge in the division of labor; Novohem easier development of products, better utilization of energy, rational use of raw materials, improving product quality, improve cost-effectiveness and cost of capital.

Instead of selling products and services in a foreign market, a number of small and medium-sized companies rely on licnciranje. In this way, companies get a certain amount of the fee and have high costs for control of the licensee. This type of profit is less than the profits made by other forms of cross-border cooperation, but it is very attractive because it does not require high average costs. It is this way, using small and medium enterprises because of its small financial power.

Franchising is a business in which one party gives the other the right to use in its operations to its name, products and services and business experience, and is obliged to give her expert assistance and the recipient of a franchise is committed to strictly follow the instructions in the franchisor organization and way of doing business.

The next strategy is self-export. This way of cross-border domestic companies to decide on their own knowledge, experience and finance business in other marketed. This way means significant investments in marketing, distribution and export of a separate organizational unit which is the biggest obstacle for this kind of enterprise. Samotalnim export provides the ability to quickly adapt to customers' wishes and the everyday demands of new, attractive, sophisticated and quality products.

The most important export strategy, a strategy of internationalization of small and medium enterprises are [7, p. 5]:

- Expanding markets for which it is justified to invest in research and development, procurement of capital equipment, marketing, etc.,
- Gradually increase the market opportunities so you can plan your business development,
- The existence of the market portfolio provides options for different damping shock that are related to only one market,
- Ability to conduct trade using a large number of regards to foreign currency, in order to mitigate the impact of fluctuations on imported raw materials and capital equipment
- The benefits of exchanging ideas that arise in meeting the different groups' needs and expectations of customers worldwide and

- Classification of vision and commitment of management.

The establishment of international representation is another form of internationalization of small and medium enterprises and is also an expensive solution. The establishment of the international community dock for most large companies. The reason is the lack of financial and other small and medium enterprises.

With regards to the determination of development companies and making strategic decisions for internationalization, special importance is the respect of the four economic policies. These are: permanence and continuity, stability, rationality and liquidity [2, p. 529]:

Rule permanence and continuity suggests that the business enterprises permanent activity, and therefore the owners and management must ensure long-term relationships with emerging markets.

The rule indicates the need for stability selecting the correct business strategy of internationalization, and making optimal decisions. And in today's environment where changes are very fast, it is necessary to set strategic goals that will ensure development and prosperity. Such goals are made on the basis of the application of appropriate methods, using the phase of the process of decision making and continuous process of monitoring and evaluation, thus the risk is reduced to a minimum.

The rule of rationality manifest itself in the pursuit of companies to achieve a certain unit of time business results with minimum investment, or, however, that with certain investments produce as much business results. This principle is worth regardless of whether it is interancionalnom company or national and the enterprise as a whole, each organizational unit or an internal work process. Under the business is the result or the amount realized includes the product (service) or income or financial results, while the inputs include investment and engagement of fixed and current assets and costs (materials, labor, etc.).

Liquidity means the rule of enterprise at which the company permanently able to meet its commitments to new markets. With this principle is related to the concept of solvency or ability to pay liabilities within dosplih.

5. BARRIERS TO INTERNATIONALISATION

Rise in foreign markets requires additional knowledge of managers and employees. SMEs can hardly afford qualified people, because the cost of their employment occupies a very important part of income. Large companies, since they hold more financial assets, can get accustomed to the foreign market experts who are specialized in the internationalization of enterprises. Small and medium enterprises lasting problem can be overcome by any networking oblikm strategic merger.

Looking at the internal barriers, which are of particular concern the high cost internalization and lack of skills and knowledge, it is evident that these

companies give in but in the choppy first barrier. High costs of internationalization were frequent reason for not expanding its operations outside the domestic market. These include the costs that make it difficult starting position, which include research costs, costs of administrative and legal services, transportation and marketing costs. Possession of skills and knowledge such as knowledge of languages, local markets have significant impact on strategic planning and organizational skills.

Of external barriers faced by these companies are laws and regulative that vary from country to country. This problem is specific to all companies that choose this way to spread no matter what strategy applied. Lack of capital and the provision of mortgages are not just a problem of SMEs but also large. Taking into account this circumstance, which is a strong obstacle to doing business on the domestic scene, it makes it difficult for the internationalization of enterprises.

In addition to these obstacles SMEs face and with various other forms and measures of national policy, with technical and technological standards, consumer protection laws, cultural differences, social differentiations. Completing the single market of Europe with the same legislation facilitated the access of small and medium enterprises. Although there is a problem of local and regional level that is in stark contrast to differ, adding additional constraints: additional testing, import certificates, declarations ...

6. CONCLUSION

Individual approach to today's consumer is the strategic value of differentiation, but the value of competitive advantage for international market. To entrepreneurs, small and medium-sized businesses achieve success and the international market have their core competencies to improve, adapt and improve.

Nasionalinih selection of appropriate markets and selection of a strategy of internationalization, the key choices that require attention in assessing opportunities and risks related to the expansion of small and medium businesses outside of the national economy. It is necessary to analyze the important conditions, when the appropriate choice of the market, and then the most profitable way to enter. Also, the key to success comes down to a realistic assessment of strengths and weaknesses of the company to take advantage of attractive opportunities.

Internationalization of small and medium enterprises is crucial competitive strategy, which in itself should have a low cost and product differentiation. But not enough to use appropriate strategies, it is necessary to have a proper, fair, national advantage.

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**SMALL AND MEDIUM ENTERPRISES IN SERBIA IN THE
ERA OF GLOBALISATION**

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ABSTRACT:

This work focuses on the development of small and medium enterprises (SME) in Serbia and the effect globalization has on its growth, as well as correlation between the development of small and medium enterprises (SME) and commerce rise. The goal is to improve and create national conscience about the importance of development of the small and medium enterprises (SME).

Small and medium enterprises (SME) are considered to be one of the leading guidelines of the economical growth. It stimulates private ownership and entrepreneurship skills, since this area is flexible and can quickly adjust to market changes. This is generated by employment, creation of diversified economical activity and contributes to export and trade and is the basic factors of development of competitive economy.

It is obvious that the internationalization and creating global network of small and medium enterprises (SME) presents the focus for future research of development of entrepreneurship in the EU. Innovative capacities for small and medium enterprises (SME) are modest and usually represent local values. By creating international networks the obvious misbalanced between potential partners disappears, by which we open the possibilities for greater achievements and successful international partnership which provides small and medium enterprises (SME) with bigger chances in the EU system of public procurement.

In contemporary conditions small and medium enterprises (SME) represent the combination of the innovative, proactive and risky behavior which exceeds national borders and tends to create certain values in the organizations, since they appear more often as the suppliers in the big production systems.

Development of privately owned entrepreneurship in Serbia – country born from one of the Yugoslavia ex republics, in the present transitional economy does not differs much from the other countries in the Southeastern Europe.

As society we are at the historical milestone in determining our own future. So the key question is: how can we set the concept of future development which would lead us to higher productivity of our companies, their inner and outer competitiveness by using entrepreneurship and knowledge as the most important resources. In the last few years, there has been a vast group of activities in the line of developing business environment in Serbia. SME is recognized as one of the major growth priorities. In that sense, we can say that their perspective is quite certain. We only have to bear in mind that this is a process which in many aspects requires a certain period of time.

Key words: Small and medium enterprises, entrepreneurship, globalization, commerce growth

1. INTRODUCTION REVIEW

Commerce growth of one country does not consist only of the existence of big enterprises, but from the right combination of small, medium and big enterprises. Small enterprises can adapt with new technologies the easiest way in order to fill market voids. They swiftly acquire proper solutions than the big enterprises. Size of the small enterprises in relation to the big gigantic corporations' shows clearly in the shorter time span for implementing decisions, faster decision periods, market closeness and motivation. Small enterprises in the developed countries are the source of commerce growth. These enterprises produce the significant part almost half of it of the entire range of offered products and services. Small enterprises, however poses certain qualities, i.e. they provide jobs, implement innovations, stimulate competition, help big enterprises and efficiently produce products and provide services. Small enterprises work as the suppliers for the big enterprises.

World trade globalization trend is undoubtedly connected with enterprise existence, including the growth of small and medium enterprises. Small and medium enterprises are very successful way of preparing for "upcoming" financial and intellectual capital arriving outside of the beneficiary country. In the last decade we have witnessed great political turmoil and technology boundaries. Today small and medium enterprises in its form are present in practice in every country. It is especially specific for many developed economies. Development of the small and medium enterprises and so called middle class act should be treated with greater attention. This helps enterprises to resist market requests which are enforced by big and strong participants-players.

Turbulent business environment is the main characteristics of the last decade of the second millennium, which creates challenges for big as well as to small organizations. Past market position protection which the big economy uses to provide is no longer available by the arrival of new technologies, so the big enterprises have to find the ways to decrease and simplify various activities to smaller independent enterprises. Small enterprises thus don't have the global

range so much needed in this time of global competition, where even a family shop at the corner is overwhelmed by the competition from all over the world.

Business concept of the small and medium enterprises has been rapidly growing in the last decade to all worldwide markets. Desire of the entrepreneurs for expanding business operations and creating bigger profit, has made them to consider strategies for approaching other markets.

Observing business ethics and practical implementation, small and medium enterprises (SME) become one of the alternative possibilities which contribute to development and success. Principle advantage and weaknesses of the small and medium enterprises have to be well known in order to use the maximum from this form of entrepreneurs union.

Past years have devastated the capital of socially owned companies up to the level that the losses extend the value up to two or three times the value of the company itself and any prolonging of the privatization process can have terrible consequences for the further development of the Serbian commerce. Nothing is as important as the time, which doesn't play for us and only the swift and diversified action towards the competitiveness of the Serbian commerce can help us recover. Small and medium enterprises will certainly play an important role in achieving the set goals.

2. GROWTH OF THE ENTREPRENEURS AND SMALL BUSINESS IN SERBIA

Various researches show that Europeans in general tend to work in a company rather than to start their own business³⁵. This characteristic is especially obvious in post communist countries in which the long term laidback work tempo in socially owned companies was dominant and normal behavior stance for citizens of these countries³⁶. In the conditions of the transition economy which all post communist countries go through (Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, ex Yugoslav republics, ex Soviet countries and China), with dominance of state ownership, new so called "entrepreneurs", generally had the experience in the companies with various ownership forms. Decision to become an entrepreneur usually means that they have to negate the position in some of the state owned companies and start private business with uncertain legal status³⁷. Forming European Union (EU), boundaries have been broken and harmonization of relations is broken on the market of 450 million consumers. Creating friendly environment has a key significance for starting and developing private ownership. Council of Europe has adopted "a book of small

³⁵ Jones, V.M., Nummela, N., (2008) International Entrepreneurship: Expanding the domain and extending our research questions, *European Management Journal*, 26: 349 – 353.

³⁶ Jiangyong Lu, Zhigang Tao, (2008) Factors of entrepreneurial activities in China, *Journal of Business Venturing*, (Article in press- doi: 10.1016/j.busvent.2008.10.005).

³⁷ McMillan, J., Woodruff, C., (2002) The central role of entrepreneurs of transition economies, *Journal of Economic Perspectives*, 16(3): 153-170.

enterprises'' in order to help providing recommendations for private ownership development³⁸.

Finalizing privatization of the big enterprises in post communist countries in Europe (similar situation is in China and ex Soviet countries) which has been performed in many cases on the verge of the law with leading men in privatization close to the new political structures. At the beginning of 21 century during the phase of creating new economical order, various new entrepreneurship undertaking arises. These entrepreneurship undertakings of creating new private ownerships are followed by numerous difficulties, most important as: lack of knowledge and initial financial funds. Wish to create private business has only small number of people (45% Europeans want to have their own business, in regards to 67% of people in the USA). Only 4,5% citizens of the EU tried to start their own business in the last three years which is different than the 13 % in USA³⁹. These percentages are far lower in post communist countries in Europe, and it indicates that the goal in the entrepreneurship growth is a far fetch thing. The ability for creating business must include leadership skills, creativity and persistence, as well as few managerial qualities such as creativity and credibility.

In modern conditions, small and medium enterprises present combination between innovative, proactive and risky behavior which exceeds national boundaries and tends to create the certain value in the organizations, since they work more and more as the suppliers to big systems⁴⁰. It is obvious that internationalization and creating global networks of small and medium enterprises is the focus of the future research of entrepreneurship development in the EU. Innovative concept of small and medium enterprises is modest and usually represents only local values. By creating international networks we can seen the obvious asymmetry between potential partners disappears and therefore create bigger accomplishments and successful international partnership⁴¹ which gives small and medium enterprises greater chances in the sector of public acquisition of EU.

In the table below (*table 1. Serbia is ranked according to World Bank criteria*) we can see the negative tendencies of the economic indicators in Serbia, which we have to take into account for creating future commerce-economy development politics for this country.

Table 1: Serbia is ranked according to World Bank criteria

Description	Rank 2006.	Rank 2007.	Change Rank
Total	84	86	-2
Establishment of companies	84	90	-6

³⁸ Jones and Nummela, 2008; European Commission, 2005.

³⁹ Jones, V.M., Nummela, N., (2008) International Entrepreneurship: Expanding the domain and extending our research questions, European Management Journal, 26: 349 – 353.

⁴⁰ McDougall and Oviatt, 2000.

⁴¹ Coveillo, 2006; Chetty and Andal, 2007.

Operations that require a permit	148	149	-1
Employing workers	109	110	-1
Registering property	110	115	-5
Getting Credit	21	13	+8
Investor Protection	62	64	-2
Paying Taxes	117	121	-4
Cross-border trade	54	58	-4
Enforcing contracts	99	101	-2
Closing a Business	106	103	+3

Source:*The World Bank, Doing Business 2008, Washington, 2007.*

In the table no.2 (*Number of the enterprises in Serbia, classified by size - without Kosovo and Metohija*) we can see the number of companies in Serbia, classified by size (without Kosovo and Metohija) where we can see the development of private entrepreneurship in Serbia as one of the ex Yugoslav countries, that in transitional economy it does not differ that much from other region South East European countries. Since the commerce reform began in the year 2001 until today number of 400.000 small and medium enterprises in Serbia have over 1.200.000 employees. Every third privately owned company is located in Belgrade, with more than other half located in four regions: Belgrade, Novi Sad, Nis and south Banat. More than 40% privately owned enterprises consist of wholesale and retail, which with downstream industry, transportation makes more than 2/3 enterprises. There is a very small number of export oriented enterprises. In East Serbia – region of Timok (region of Bor and Zajecar) at the border triangle with Bulgaria and Romania, there are 7500 small and medium enterprises registered which have around 65.000 employees. This region is pretty devastated and only participates with 2,5% GDP of Serbia. Structure of the listed enterprises is the following: 44% services, 31% trade, production 18% and agriculture 7%.

Table 2: Number of the enterprises in Serbia, classified by size - without Kosovo and Metohija⁴²

Year	Small		Medium		High		Total	
	Number	%	Number	%	Number	%	Number	%
1999	58.662	94.8	2.359	3.8	879	1.4	61.871	100
2000	59.106	94.3	2.616	4.2	973	1.5	62.695	100

⁴² Statistical Yearbook of RS

2002	63.995	95.6	2.223	3.3	742	1.1	66.961	100
2003	65.547	95.8	2.181	3.2	663	1	68.391	100
2004	66.989	96.9	1.515	2.2	605	0.9	69.109	100
2005	68.309	95.8	2.292	3.2	702	1	71.303	100
2006	73.382	96	2.347	3.1	665	0.9	75.394	100
2007	80.939	96.23	2.572	3	598	0.7	84.109	100
2008	83.939	96.36	2.572	2.95	598	0.68	87.109	100

Source: Serbian Chamber of Commerce

Table no.3 (*Structure changes in commerce of Serbia 2005-2012.*) shows the structure of our commerce and changes things to be expected, which can help us in making a concept for creating future economic politics.

Table 3: Structure changes in commerce of Serbia 2005-2012.

	2000.	2005.	2012.
Food products, beverages and tobacco	28,7	31,9	31,3
Textiles and textile products	9,5	4,1	3,7
Leather and leather products	1,6	1,1	1,1
Wood processing	1,1	1,0	0,5
Paper and publishing	4,9	5,7	4,9
Coke and refined petroleum	1,5	12,3	12,7
Chemistry	12,6	12,3	12,7
Rubber & Plastics	4,8	4,4	5,0
Non-metallic minerals	7,3	5,2	4,8
Metals	11,9	12,7	12,0
Machinery and equipment	4,1	6,7	8,0
Electrical and optical equipment	3,9	4,3	5,0
Vehicles	5,1	3,6	5,0
Other industry	2,8	2,3	2,0

Source: "National Strategy for Economic Development of Serbia 2006-2012.", Belgrade, 2006., pp. 15.

By carefully analyzing the table above (table no.3) we can see dominant influence of food industry in the structure of Serbia economics that is understandable considering possibilities and growth chances for industrial-food sector as the underdeveloped sector. Entrepreneurs in all sectors indicate that time is needed for starting privately owned business in Serbia, in average 105 days, costing around 620 Euro.

Entrepreneurs indicate the problems as follows: lack of affordable credits, complicated start up procedures, administrative problems, exchange rate, etc. For more than ten years transition in ex Soviet republics clearly shows that the market is more efficient coordinator of economical activities than having administrative mediation in sector. Efficient market needs competition, i.e.

competitive commerce structure, so the main point of the socialistic reconstruction was increasing outer and inner competition, i.e. opening towards outer markets and also creating mass of new competitors. SME mostly at the local level significantly contributes to its market growth and generating new jobs. So from the aspect of local community development SME plays an important role and justifies efforts to stimulate its growth and development. Efforts that are put in these activities relate to creating institutions and funds, specialized for working with SME, such as: regional/local agencies/development centers for SME.

Direct role and importance of SME sector in social life of every country can be seen through:

1. Fulfilling market needs through different commerce segments:

- In normal circumstances SME fills the void on the market, which is not interesting for big companies, but at the same time opens new market segments with their innovations.
- When big enterprises meet on the verge of their growth in fulfilling social needs, SME takes over the part of their business (for example: creating cluster of big companies, etc)
- During the recession big enterprises almost cease to exist and then SME plays the leading role of how to survive in society (for example: in transitional period, etc)

2. Innovative P/U with entrepreneurs oriented towards SME,⁴³ shows that they often change daily work routines of the people and their lives. These new and innovative SME provides to the world commerce the **vitality** which is much needed.

3. Entrepreneurs are the people who provide through their SME process of **creating new jobs**, in the only possible way: recognizing society needs and upgrading their resources from the lower productivities to upper productivity.

4. SME, together with tax and other mechanisms (sponsors, donors), becomes **financing source** and in that way spreads among social communities.

5. SME represents **the most desirable form of disengaging planned commerce system**. It is characteristic for the commerce transition period that the most of the subjects in state owned ownership are being shut down, cut down into few smaller enterprises or being sold, with clear ownership status. But also, through creating larger number of SME it is possible to reconstruct national economy.

⁴³ Remark: Not every SME is oriented towards entrepreneurship. Numerous statistics show that the world average of entrepreneurship oriented people in each population is 3- 5 %.

6. With SME it is possible to provide *faster regional interaction*, within the state as well as between other countries. This especially gets recognized by pushing SME to better global market appearance.⁴⁴

Character and essence of the necessary changes in Serbia can be defined as – new entrepreneurship society or:

- Society whose values (enterprises and entrepreneurship) and their combination are in the constant process in creating wealth and jobs,
- Society which entirely supports and encourages taking risks,
- Society which creates new entrepreneurship vacancies in all areas, without discriminating 'new' and 'old' economy,
- Society which identifies new talents in the enterprises to get into the adventure of entrepreneurship creation

Swift changes happening in the world with fast reaction to changes is the key of success and economy politics as:

- Support to entrepreneurship activities;
- Creating environment which is positive to innovation and changes;
- Ensuring the market for successful products and services.

Problems with developing every social community by its complexion and volume vastly exceed government capacity and their institutions. Modern concept of sustainable growth requires much bigger participation of other risk factors like business community, citizens and their organization.

3. EXPERIENCE IN PROMOTING SME AND ENTREPRENEURSHIP IN REGION AND TRANSITION COUNTRIES

Small and medium enterprises (SME) are considered as one of the leading powers to economical growth. They stimulate private property and entrepreneurship skills; they are flexible and can adjust swiftly to market changes. They generate employment, create diversify economical activity and contribute to export and trade and are the basic factors to developing competitive economy.

3.1. USA

⁴⁴ Group of authors (2002) Analyzing and developing small and medium enterprises in Serbia, Op. quo., pg. 2.

USA, country which upgraded the support to SME on the highest level, creating cooperation of all three state sectors, but at the same time providing space for functioning of social entrepreneurship and creating USA as the picture perfect example for Serbia. However, as with other analyzed countries we have to take into consideration specific characteristics of the non-financial help to SME sector and its growth. So in the USA, besides big support of the *Government and local institutions*, in the law and finances area, great support is also provided by big companies regarding space, clustering, market and finance. Besides that Serbia like the USA could give *universities* a more active role in the growth of this sector with space, knowledge, transfer of technology and other education means. Similar as the universities, non-financial support in Serbia, as per USA sample we could involve *I&R institutions*, whose basic activity is producing new knowledge's, so necessary for the commerce. Finally, *tehnopolises* all around USA contribute to this fact and show that this is a significant part of non-financial support to SME sector.

3.2. Japan

Similar to USA, Japan has seriously developed system of non financial support to SME sector and managed to sustain entrepreneurship economy. *State* has in its legal frames, created and developed a non stop and key support. Japan's role in the national SME strategy called *JASMEC* is very beneficial for Serbia, since their approach can be implemented in Serbia system. During daily trainings, SME people were present and besides them few state officials, i.e. people outside the business, which have their role in this and assist the whole process. In this way, they start to get to know each other and understand each others problems. Japan has also created numerous smaller *I&R institutions*, which provide support for SME in finding innovations as the key factor of competitiveness. Besides that, famous all over the world are clusters in car industry as the clear example of *small* and *medium* enterprises. Based on positive experiences of such unions, there have been formed smaller SME industrial groups which between themselves work together and operate with certain individual ideas of group members, as well as they are open to outside suggestions. *Regional advices for investments promotion, business incubators with secured sales places*, as well as the *network of on-line available business consultants* which complete the picture of institution development for non financial support for SME sector in Japan, i.e. with the possibility of their implementation in Serbia.

3.3. EU

Importance of the experience of EU countries and at the most with EU15, the significance of developed united Europe, which Serbia took as its goal destination. Besides the fact that EU has been for a long time on purpose limiting private initiative and adjusting it to their legal frames. In the past few years there have been serious efforts to achieve the goals of creating entrepreneurship society and culture, as the basics for society welfare. According to this, developed non financial SME institution gets the true

meaning of its existence and gets the first results. *Annual programs for SME development* are resulting with progress all over the countries EU15 and now even bigger with EU27. Their experiences with developing *network RAMSPP*, would also give positive results, since SME receives support at the right moment and the right place and not in centralized and bureaucracy institutions. Development of Information *service for I&R community*, has advanced the work of I&R institution all over EU15, since there has been wide spread offer and demand for services. *Learning entrepreneurship* has been set as the task for EU members to achieve, implementing it in their education systems so that young generations can be raised in the spirit of creativity, competition and entrepreneurship. *Network of European enterprises* is a higher level of institution which connects SME with EU institutions and improves cooperation with foreign countries and innovations. *Science-technology parks* are the main holders of region development all over EU, so therefore we can conclude to be quite necessary for Serbia too.

3.4. Hungary

Hungary, neighboring country that has passed the entire process of entering EU, can surely contribute with its experience to development of non financial institutional support of SME sector in Serbia. It is a typical example of country from former “east” block which has relatively successfully passed transitional period by harmonizing legislation, creating institutions and reconstructing commerce. At the beginning of transition Hungary has passed first and later second *SME Law* in which it is regulated position and support to the sector. Parallel with these development programs, a national development program has also been created that directly addresses this sector. Afterwards, Hungary has formed *Regional development holding* as an institution, with its network spreading all over Hungary, specialized in supporting innovative SME. One of the priority tasks of the Holding is to professionally, precisely and accurately secure flow of information relating to regional and entrepreneurship development through National and EU contests. Network HDNG is actually *Hungarian development network group* that participates in all developing programs for entrepreneurship all over Hungary and the fact that entrepreneurship centers and their owners are the heart of this project, promises long-lasting future to these institutions and positive example to similar institutions in Serbia.

3.5. Slovenia

Slovenian experience is very special for Serbia, since its history before becoming a country and its transition experience is of vital importance for EU and all ex Yugoslav republics. Many of them can be seen through recent activities such as: founding and existing of Regional agencies for SME development and entrepreneurship, consulting, etc. Raising SME capacity can be seen in Slovenian experience through *voucher consultation*, though we can see the usage of free expertise support from the consultants. Slovenian

experiences in reconstruction of commerce sector can be of great significance in order to form Professional-entrepreneurship chamber that would have a role in informing, educating, issuing “craftsmen letter”, etc. We can also learn from few interesting experiences of individual *business incubators* that have a tendency in growing into technological parks.

3.6. Croatia

In regards to Slovenia, like other ex Yugoslav republics, Croatia had a few years of war that additionally weakened and prolonged transitional period. However, besides that Croatia has managed to receive a status of the country candidate in order to join EU, but only if they pass stabilization process. For our research it is very important to learn from their SME experiences, i.e. system of creating relevant institutional environment. Croatia has done a lot regarding legislation *issues*, so the relevant *Law on trade communities* – harmonized with EU legislation, as well as *Law on turnover*, where all craftsmanship chambers are defined. Besides that, basic law for regulating this sector is considered to be *Law on developing small commerce sector*, based on which they create programs for other operational plans and sector growth. Characteristics of the plans are that they operate on annual level and besides the projects they also contain list of executors and full budgets. On short term level, it would be interesting for Serbia to also implement experience of HAMAG, relating to *consulting network* on national level, in order to support development of the sector. On the long term level it is for sure that the experience of Croatian *free zones* is very interesting for Serbia, which has few difficulties in operating and functioning, while Croatia has already developed functional webs of these institutions.

3.7. Countries in transition (constitutional legal act)

In comparison to other countries in transition, Republic of Serbia has started its reforms later than others, baring in mind all troubles it had during the Nineties. Period from 2001. to 2006. reflects the implementation of numerous reforms, introduction of macro economical stability and sustainable and stabile commerce growth, restriction of big systems, privatization of the companies and beginning of EU union that includes numerous legal adjustments in the sectors of commerce and society. Basic goals of the economy politics were sustaining macroeconomic stability, with performing high rate commerce growth (average rate of GDP for the period of 2001. to 2005. year were 5,2 %). Production activity for the period after the year 2000. was performed with positive attitude of economic transition and reforms of tax system, employment market and social sector. Exchange rate of national currency Dinar is stabile with constant growth of foreign currency reserves, a significant deregulation and prices and foreign trade linearization was made, together with international financial institutions. A significant progress was made in structural reforms, especially in companies’ privatization and consolidation of banking system. There were 350 system laws passed which support structural reforms.

Forming the Agency for development of small and medium enterprises at the level of Republic Serbia in June 2001. and spreading agency network all around the country, adopting The Strategy of developing small and medium enterprises and entrepreneurship as well as the Law on guarantee funding has formed institutional foundation for the faster growth of SME.

Most of the countries in transition have accepted SME as the essential part of economical reforms (Czech Republic, Hungary, Poland, Slovakia and Slovenia). Transition towards market economy has the strong correlation towards developed private sector especially with SME that plays the main part in the reform process. Recent activities of these countries show that:

- SME is the generator of economical growth
- SME was the crucial element of industrial reconstructing, which can be confirmed in the early stage of economical transformation
- Even though many countries in transition consider development of SME as an important element in the reform process, governments would rather deal with privatization issues than with SME and entrepreneurship.
- Countries in transition don't have solved legal issues, have limited understanding of entrepreneurship, lack of infrastructure and financial possibilities which represents big setback in formulating acceptable politics for SME
- Countries in transition in south east Europe have to figure out the cooperative politics relating to SME development (Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia)
- Before political and economical changes, central and south east Europe concept of SME did not almost exist. SME were regarded as cradle of capitalism.

Macro economy and result analysis of commerce movements in Serbia show negative fluctuation on the market:

- High level of company inefficiency in all commerce sectors,
- Three times higher import than export,
- Fall of industrial production,
- Higher number of unemployed,
- High percentage of administration material expenses in the republic and federal budget.

Key reason for this is:

- Engaging state owned capital of high value and putting it to practical use.
- More than 66% value of total commerce in Serbia in the last eight years generates only losses and unemployment.
- Inefficient state companies in every business circle contaminate negatively balance of subcontractors and their banks and therefore entire Serbian market ends up being insolvent and inefficient.

Having a lot of assets, state companies can secure credits with banks, but are not solvent to pay out the credit, so based on collateral they end up spending their own substance. The consequence of this is a decrease in capacity usage, lowering the level of employees productivity and at the end them - being fired.

On the other hand, privately owned companies show the following:

- They are the only ones which in the continuity for the last eight years show some positive progress,
- With small number of employees and modest capital they still can't erase negative affect that state owned companies have on the market.

Highly capitalized privately owned companies don't have the opportunity to guarantee credits (with present conditions) in the banks with their own capital, so that this sector could enter investment development and therefore generate higher profits and more jobs. Possible efficient solution needs an urgent relocation input to the higher level of efficient usage which can only be done with entrepreneurship reconstruction.

Entrepreneurship reconstruction is possible to perform at the least two ways:

1. selling companies to foreign strategic partners (by importing entrepreneurship skills and capital) and/or
2. By selling state capital under good conditions to domestic entrepreneurship and managerial teams originating from existing private (and/or to internal entrepreneurship and managerial teams from own companies.

Referring to this, Serbian Government has opened tender and auction privatizations and it has been marked as good concept. Weakness of the non existing laws as well as of follow up instruments and institutions in performing privatization shows as low accumulative and capitalized private enterprises and their owners – so that they can appear as buyers of partly or whole part of the state owned company. Victory of opposition at the 2000 elections has created political and social assumptions towards creating market economy and civil democratic society in Serbia. It has been made possible to bring political legal

framework for processing necessary reforms, without key institutional changes that have been announced by creating new Constitution. Regarding this it is impossible to precisely determine necessary social context for developing entrepreneurship and SME since the following hasn't been defined:

- Regional and unitary concept of the future Serbia
- Owners decentralization and giving bigger rights to municipalities in handling their property
- Tax decentralization and tax competitiveness
- Administrative decentralization and providing bigger rights (and responsibilities) to local authorities
- Centralized or decentralized education system
- Centralized or decentralized inspection surveillance

5. CONCLUSION

Entrepreneurship in Serbia is yet not recognized as good choice of career. However, evaluation of potential in Serbia shows the few possibilities in developing entrepreneurship as well neighboring countries. In the last few years, there have been operating actions taken by various domestic ministries, government agencies and non governmental organizations and international donors towards developing creative, competitive business environment showing in numbers and vitality of SME.

Existing institutions such as Agency for small and medium enterprises, National employment office, regional and local agencies for developing small and medium enterprises, chambers of commerce on various levels, increasing number of domestic and foreign non governmental organizations and local self-government and recognize entrepreneurship of young people as the sector to be invested in. Through support of mentioned institutions and organizing, youth entrepreneurship gets additional support for development, but due to increase in efficiency it is necessary to improve work of all institutions and their mutual cooperation.

Success depends on many factors, but we can influence on some of them and on some not, lucky is also to be reckoned with. However, one of the big, as not the biggest, advantage is getting to know its possibilities. If we know our limits and abilities and how far we are ready to go, we have the advantage not only on personal but also on business level as well. Getting to know yourself and your personality is not an easy job but with a lot of psychoanalysis; thinking and experience we can get to know ourselves and react accordingly. However, work and/or company we don't know that good, nor we have spent much time getting to know it and also there are a lot of external factors which influence its potential.

Still, to know advantages and defects of your company, your work environment, work sector and project can be essential for success. Furthermore, even if you know well your business, you should always take periodical checks and put remarks on the piece of paper, since its better to understand them like that and remember them and written form are available to your other associates.

Main goals of developing small and medium entrepreneurship in Serbia should be:

1. Increasing number of small and medium enterprises for 20% in the next five years
2. Encouraging growth of profit and additional value of small and medium enterprises
3. Encouraging growth of fast track, innovative and export of small and medium enterprises
4. Encouraging development of small and medium enterprises by developing franchises, connecting domestic and foreign franchise systems
5. Encouraging entrepreneurship environment to create and increase investment of small and medium enterprises
6. Standardization of business of small and medium enterprises, as important pre condition for developing SME in global world tendencies

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**BUILDING COMPETITIVE ADVANTAGE OF SMEs
THROUGH PROJECT MANAGEMENT**

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Abstract: The Project Management is usually associated with the large firms. Even the PMI Project Management Standards are made according to the implementation of Project Management in the large organizations. The paper examines what tools and techniques of Project Management can be used in order to increase competitiveness of the Small and Medium Enterprises .

Key words: Small and medium enterprises, Project Management, Competitiveness.

JEL codes: M20

Introduction

Small and Medium Enterprises are very diverse: from very innovative and dynamic to traditional and static. However, most of the economic activity in the modern economies are done in or by the SMEs, so any improvement in SMEs progress can make significant improvement to the economy. One of the methods that can contribute to development of SME is introduction of Project Management approach.

Project Management offers systematic approach to the all stages of a project. Although the Project Management was initially developed for implementation in large organizations many concepts, tools and techniques of Project Management can be meaningfully adopted and implemented in SMEs.

1. SMEs vs. Large organizations

In order to adapt tools and techniques of Project Management for implementation in SMEs we need to understand the relevant differences between SMEs and large organizations.

Table 1 highlights some of the key differences between SMEs and large organizations as suggested by (Ghobadian and Gallea 1997).

	SMEs	Large organizations
Structure	Few or no layers of management Top Management close to the point of delivery Low degree of specialisation High incidence of innovativeness	Several layers of management Top Management far from point of delivery High degree of specialisation Low incidence of innovativeness
Procedure	Low degree of standardisation Low degree of formalisation People dominated Idealist decision making	High degree of standardisation High degree of formalisation System dominated Fact-based decision making
Processes	Simple Planning & Control system Informal evaluations & reporting Result orientated	Complex planning & control system Formal evaluation & reporting Control orientated
People	High degree of resistance to change Corporate mindset Modest capital & financial resources	Low degree of resistance to change Departmental mindset Abundant capital & financial resources

Researching the skill of project managers in SMEs in Serbia showed that project managers in these companies do not have enough skills in HRM, general management and marketing.

It was also noticed that even in the SME that use PM tools and techniques this has not led to significant success in introducing new products or increasing sales. Some of the reasons we will examine in this paper.

Despite their strong potential as a driving force, SMEs are suffering from the effects of inflating running costs and external competition. Due to the lack of depth they possess in comparison to large organizations, the rising international economic threat posed by the processes of globalization.

2. Projects in SMEs

According to the definition of PMI the project is a task undertaken that is specific, unique and with a specific aim to achieve. The main characteristics of a projects is that it is a “temporary” and “unique”.

PMBOK definition of project management is “. . . application of knowledge, skills, tools and techniques to project activities to achieve project requirements. Project management is accomplished through the application and integration of the project management processes of initiating, planning, executing, monitoring and controlling, and closing” (PMBOK 2004, p. 8).

Kerzner (2001), through his book on Project Management outlined the key characteristics of projects:

- ☐ Projects are the change efforts of society and the survival of organizations in the modern environment is through effective management of change efforts.
- ☐ The Project is not synonymous with the product of the project. The project is the process by which the product is produced and has a finite life.
- ☐ Projects comprise of activities that are usually non-repetitive and inter-related.
- ☐ Projects involve multiple resources (human and non-human) that require close co-ordination.

The emergence of modern project management owes to three core stimuli, (Baccarini 1999):

1. Complexity – Growing complexity of tasks and a need for a greater degree of specialisation.
2. Change – Increasingly dynamic environments with constant pressure within organizations to implement change due to global competition.
3. Time – Demand for tasks to be completed as quickly as possible.

With a systematic process in place, such as Project Management, obstacles can be accounted for and actions taken to prevent or overcome them. Some of the many potential benefits project management provides as proposed by (Kerzner 2001) include:

- Identification of functional responsibilities ensuring all activities are accounted for.
- Identification of time limits for scheduling
- Measurement of accomplishment against plans
- Early identification of problems
- Improved estimating capability

In the concrete terms project management is the planning, organizing, directing and controlling of an organization's resources to achieve a relatively short-term objective. Over its course, modern Project Management as a discipline has emerged and has been constantly remoulding itself to allow for expansion in its practice.

The success in project management has become more complex in recent years. From the perspective of developing a simplified method of project management for SMEs, it might be necessary to consider the perception of success from one party, namely senior management based on their overwhelming influence in SME procedures.

SMEs are characterised by simple organizational structures with simple planning and control systems. Because of this a process of reject management in SMEs needs to be simplified with specific focus on key issues and conditions for SME success.

3. SMEs and Project Management

Majority of SMEs that are that are using some project management techniques operate under a matrix structure signifying recognition of the need to have a strong structure in place. This is supported by the strong agreement to the statement that organizational structure affects the management of projects.

As expected the research showed that owner-managers are most influential in the decision-making processes followed by functional managers. These trends suggest the existence of traditional methods of management.

These findings put weight to the belief that owner-managers are close to all aspects of company actions that little or no layers of management are in place.

Projects undertaken by SMEs are generally small in nature and project durations varying between 0 to 12 months but no more.

Most of the SMEs that are dealing with projects are involved in all stages with the phases of Initialisation, Planning and Implementation considered most important in that order, but not giving enough resources to the first two phases.

Resources are always an issue for SMEs and must be managed effectively, planning and controlling of projects is vital, particularly on complex projects and client consultation is critical in both the implementation and planning phases of a projects life cycle.

SMEs agreed that there is a different approach made to projects and that large organizations possess advantages over SMEs in project implementation.

A variety of tools and techniques are being used by SMEs for Project Planning, Project Teams and Gantt Charts featuring most regularly. However, these tools would be considered as fundamental tools to implement and possibly show that although a system of project management is in place, it may only provide basic planning abilities.

Despite considering that SMEs approach projects differently to large organizations, a significant proportion of managers in SMEs believed that project management could be implemented in similar fashion to large organizations.

4. Conclusion

SMEs are clearly aware of project management and the benefits it offers but obstacles of time, money and resources can prevent its implementation. With respect to the development of a methodology suited to the needs of SMEs, experiences of respondents have shown that understanding the tools and techniques being used by larger organizations and tailoring them to suit the SME environment is the best approach to take.

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III Use of Information and communication technologies in SMEs

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**DATA PROTECTION IN SMALL AND MEDIUM SIZED
ENTERPRISES**

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Abstract

Like the large corporations, small and medium-sized enterprises (SMEs) rely on storage of their important data on their own servers. Limited resources and vulnerability to intrusions, bring the small and medium-sized enterprises at greater risk. The reliance of small and medium-sized enterprises on the classic backup of their servers may be an adverse decision in the recovery plan for sudden disasters. Basic backup provides protection to a small extent. Periodically recording data to a backup tape or disk may endanger SME's data and may lead toward the loss of time in unacceptable quantities. A prerequisite for a speedy recovery and return into the operational state is a comprehensive disaster recovery plan, which includes quick access to copies of the data that are constantly updated by the so-called system "up-to-the-minute copy". The paper discusses measures that SMEs can and should take to protect data, including cloud-based solutions. Special attention is paid to the choice of data storage technologies and ways to simplify data protection.

Key words: Small and medium sized enterprises, data protection, crisis management, technology, cloud-computing, Internet

JEL codes: L26, M15, O33

INTRODUCTION - DEPENDANCE ON THE DATA

The official position of the European Union in relation to the prosperity of its citizens is that it just depends on the development of small and medium-sized

enterprises. This is not surprising, given that out of the 19.3 million enterprises in Europe in the year 2001, 99.8 percent were small and medium-sized enterprises, employing 66 percent of the total active population, and contributing by 54 percent to total generated turnover[1]. There is no doubt that small and medium sized enterprises and entrepreneurs (SMEs) have become an important lever of economic development of Serbia. Now the "small business" exercise for about two-thirds of total turnover and about 60 percent of gross added value. This sector has offered in previous years, most new jobs and in 2010 the age was recruited 67 percent of all employees in the economy. SMEs have absolute predominance in the total number of businesses. Of the approximately 333,500 of all registered companies, operating in Serbia in the year 2010, this group accounted for 99.8 percent[2].

Different forms of e-businesses play an important role in the business of SMEs. If the company's dependence on the data is considered, it can be seen that in that respect it is completely irrelevant whether it is a large multinational company or a company of ten employees. Both depend on the data they use in their daily work. Problems can arise either because of the banal lose of power supply, PC-theft, malicious hacker intrusion, virus attacks, but also because of the massive disasters that may be caused by floods or earthquakes as it was in March 2011 in Japan. Small and medium sized enterprises (SMEs) take considerably small care of measures for their safety. Many SMEs find that they are not interesting to attackers, and that attacks will miss them. This assumption is totally unwarranted, because "every commodity has its own customer". Large companies that heavily use the Internet, and base their businesses on it, are usually exposed to comprehensive and more sophisticated attacks, but, also, the attackers beginners have to start somewhere, for example by attacking less-protected systems, where they have a realistic chance to achieve their aims. This is the reason why management of SMEs must not see the protection as the protection from a hypothetical and a little probable attack. The problem must be approached with the whole necessary seriousness. The holes once left in the protection may later prove to be very painful and expensive. Although the problems of hardware protection and protection of supply interruption are now easily solvable, even this aspect should not remain neglected.

Culture of conducting business in today's conditions is significantly changed from the recent past, so the risks are changed. New factors of doing business require monitoring and analysis of growing amounts of data, including an increasing number of different data that becomes critical in the business.

In addition, consumers do not tolerate long interruptions in the business of a company. In cases when the doing business with a company, which has downtime, become uncomfortable, consumers turn to other companies that work without interruptions. Normally, the acceptable duration of interruptions in the work are not always the same. If computer user waits for an answer for more than three seconds, or gets messages like *"The server is busy. Please try later!"*,

he sees them as hardly acceptable, and if repeated, will try to find an alternative solution.

Today's challenges in the field of data protection represent a significant risk for companies of all sizes, but small and medium enterprises are exposed to the biggest risks. SMEs often have no staff or budget to provide an acceptable recovery. Often, there is no recovery plan, there is no site recovery, or backup to a recovery site is not far enough from the primary location in case of natural disasters.

SMEs tend to have all their critical data on a single server. If the server "crashes", because most offices depend of that server, it would have to be running and to be fully restored immediately. Otherwise, the whole system could be exposed to costly consequences. SMEs and, also, large corporations, in regulated economies, they are subjects to the same requirements in the terms of quality and data availability, and, also, data protection. In the United States, there are established sets of very specific rules about the availability, organization, and regulatory data protection laws, such as: HIPAA, DOD 5015, FDA Part 11, Sarbanes-Oxley, SEC Rule 17th ...[3], and very severe penalties are provided for violations. In Serbia, legislation of this kind is still in its infancy, but here there are existing laws: the Law on Electronic Commerce, the Law on Protection of Personal Data ... The problem of SMEs is the lack of funds to undertake necessary measures. In addition, any disruption in cash flow is often fatal for SMEs. In his article "A Small Business Approach to Computer Downtime", Adian McDermot estimated that each incident can cost a small business between \$ 200 and \$ 800 per incident, and PC. [4]

Microsoft® Windows® Small Business Server (SBS) allows, to a limited extent, to small businesses to use many functions that also large companies use:

- basic network services: DNS, DHCP,..., SSH;
- Windows networking: files and printers sharing;
- Web server;
- FTP services;
- e-mail server, and, optional, database server;
- support for mobile devices, as well as
- backup and restore functions.

Linux Small Business Server (LSBS) offers many of the same services as Microsoft® Windows® Small Business Server, but, also, offers the Wiki as a document management system, as well as advanced networking tools - Nagios, Nessus and Nmap.

SBS and LSBS, they make available tools to create periodic backups. However, relying on the built-in basic backup, to protect all bases in an emergency or disaster, can leave work damaged due to potential gaps in protection. Tapes and disk backups can only return data to the point of the last good backup, which probably was the end of the previous day. All data entered since the last good backup will be lost. If the most recent backup is incomplete or damaged, then

the previous in order backup will be used. That will cause a loss of even more data and so on. Server recovery by using the backup copy is shorter than the time of normal operations re-establishing, because the data can be returned from the backup media to the user's disk so it can be used.

In the development of small businesses it is always necessary to be optimistic to achieve favorable results, but, when it comes to data protection, it is always more profitable to take pessimistic approach with much caution. According to the report of the American Small Business Association (SBA) more than 99% of all firms that have employees are small enterprises. Doing so, they employ 50% of all private sector workers and provide nearly 45% of the salaries of the population. In the EU, SMEs account for 99.8% of over 19 million companies, employ 66% of the working population, and generate 54% of total turnover[5]. However, SMEs are the most vulnerable in a crisis just because they are small.

Although the leadership of SMEs can find it difficult to refute the importance of preparing for operations in emergency situations, it is easy for them to postpone the planning and implementation of measures for crisis situations because of everyday problems and limited resources. US Small Business Administration (SBA) estimates that 25 to 40% of small companies disappear after a crisis or a prolonged suspension of operations[6]. In the light of recent experiences related to natural disasters and the situations that occurred after them, SBA emphasizes that only those firms that were well prepared for emergencies had returned to work.

In the analysis of business, small companies should always ask themselves the following[7]:

- Is the SME prepared to relocate temporarily?
- Does the SME have copies of, and access to, vital business records? (The SBA recommends backup data is stored at an offsite location at least 80 km away from the head office.)
- Does the SME have access to vital business applications? (emergency payroll, accounting, access to suppliers and resources)
- How much data would the SME lose in a disaster between backups?
- How quickly can the SME recover from a disaster?
- How long would the SME be without a connection to its customers?

AN EXAMPLE OF A POTENTIAL CRISIS SITUATION

The reasons and the moments of occurrence of crisis situations are very diverse, and, also, scenarios under which the crisis appear. One, of many possible emergencies, could follow the following scenario:

- At the end of the D-Day, around 3PM, the main and only server in the agency that deals with record-keeping for several SME, the server suddenly crashes due to an unknown reason. Employees try to restart

the computer to return server back to work. After unsuccessful attempts, because SME has no contract for the permanent maintenance of equipment, they call reseller, which should fix the system. Soon, it comes the end of working time and none from the reseller company is able to repair the server. Clerk writes down the symptoms and promises that repairer will come the next day to SME to fix the system. The last backup was made and saved on the day D-1 at 11PM. Data from the D-Day have remained unrecorded in the server.

- In a rather optimistic case of the solution of the problem, repairer comes to the agency in the morning of the D+1 day and starts to test the system. Testing determines that the error is in the hard disk and that there is only one hard drive in the computer. He installs a new hard drive, installs the OS and user programs from the installation discs and the last usable backup data transfers to the hard drive. After repairer tested the server, and lifted it up and connected to the network, he restarts the network and makes the network ready to work. Repairer ends his job at 5 PM. Now, there are in the server the data which were last updated on the day D-1 at 11 PM. Data from the D-Day have been lost. Because the employees could work on their work stations some jobs in "off-line" mode, data from the day D+1 are partially stored into the workstations, but not the server. An employee remains in the company over time to transfer data from workstations to the server for the D-Day and the day D+1.
- On the day D+2 server is ready to work. Employees begin to reconstruct the data that were not preserved and were not entered into the database last night. Reconstruction ends before the end of working day and the system is fully operational.

This is, almost, an ideal case of server repair in the case of failure of the only hard drive. The ideal is that the repairer is at the same time repairer of both, hardware and software, that he has had the necessary hardware and software, that the backup was done and preserved in good condition, that a part of the data was stored in the workstation and was ready to be transferred to the server. In this situation, firm lost practically three days because of server.

Any other scenario is much worse. It is possible that the repairer has no corresponding parts and need to procure them from the manufacturer, or, the backup is with failures and it is needed to take some older backup, or, there are no employee who can work overtime to make data entry in the server, or, workstation does not store data that are intended for the server, or ... In any of such situations the system could be repaired much later, and the costs would be significantly increased. It goes without saying that server's crash also affects the performances of the companies whose records the agency keeps.

Therefore, for each SME, it is very important to look at what can be done to minimize the risk of such crises.

MEASURES TO BE TAKEN BY SME IN DATA PROTECTION

Although the first thought of the SME leadership is the selection of appropriate technology, the first step should always be the selection of the right people, policies and procedures. Procurement of equipment should be realized only when there are clearly defined the needs of the system. This could save up part of the funds, because prices of IT equipment are constantly falling. In SMEs, it is unlikely that there is a special service for IT and data protection. It is much more frequently the case that SME designates an employee of the Company, as the person responsible for data protection. That person is responsible for research of the protection measures, software and hardware buying, system testing and user training. It has the obligation to document the process, because any eventual absence of that person could lead to high risk for the system.

The person responsible for data protection, at the very beginning of his/her work, has to organize a small group that is fully familiar with the technology of business. It is a way to determine the actual needs and possible critical places in the system. In medium-sized enterprises, that group can be composed of, for example, directors or heads of individual services or departments. In small companies, rather than groups, often it is enough that the person responsible for the protection consults company owner, or its executive director. The responsible person must be familiar with relevant laws and regulations that affect or may affect the priorities of protection.

On the basis of requests of business' technology and users' needs, the person responsible for data protection, in collaboration with the company's management, defines the field of protection. Most SMEs are usually focused on the protection of one or two applications, primarily due to limited resources. That way, good results could be achieved with limited resources.

In order to predict required investment in the protection, it is necessary to estimate the losses caused by a single failure of the system. This is very problematic for a small company that just enters to the business because new company does not have adequate data. In such cases, when there exists no personal experience, as a landmark can serve the experiences of similar small businesses. Approximate cost of a single failure can be obtained from the following formula:

$$Co_1 = (\Delta\tau_o + \Delta\tau) \cdot (n \cdot HR + LR)$$

where:

Co_1 = cost per occurrence

$\Delta\tau_o$ = time of outage

$\Delta\tau$ = time between two consecutive backups

n = number of employees affected by the system fall

- HR= average hourly wage of the employee affected by the system fall; This value, with satisfactory accuracy, can be obtained if the total monthly wage of employees, in that part of the middle-sized enterprise, is divided by the total number of working hours. In small companies, with sufficient accuracy, the total monthly salaries of all employees can be divided by the total number of working hours of all employees.
- LR= lost revenue per hour. It can be calculated in different ways, but a good enough indicator could be the profit per hour recorded in the same month in previous calendar year multiplied by the coefficient of growth achieved in the current fiscal year compared to same period the previous year.

The size of investments needed in data protection can significantly affect the desired recovery time of the application (DRA) and the allowed time of data loss (ADL). DRA refers to the required time in which applications should be capable of working again, and ADL refers to the time that will be acceptable short not to lose much of the data entered. If that times are shorter, one can expect higher costs.

The results, achieved by the assessment of costs, have to be presented to the company's management, and the management will decide about the acceptance or non-acceptance of proposed measures and investments.

It is extremely important that one copy of the data, also, are stored on another location. The reasons are numerous, including the possibility of fires, floods, earthquakes, theft, etc.. The cheapest alternative is when the data are stored on a secure location that is hundreds of kilometers away from the server's location. That way, one can avoid risk of all natural disasters, fire and theft. However, the problem of data protection appears at the remote location. One possibility is to store data on servers of the Internet service provider, or in the premises of the network administrator, if the network administrator is doing his job remotely.

SELECTION OF DATA STORAGE TECHNOLOGY

When the DRA and ADL are defined, and when the budget is defined, then it is possible to choose a technology for data storage. It is easy to conclude that not all technologies are equally good for all SMEs. Due to differences in methods of data storage, data access, durability of the medium on which the data are stored, the speed of receipt and delivery of data, prices and other factors (eg mode of business operation: one or more locations), appropriate technology should be chosen very carefully.

At companies operating in multiple locations, use of magnetic tape backup on the place of use may be the solution if the company has staff trained to wipe and maintain tape, to store them properly, to copy them regularly, and, if necessary,

perform system recovery. Hence, it is necessary to ensure proper discipline and appropriate regularity in the work.

SMEs face a big dilemma:

- **tapes as a backup systems** are fairly inexpensive and reliable, but offer modest capabilities in terms of DRA and ADL for critical applications. They are mostly ineffective for remote locations.
- **hardware mirroring**, that uses remote copy technology to provide synchronous mirroring between two locations, offers excellent DRA but can be overly expensive solution for SMEs. In addition, this solution is far from ideal for backing up from remote locations that, often, are associated with low-bandwidth connections. Hardware mirroring requires huge data flows between sites.

Solutions based on software-based asynchronous replication can be cost effective for SMEs in terms of ADL for critical applications. Thereby, the complexity and high cost of synchronous replication are avoided. With software-based replication, only the bits that were changed during data processing are changing.

Compared to solutions with synchronous replication, this approach offers a lower server load, faster update and corrections, and the possibility that the replication is done through the Internet network with low bandwidth. Software-based replication solutions can ensure the recovery of servers and applications with excellent DRA, so users can continue to work just minutes after the crash.

Given that today's hardware costs are not high, all the current servers, due to security reasons, should provide the opportunity to work at least in RAID 1 mode. According to this standard data are recorded on multiple (at least 2) identical disks. Disk array provides safe operation in case of relegation, or crash of a hard disk, and the system is functioning normally as long as there is at least one correct hard drive. In this way it avoids a crash of the system due to failure of one hard drive, but it does not solve the problem for the need to store data on an off-site, away from the main server. Because of differences in labeling, that was appeared at the various manufacturers of computer equipment, a new division of RAID systems was introduced. Under the current division, data protection system designers have at their disposal:

- Failure-resistant disk systems – FRDS
- Failure-tolerant disk systems – FTDS
- Disaster-tolerant disk systems – DTDS

For sure, the DTDs are fastest and most desirable solutions to use, because they allow to operate freely in virtually all circumstances, but they are also the most expensive. Therefore they are used mainly in the applications where the importance of applications is exceptional, and, consequently, the high cost of investment is acceptable.

HOW TO SIMPLIFY DATA PROTECTION?

It is obvious that many SMEs do not have enough qualified staff that could respond immediately to every crisis situation. Many SMEs engage for these jobs associates or agencies, on the principle of a monthly engagement or engagement when required. Therefore, it is convenient, besides the use of FRDS, FTDS or DTDS solutions, to have automated operations that are carried out regularly in order to protect data. In this area, of a great help are software developers.

Today's operating systems, especially server operating systems, have the ability to record the current situation, either in predefined time intervals, or at the special request of the user, for example before installing of the new software. This allows users that easily bring the system to a previous working state after a crash. Normally, changes made after the last recorded valid snapshot are lost. Theoretically, the intervals between the two snapshots of hard drives might be short, but given that the snapshotting hard drives takes a lot of time, this activity should not be run too often, because it slows down the use of computer. When some unwanted changes to documents have occurred, users can simply call the last correct image of the hard drive to select the desired file, to review his versions and to choose the desired version. It is fortunate that an application software also makes its own backups, so that in the event of an unplanned and unwanted software crash much of the data can be recovered.

This approach eliminates another part of the potential problems in data protection, but not all the remaining problems.

CLOUD-STRATEGY AS A POSSIBLE SOLUTION FOR SME

"Cloud computing" is a general term for anything that involves the delivery of hosted services over the Internet. These services can generally be divided into four groups[9]:

- Software-as-a-Service (*SaaS*)
- Infrastructure-as-a-Service (*IaaS*)
- Platform-as-a-Service (*PaaS*)
- Desktop-as-a-Service (*DaaS*).

The point of the idea is that computing is not performed on the user's computer, but in the cloud (somewhere on the Internet). Cloud-computing presents solutions that can work anywhere, at any time and from any device, without need that the software have to be installed on the user's computer, for example, on PC or notebook. This concept is now available, because there are relatively good connections between users' computers and the Internet.

This strategy can be a cost effective solution for SMEs. It is enough that the SME has simple PC computers connected to the Internet, and to conduct its operations with the help of service provider that can be located anywhere in the

world. Assuming that the SME chose good service providers, the successful operation requires only a secure the Internet connection. Computer located in the premises of the SME can be any "thin" client. The Internet, or, more precisely, service providers act as a server. Since this is a relatively new strategy, many small and medium enterprises are still not decided on the transfer of critical applications and data into the cloud.

One of the arguments against the cloud strategy is the assumption that the Internet may be not available at some point, so and databases and applications will not be available. In addition, the high costs of setting up the software and databases in the cloud contribute to the fact that companies do not use cloud services. In contrast, protection of data and applications represents a major stimulus for small and medium enterprises to use the cloud. Mirroring data and applications across cloud's platforms, and a high level of redundancy of services that the cloud offers, they are one of the key recommendations for the data protection in the cloud. Cloud can be very effective solution to protect critical data and applications, because it meets almost all the conditions for their safe keeping. In addition to data protection, SMEs can feel cloud platforms also as a broader level of support, including the possibility of relocation, management and monitoring of cloud-based IT assets.

Cloud-supported data protection solutions provide a guarantee that companies can survive even if their physical IT infrastructure suffered significant damage, and/or if they are out of business for a longer period of time. The possession of such a guarantee is essential given the possible consequences of inadequate protection of IT assets. According to estimates of Contingency Planning, Strategic Research Corp. and DTI/Price Waterhouse Coopers, 70 percent of small companies that experience major data loss are disappearing from the business during the year[10].

This concept is already affordable to SMEs. Services can be purchased or on the basis of membership fees (fixed fee) or by consumption of engaged resources (such as payment of electricity bills). But, according to Verizon there are many firms which don't actually have the resources for maintaining IT infrastructure and still other who don't have any dearth of resources and yet don't want to undertake the responsibility of handling the job [11].

CONCLUSION

New business factors require monitoring and analysis of huge amounts of data. Due to the more comprehensive analyses, and fierce competition on the market, a growing number of different data becomes critical. Some data are essential in everyday activities, and they demand to be kept and to be always available. Some of the data are confidential, and therefore require a special protection. Part of the data should be available to public for advertising and other purposes and as such should be accessible to everyone in an unchanged form. Such contents

also require protection, but from another point of view. Due to the variety of demands, the protection itself varies from situation to situation. SMEs are in a special position because they have less resources and fewer personnel. Therefore they must pay particular attention to the problem of data protection. These activities should be conducted carefully and successively, in order to reduce costs and to reduce errors to an acceptable minimum.

After detailed analysis of the business technology of SMEs, potential crisis situations, possible concepts and technical solutions, before a procurement of equipment it is necessary to re-examine whether all the factors are considered and taken into account. Particular attention should be given to answering the question: Is it possible and how fast it is possible to recover system, and applications and data make available to users? It is needed to check if there is access to all parts of the system, all components that are potential sources of crisis, and whether they can be fixed quickly. Also, an important task is to establish an algorithm by which the server after a crash will be recovered. Also, because of continuing changes in business, the possibility of eventual expansion of the system, changes in individual components and increase in the number of users should always be kept in mind.

Finally, the cloud-concept should not be forgotten. It is relatively little used at present, but it is expected that in the next ten years the cloud-concept will appear as a standard solution for small and medium-sized enterprises.

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PERSPECTIVES 2011”**

International University of Novi Pazar. UDC 658.274(497.113)

**THE ANALYSIS OF THE TECHNICAL EQUIPMENT OF
SMALL AND MEDIUM SIZED ENTERPRISES IN
VOJVODINA**

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Abstract: The traditional role of development and application of technology has nowadays considerably changed. In a time when new technological aspects are affecting the competitiveness of enterprises and information technology dominates all aspects of business, small and medium sized enterprises must be more responsive and adaptable to changing conditions in order to function successfully and efficiently meet requirements of markets and consumers. This means that small and medium sized enterprises must have an adequate technical and technological capacity that will enable better cooperation and networking, improved business processes and products or services in order to survive the market competition. This paper presents the results of the analysis of the degree of technical equipment of small and medium sized enterprises in Vojvodina, conducted either by classical or intelligent methods and techniques, with emphasis on its' impact on (un)successfulness of enterprises' business.

Keywords: SMEs, technical equipment, data mining

JEL codes: R13 - General Equilibrium and Welfare Economic Analysis of Regional Economies, C38 - Classification Methods; Cluster Analysis; Factor Analysis

1. INTRODUCTION

The interest in the sector of small and medium sized enterprises (SMEs) and entrepreneurship is growing each year, for SMEs are perceived as a main driving force of economic development and this sector promotes the private ownership and entrepreneurial skills. Strong SMEs sector enables increase of a gross domestic product (GDP), larger number of business entities, more

balanced regional development, new workplaces and lower unemployment rate, substitution of exports and higher competitiveness of a domestic economy.

The competitive advantage of SMEs arises from their flexibility - ability to promptly adapt to changing market conditions and fulfill emerging market requirements. A strong SME sector in Republic of Serbia could leverage the quality of life and make it closer to the standards of European Union (EU) through increased export activities, higher employment rates and balanced regional economic development.

Out of 23 million enterprises and 100 million employees in EU, 99% belongs to the SMEs sector. They contribute to the total GDP of EU with 60% and provide significant number of workplaces.⁴⁵ Such a statistics tells us that two thirds of all employees in private sector in EU actually work in the sector of SMEs. Therefore, the rising attention given to the SMEs sector in EU is understandable. In the year 2000, the SMEs sector in Europe was announced to be one of the pillars in achieving the goal of utmost competitiveness and fastest development in the world till 2010. The European declaration for supporting SMEs in all member states was accepted in 2002, enabling full support to this sector in the areas of education and entrepreneurial training, legacy and regulations, more efficient tax system and financing. The goal was to stimulate the development of SMEs and their competitiveness. That way, the importance of SMEs sector for the EU economic development was completely recognized and agreed.

The Government of Republic of Serbia has also recognized the importance of the SMEs sector and adopted the SMEs Development Strategy for the period from 2003 to 2008, as well as for the period from 2008 till 2012. The goals of both strategies are to foster entrepreneurship initiatives and to enable sustainable, export-oriented and internationally competitive businesses in the SMEs sector. This course of actions in Serbia should result in economic and social improvements through raised number of enterprises, broader exporting and better employment, and more balanced regional development. Unfortunately, we are quite far from achieving these goals, as the number of established new enterprises and businesses in 2008 is lower than it was in 2007, while the number of closed businesses or SMSs rose in 2008 in comparison to 2007.

On June 21st 2003 the Republic of Serbia signed the European declaration for supporting SMEs, and committed itself to act in SMEs sector in accordance to EU regulations. In the Report on the implementation of the European declaration in Western Balkans for 2007, Serbia was marked on the scale from 1 to 5 with an average grade of 2.48 [7]. Having in mind the importance of SMEs for Serbian inclusion into EU, it is very important to make a thorough analysis of the current state of this sector and to devise corrective actions.

According to the Law on Accountancy and Auditing in Serbia, there are three criteria for distinguishing among enterprises: the number of employees, the

⁴⁵ "Blic", November 23rd 2007.

gross profit, and the value of assets. In order to be categorized into small or medium enterprise, the business has to fulfill one of criteria shown in Table 1.1. Furthermore, it is required that the gross profit of a small enterprise is 8000 average gross salaries or that the value of its assets equals the sum of 6000 average gross salaries at most. The gross profit of medium enterprises should equal 40000 average gross salaries or their assets value up to 30000 average gross salaries.

	Small enterprise	Medium enterprise
No. of employees	< 50	< 250
Gross profit	< 1.65 mill. €	< 8.25 mill €
Value of assets	< 1.24 mill. €	< 6.2 mill. €

Table 1: Division of enterprises to small and medium according to the Law on Accountancy and Auditing of Republic of Serbia

At the end of 2006 there were 76.394 enterprises in total in Serbia. 99.1% or 75.729 were small or medium ones. In 2008, 104.600 enterprises and more than 217.800 businesses were registered. According to the official statistical reviews, at the end of 2006 the total amount of employees in all business entities in Serbia was 1.138 million, 54.80% in the sector of SMEs and 45.20% in large enterprises. The statistics of employment in enterprises of pure private ownership structure shows that 278.264 employees worked in small enterprises, 71.879 in medium enterprises, while 57.694 employees worked in large companies. In 2006 in Serbia there were 52.441 private companies, of which 44.769 had less than 10 employees. This is at the same time the most dominant type of business entities in Serbia: a small enterprise in private ownership employing less than 10 people.

Besides the considerable part of the SMEs sector in Serbian economy, this sector possesses the most significant potential for rise of production, establishing new workplaces and export. 97% of SMEs increased the number of their employees in 2007, resulting in 22% growth of employment in SMEs sector, which was more than 20 times higher than the overall growth of employment in all sectors in Serbia in the year before. In February 2008, the Government of Republic of Serbia conducted a poll that showed that over 90% of surveyed SMEs had planned to increase the number of their employees during 2008. Based on the survey, it was estimated that the rise of employment could be 16% in 2008, and that was an encouraging fact. Unfortunately, from the nowadays perspective we can say that this forecast has not been reached, but it made obvious the significance of SMEs for Serbian economy and thus justified the investigation described in this paper.

2. ANALYZING SMALL AND MEDIUM SIZED ENTERPRISES' DATA

The in-dept analysis of SMEs sector has to lean on reliable set of SMEs data. The SMEs data for our research were provided by four Regional Agencies for the Development of Small and Medium Sized Enterprises and Entrepreneurship from province of Vojvodina. The data were collected in 2006 by means of the questionnaire these Agencies provided. The questions in the questionnaire were divided into two groups. The first group aimed to collect general enterprise data. The second group of data was formed by answers of individual enterprises to the questions related to business itself, technical, technological and financial aspects, market conditions and distribution, administrative and legislative conditions, human resources, business connectivity, and the need for non-financial services.

The final data collection consists of 2365 records on SMEs in the province of Vojvodina. Each data record is described with more than one hundred attributes. The data was originally stored in MS Access format and contained many missing data. Therefore, there was a need for qualitative data transformation into a format required by each data analysis tool we used in our research. Also, in the data preprocessing phase, many of initial attributes were removed from further analysis (data preprocessing is described in more detail in [6] and [1]. The resulting set of data was divided into subsets, and different tools, data mining methods and techniques were used for their analysis (this is presented in [4], [5] and [2]). One segment of the comprehensive SMEs data analysis, which investigates the technical and technological equipment of SMEs in Vojvodina, is described in this paper.

3. TECHNICAL AND TECHNOLOGICAL EQUIPMENT OF SMEs IN VOJVODINA

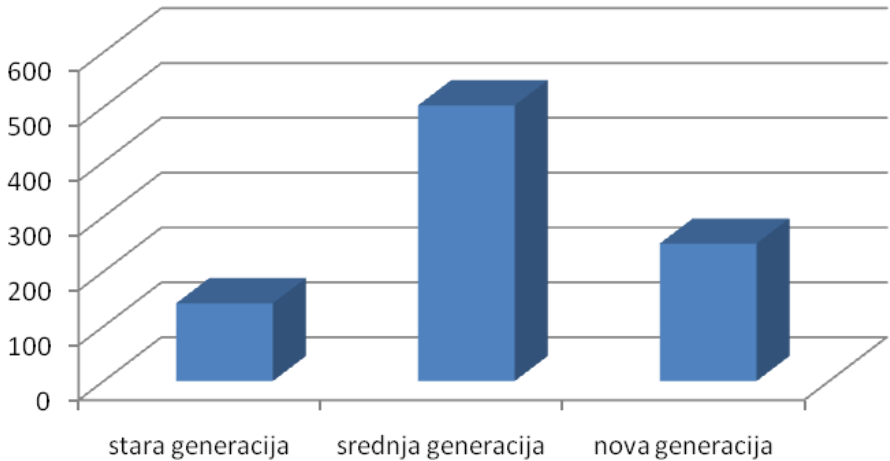
Economic problems Serbia is facing nowadays are the result of many years lasting negative production trend, followed by technical and technological lag as a consequence of insufficient investments into equipment, new technologies and knowledge transfer. In order to stay competitive both on domestic and foreign markets, investments have to be made into production processes and technology, but also investments into the equipment, mechanization, standardization, and manpower should be intensified as well.

3.1 Overview of Technical and Technological Equipment of SMEs in Vojvodina

Taking the degree of out-datedness as a classification criterion, we can distinguish three classes of fixed assets and equipment in SMEs: predominantly old, moderately old and new generation equipment. More than half of surveyed SMEs preferred not to provide answers to questions concerning the state of their fixed assets and equipment, therefore Figure 1 displays the answers only for part

of surveyed SMEs in Vojvodina. It is obvious that the majority of those SMEs that had provided the answers run a business with old, out-dated equipment.

Figure 1: Answers to questions concerning the state of fixed assets and equipment in SMEs in Vojvodina



Further data analysis revealed that there was a correlation between the degree to which the equipment and fixed assets could be considered out-dated and facing the problem of insufficient financial resources in the enterprise. Namely, as can be seen in Figure 2, the large percentage (82%) of enterprises that have old-generation equipment stated the lack of financial resources as a serious business problem they face in everyday actions. The similar situation occurred with enterprises that possess moderately old fixed assets, where 62% of SMEs experienced problems with insufficient financial resources.

Figure 2: Out-dated equipment vs. lack of financial resources

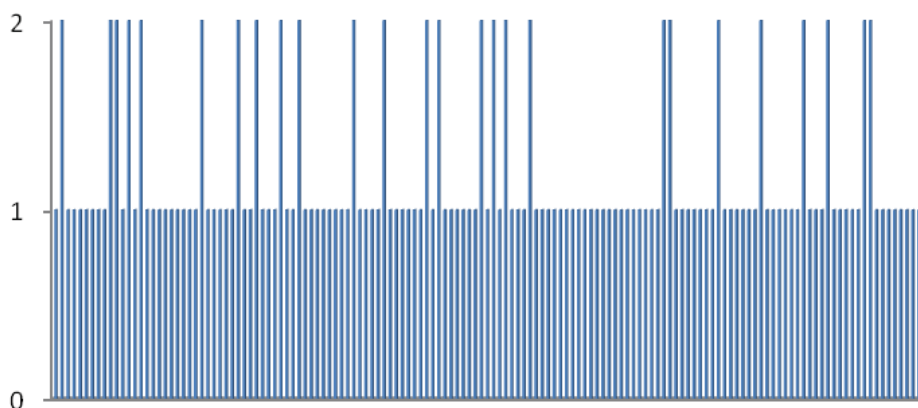
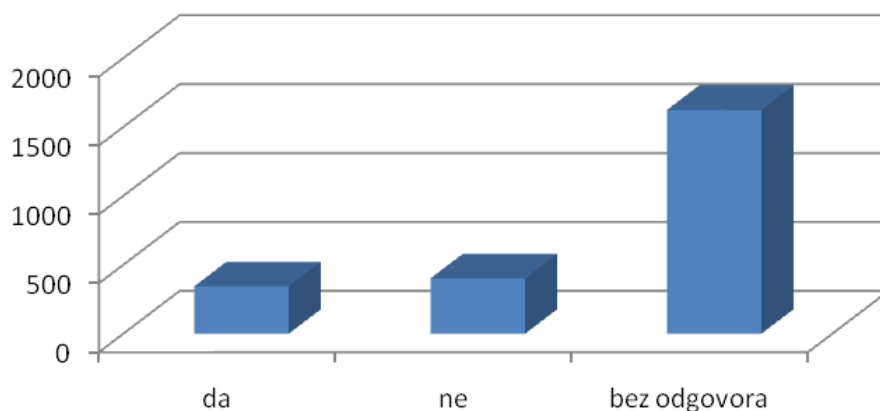


Figure 3 shows the distribution of answers SMEs in Vojvodina had provided to the question concerning investments in the previous five years, in a sense of introducing new technologies to the enterprise. Among SMEs that answered the question, the number of those that had invested in new equipment and those that had not is almost equal.

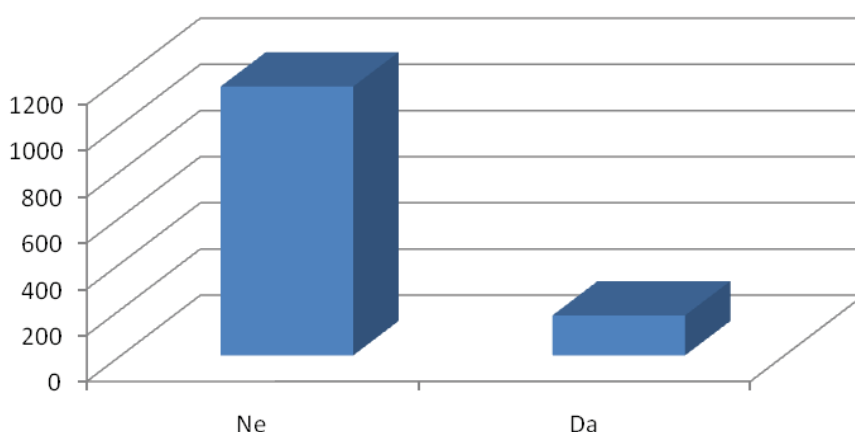
Figure 3: Distribution of answers to the question of investments into new equipment in the past five years



Vast majority of surveyed SMEs in Vojvodina have not established or adopt any quality standardization system, as can be seen in Figure 4. Implementation of quality systems is one way to assure a better market position for business on the one hand and a better protection of consumers' rights on the other hand. Some standardization has become a must and an obligation of business entities that count on better competitive position on domestic and foreign markets. The observed state of art in Vojvodina leads to a conclusion that there is a need for

education programs in order to support the enterprises to conform to existing quality systems. “The Secretary for economy will this year put aside 20 millions of dinars for implementation and maintenance of quality standards in business entities on the territory of Belgrade. Subventions will be granted for diversified quality standards, in order to allow business entities other than food producing, processing and commerce entities, to apply for them. The amounts of subvention will go up to 500.000 dinars”⁴⁶. Taking this initiative as an incentive, similar actions should be undertaken in Vojvodina province.

Figure 4: Adoption of quality standardization systems in SMEs in Vojvodina



Businesses dedicated to innovative activities are permanently oriented towards acquiring new knowledge. Even though technology innovations are not the only prerequisite for constant business development, they are certainly the most efficient way to prosperous future. For this reason, the fact that the majority of surveyed SMEs in Vojvodina have found innovations part of their business policies is extremely important, as shown in Figure 5.

⁴⁶ Cited from Web page www.kvalitet.org.rs (the full path to the text is: http://www.kvalitet.org.rs/index.php?option=com_content&view=article&id=132:subvencije-za-uvoenje-i-odnavanje-standarda-kvaliteta-u-privrednim-subjektima-na-teritoriji-beograda&catid=16:stimulativne-mere&Itemid=80)

Figure 5: Innovations as part of business policies in SMEs in Vojvodina

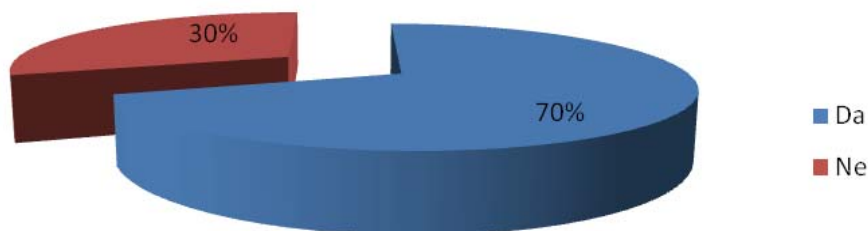


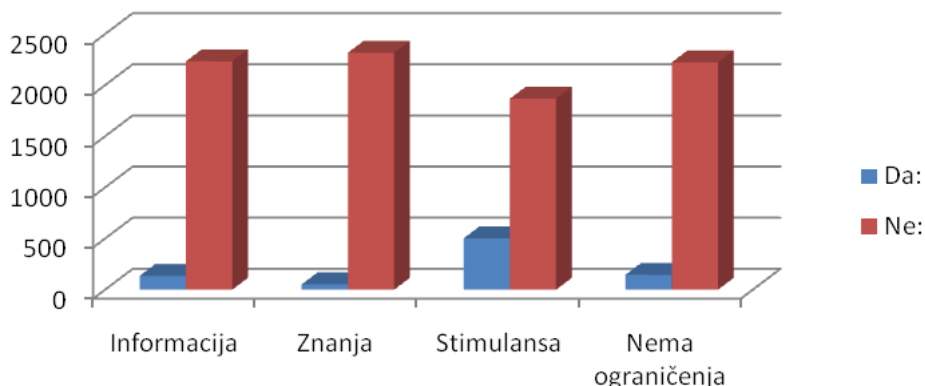
Table 2 speaks about areas of innovations in SMEs in Vojvodina two years prior the survey. It can be observed that the majority of SMEs had innovated their services. Innovation of services can transform the existing business relations and create new markets, mostly by adequate implementation of ICT, hence influencing other industries and service sectors, as well.

Table 2: Areas of innovations

Innovations of:	
Products	643
Services	728
Organization	585
Technology	308
Other	39

Having in mind that the inclusion of innovations into business policies in as large extent as possible is desirable, we analysed the limiting factors to wider penetration of innovations into SMEs business in Vojvodina. The following options were available to surveyed SMEs: lack of information, lack of expertise, lack of stimulating financial resources, and no special limiting factor. Large number of surveyed SMEs has not provided any answer about limiting factors to innovations. Among answers the majority said that there were no special limiting factors, but as the most common obstacle to innovations SMEs stated a lack of financial stimulus.

Figure 6: Limiting factors for innovations in SMEs in Vojvodina

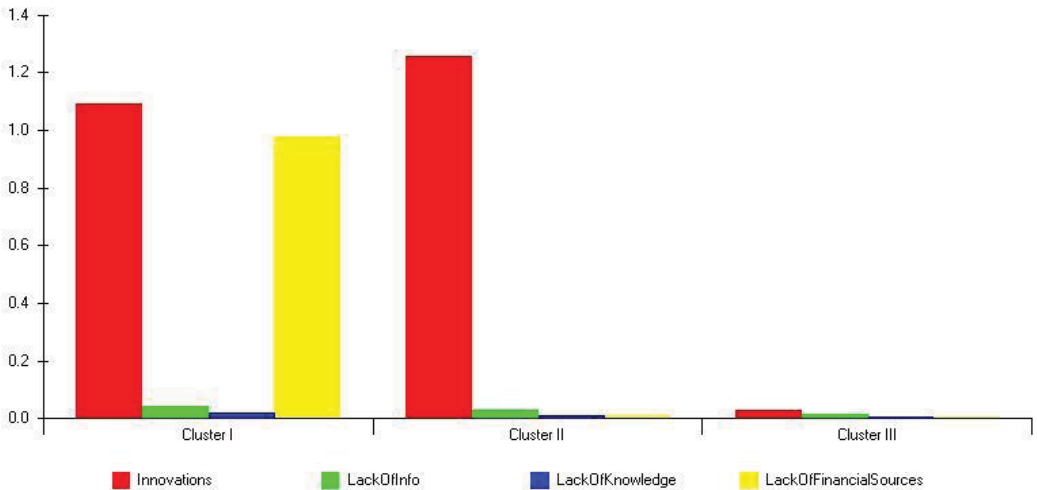


The analysis showed that 12 SMEs out of 2370 surveyed either did not possess a computer or did not answer the related question, while SMEs in Vojvodina on average possessed two computers. Ten SMEs either did not have an access to Internet or did not answer the related question.

3.2 Application of Intelligent Data Analysis Methods and Techniques to SMEs Data

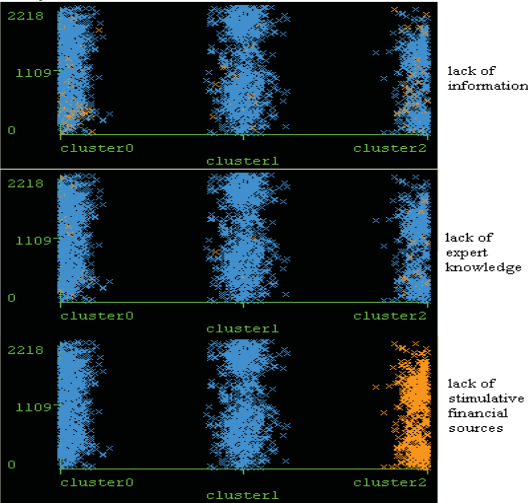
Further analysis of SMEs data included the possible relations among predominant ownership structure in enterprises, innovations in the past two years and limitations to broader innovations. The predominant ownership structure among analyzed SMEs was the private one. Those enterprises that had private ownership structure that was equal or greater than 10.000 and less than 100.000 dinars, had innovated in the previous two years their organization and technology. Those SMEs that had private ownership structure greater than zero and less than 10.000 dinars had innovated their products or services. According to our findings, SMEs that had certain innovation activities stated also insufficient stimulating financial sources or lack of such, as their main problem. Figure 7 represents the structure of SMEs clusters regarding innovations, in DataEngine tool.

Figure 7: SMEs clusters' structure regarding innovations - DataEngine tool



Given the fact that Weka data analysis tool has excellent visualization possibilities, we used this advantage of Weka to display frequency of occurrence of answers within SMEs clusters, as shown in Figure 8. This figure shows that only few enterprises stated other problems than already mentioned, as a reason for not being engaged in innovation activities. The red spots indicate that SMEs has recognized a certain problem, blue spots indicate otherwise.

Figure 8: Frequency of occurrence of answers within SMEs clusters - Weka tool



During the analysis of SMEs data, we witnessed that not only successful data models, but also the inability to develop a meaningful data model, could provide valuable information. For e.g. we failed to develop a classification model by multilayer perceptron, which could classify SMEs based on 7 input attributes related to difficulties in everyday operations, into one of three predefined classes:

- 1 – SMEs with outdated equipment
- 2 – SMEs with moderately outdated equipment
- 3 – SMEs with “new generation” equipment.

The input attributes were lack of available funds, complex administrative and legislative regulations, disharmony with standards, insufficient market information, insufficient information on technologies, unavailability of qualified work force, and human resources development. After number of trials with different MLP configurations (1 and 2 hidden layers, with 2 to 15 neurons in each, with Sigmoid, Tanh, Mod.Sigmoid, Sim.Sigmoid and Parabola transfer functions) and various learning methods offered in DataEngine tool (Resilient Propagation, Super SAB, Back Propagation, Quick Propagation, with and without momentum and weight decay, with sequential and random presentation order) we concluded that the defined output variable - state of equipment - was not dependant on the selected input attributes in any way. We also developed this classification model in Weka tool, but the classification error, i.e. the percentage of incorrectly classified instances was again unacceptably high. Finally we concluded that there was no hidden relation between everyday business problems and maturity of equipment, we were hopeful to find.

4. CONCLUSION

The sector of small and medium sized enterprises is extremely flexible. SMEs have the ability to adapt to changing market conditions, a key feature of the highly changeable business environment in which enterprises operate today. Following the EU model, where the importance of small and medium sized enterprises is recognized as well as their ability to improve economic growth and development, Serbia should also promote this sector extensively.

As presented data analysis showed, majority of SMEs in Vojvodina run their business with old and out-dated equipment. Reasons for that are connected, in further analysis, with the problem of lack of financial resources. It is natural that if the SMEs in Vojvodina don't have sufficient funds to modernize equipment and production facilities, they will have even less opportunities for the introduction of much-needed quality standardization system that should provide them better market position. Analysis showed that SMEs in Vojvodina are dedicated to innovation and acquiring new knowledge. Additional analysis revealed association between innovative efforts and financial structure of SMEs.

This comprehensive analysis led us to conclusion that without additional government incentives and subsidies, SMEs from Vojvodina, relying only on their own financial resources, will not be able to meet high EU business standards and thus enable them to participate in the wider market.

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**APPLICATION OF KNOWLEDGE MANAGEMENT
INFORMATION TECHNOLOGIES IN SMALL AND
MEDIUM ENTERPRISES**

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Abstract

Information technologies (IT) can improve enterprise business performance and competitive advantage. This is particularly fact if enterprises use IT on innovative way in knowledge management domain. Many information and communication technologies can be used for enterprise knowledge creation, storage, sharing and transfer. However, adoption and application of the new technologies is very complex and difficult task. Great number of studies and researches is dedicated to IT implementation in large enterprises, but studies of IT implementation in small and medium enterprises are very rare. In addition, small and medium enterprises have specific attributes influencing process of IT implementation that require special attention and investigation. Therefore, this paper researches the most important issues and challenges in adoption and implementation of knowledge management information technologies in small and medium enterprises.

Keywords: Information Technologies, Knowledge Management, Intellectual Capital, Small and Medium Enterprises

JEL codes: M150

1. INTRODUCTION

Small and medium enterprises (SMEs) is defined as organizations with fewer than 500 employees. The organizations have great impact on economy of every country and small business sector is one of the fastest growing sectors of the economy. For example, in the United States, SMEs make 99.7 percent of all

firms and employ 60-80 percent of new employees annually over the last decade. Also, in USA about 600,000 new SMEs are established each year, although more than 500,000 existing SMEs are closed. Crucial question for SMEs is how to survive in today turbulent environment and competition. [1, p. 46-53]

In comparison with large companies, SMEs have limited resources and little influence on the market. Their survival depends on their ability to take full potential of the resources and quickly adapt to a market changes. IT is a driver of operational flexibility and competitive advantage, and may help SMEs to be more flexible, to survive and succeed. IT infrastructure is important in supporting operational, tactical and strategic goals of enterprises.

Large enterprises make high level of investment in hardware, software, hiring and training IT professionals. SMEs usually lag behind large firms considering adoption and implementation of advanced IT products. However, the decreasing cost of storage and processing hardware and the increasing number of software applications designed for SMEs eliminate barriers that prevent SMEs from adoption of new IT. A recent survey [2, p. 357-380] shows that IT environments of SMEs are no longer based only on desktop PCs. Over 75% of SMEs have more than one server and the majority of SMEs have distributed IT infrastructures. Also, the literature on SMEs suggests that the enterprises can make benefit from using IT. For example, IT enables SMEs to better manage their customer bases, keep information about customers in a more organized manner and also share knowledge within the organization more efficiently.

SMEs are becoming more dependent on information systems (IS) for their operations. Researches in IS have primarily focused on large corporations, but challenges, opportunities, and management issues of IT implementation in SMEs are unique and deserve special attention of research community. The paper has focus on implementation and use of IT in SMEs, particularly IT use in management of knowledge and intellectual capital. Also, aim of the paper is to analyse various categories of intellectual capital and to show which information technologies are implemented in the most of enterprises to manage the capital. The paper is organized as follows. In next section, factors influencing on IT implementation in SMEs are analysed. In third section, we explain concepts of knowledge and intellectual capital management and various categories of intellectual capital are analysed in fourth section. In fifth section, results of empirical investigation on implementation of IT in enterprise intellectual capital management are presented. Final section is dedicated to concluding remarks.

2. IT IMPLEMENTATION IN SMEs

IT is a form of organizational resources that can be transformed into a valuable, rare and not easily imitable asset. The asset then makes the base of competitive

advantage and high business performance. However, many studies showing the positive effect of IT resources engagement on enterprise performance were conducted in large US-based firms. Small number of researches has focused on use of information and communication technologies in SMEs and the issues related to IT implementation and use in SMEs. IS theories and practices developed for large organizations may not be fully applicable in small and medium enterprises. [3, p. 91–121]

SMEs differ from large enterprises in many aspects. For example, large firms have greater scope of operation and compete in diverse markets, have a better ability to allocate IS development costs on larger units of production, and have internal IS development technical staff. All the aspects and attributes typically are not related to SMEs.

On the other hand, SMEs have their own specific attributes. For example, in small enterprises, decision making is centralized in one or two persons, bureaucratic procedures are minimal, standard operation procedures are not well established, longterm planning is limited, and there is greater dependence on external services for IS operations. Therefore the problems and opportunities in SMEs considering IS implementation are unique and require special focus.

Traditionally, SMEs have been the slowest in adopting modern information technologies. However, in recent years, they invested a significant amount of resources in IT implementation. Benefits of IT that SMEs can achieve include: cost reduction, improved profitability, better customer service, enlarged market scope, and tighter interorganizational relationships with trading partners. Information communication has become important factor of success in the Internet age. Communication technologies such as e-mail, the Web, interorganizational systems (IOS), and electronic data interchange have dramatically changed business processes

A common theme in many studies about IT implementation in SMEs is the importance of contextual and organizational factors in achievement of business success. The studies try to find answers to following questions: What kinds of organizational, contextual, and other factors influence IT success in SMEs? What makes one enterprise more innovative compared with other enterprises? For example, there is some evidence that organizational size is just one important factor in making a firm innovate and adopt new IT. [4, p. 88-95]

There are several investigations that explore the factors influencing the adoption of communication technologies in SMEs. One investigation [3, p. 91–121] evaluates the impact of six factors (perceived usefulness, cost, compatibility, top management support, competitive advantage, and size) on the adoption of communication technologies. Data is collected from 207 firms and the results of data analysis reveal that competitive advantage, top management support, and size are important determinants of adoption of communication technologies.

A study [5, p. 44-57] of drivers of IT adoption in 188 small retail businesses reveals that owner's perceived relative advantage and firm's willingness to innovate have an impact on potential IT adoption in SMEs. In another study [6, p. 75-83], authors investigated factors that affect IT success in SMEs. Examination of 150 SMEs, showed that respondent's awareness of IT and attitude toward IT are critical factors in their use of new IT.

One research [4, p. 88-95] analyses factors that determine conditions for new IT implementation. Research question in the research is: Under what conditions SMEs are likely candidates for new IT implementation? The four distinct factors influencing on conditions for new IT implementation can be defined as follows:

1. The **first factor** relates to the *internal/external business and technological environment* that impact an enterprise. For example, if enterprise consider implementation of web technology in electronic business, situation in its industrial sector and internal data processing environment have impact on adoption of the web technology. If majority of firms in its industrial sector has adopted the web technology and its internal systems and business processes are adaptable to the technology, then a firm is a good candidate for the web technology implementation.
2. The **second factor** relates to the potential *organizational readiness and trading partner support* to enterprise. For example, availability of financial resources and trading partner support could impact successful IT implementation and improved firm performance.
3. The **third factor** refers to the potential for positive *financial impact* of implementing a information technology. For example, when inventory carrying costs are high and the volume of business transactions between an enterprise and its trading partners are high, the enterprise could generate substantial savings by using inter-organizational systems based on web technology.
4. The **fourth factor** regards to the potential of implementing information technologies in achievement of enhanced *workflow productivity* for the organization. This factor determines the ability of information technologies to substantially reduce the time and resources spent on generating and managing the flow of business documents. This and previous factor impacts the benefits in form of improved organizational efficiencies which could be realized due to IT implementation.

The four factors are clearly robust and could potentially be applicable to any information technology implementation in the small firm context. If the factors have positive influence on new IT implementation, SMEs can realize following potential IT benefits: improved quality of information, good relationship with trading partners, better customer service, greater ability to compete, increased operational efficiency, enhanced cash flows, reduced transaction costs and low inventory levels.

3. KNOWLEDGE AND INTELLECTUAL CAPITAL MANAGEMENT

It is well known that many assets of enterprise (employees' knowledge and skills, reputation, patent rights etc.) are intangible, apropos that the assets can not be exactly expressed in financial measures. All the intangible assets are deemed intellectual capital. Main thing in intellectual capital management is process of human resources transformation to intellectual assets which can be managed as the other assets in enterprise can be managed. Whereas that intellectual capital is source of competitive advantage and profit, for an enterprise is crucial that the transformation process is realised by support of information technologies.

As the other type of capitals, intellectual capital has become important for many enterprises as source of competitive advantage. Intellectual capital management is process of human resources transformation to intellectual assets which can be managed as the other assets such as financial, material assets etc. Identification of enterprise assets, particularly intellectual assets (knowledge in property of enterprise expressed as recipe, formula, trade secret, invention, program or process) has been becoming critical for general vision and strategic plan of enterprise. In general, in order to subsist on market and to be competitive, enterprises have to know how to use their own intellectual capital on the best way.

In today environment of information or knowledge economy, intellectual capital is becoming critical point for determination of enterprise economic value. Intellectual capital creates the most of market value of many enterprises. This is particularly characteristic for service businesses, where use of intellectual capital is significant for revenue generation. For example, IBM company is implemented IBM Global Service business model. The business model has aim to increase level of consultants' intellectual capital in the company. The capital is based on superior knowledge on IBM and production characteristics of the company. [7]

There are many methodologies for calculation of intellectual capital successfully implemented including Scandia AFS Navigator as a version of balanced scorecard methodology. Scandia has accepted approach by which try to manage its whole knowledge that can be converted into value. [8, p. 13–39]

As we already mentioned, knowledge that is possessed by enterprise employees is very important part of enterprise intellectual capital. In last several years, enterprises in developed countries invested in intellectual capital and undertook various initiatives and projects of knowledge management. In many enterprises, the investments are directed towards knowledge management information technologies and systems, such as CRM (Customer Relationship Management), document management systems, intelligent agents, intranet etc. Although IT is

not the only one component of knowledge management, it is in primary focus for many initiatives of knowledge management.

Therefore, knowledge of internal business activities and external environment is key for management of enterprise. Enterprise managing knowledge on effective way can realize advantage over its competitors. This is why knowledge is identified as a main enterprise resource for creation of competitive advantage in which all the other resources are attempted.

Knowledge is created when data and information are processed, analysed and interpreted in specific context depending of attitudes, opinions, previous knowledge, experience and subjective estimation of a decision maker. Great advance in information and communication technologies has undoubtedly facilitated creation, storage, sharing and transfer of knowledge. Also, IT gives analytical and methodological framework for data and information conversion to knowledge.

Knowledge management can be defined as systematic, explicit and methodical creation, retention and use of knowledge in order to maximize enterprise effectiveness and revenue from assets contained in knowledge. Primary focus of knowledge management is use of information technologies and tools, business processes, best practices and culture in order to develop and share knowledge in organization and to connect knowledge owners to people who do not possess it. Finally, use of relevant knowledge to improve performance of organization is essence of knowledge management.

Knowledge creation, retention and sharing inside and between various communities and groups of users require coordinative management and exchange of information. IT provides channels for flow of the knowledge and means for processing and conversion of knowledge from one form to another. Therefore, knowledge management IT should enable:

- knowledge creation;
- defining, storage, categorization, indexing and joining of digital objects related to some knowledge area;
- search of relevant content;
- presentation of content with enough flexibility of expression in order that knowledge be applicable in different contexts.

Market of knowledge management IT offers many products and “portal” solutions for main functions and activities of knowledge management. Many companies implement knowledge management IT by buying ready-made solutions and account that buying of some technology will obtain return on investment.

4. CATEGORIES OF INTELLECTUAL CAPITAL

Intellectual capital management can be defined as methodical and systematic approach to identification and use of intellectual capital for generation of economic values in enterprises. Whereas the definition is too broad, it is used only for descriptive purpose. In concrete enterprise, components of intellectual capital depend on specificity of the enterprise. However, regardless of organizational context, intellectual capital can be divided in two categories: 1. human capital, such as core competences and knowledge of employees and 2. structural capital, such as IT and organizational structure. In addition, we can identify assets protected by the law making an intellectual property of enterprise. The intellectual property includes assets such as trade mark, patents, copyrights and licences.

1. Human capital. Innovations in an enterprise relating to machines, processes and systems emerge owing to people employed in the enterprise. People use knowledge, information, intellectual property and experience in innovation, that all brings to generation of greater revenue of enterprise. Environment factors influencing human capital include values, culture and philosophy of enterprise. Reliance on human capital, instead on physical capital (for market competition) is key factor differentiating knowledge intensive enterprises from the other enterprises. Individual tacit and explicit knowledge of employees transformed to human capital is source of innovation and strategic novelties.

2. Structural capital. Term structural capital is often related to hardware, software, databases, organizational structures, patents, trade marks and all the other abilities of enterprise supporting productivity of employees. Another way to identify structural capital is to view it as remainder, when we eliminate knowledge and people from enterprise. Another important fact related to structural capital is that the great part of the capital is explicit and that it is in property of enterprise which can manage it. The best thing for enterprise is to transform greater part of intellectual capital in structural capital, because it becomes explicit and it is easier to manage it. An example of the „structuralization“ is transformation of manufacturing working ideas (human capital) in coded patents which can be legal and physical property of enterprise. The transformation process of intellectual capital in structural capital is supported by various information technologies.

Second categorization of intellectual capital can be made from two aspects: 1. relationship of enterprise with business partners, 2. relationship of enterprise with its customers. According the categorization, intellectual capital can be divided on *relationship* capital and *customer* capital. *Relationship* capital attempts in relationships and interactions of enterprise with its business partners and the other entities from its environment. *Customer* capital attempts in relations and relationships that enterprise has with its customers or consumers of its products and services.

1. Relationship capital. Enterprise has interaction and communication with great number of entities from its environment. Michael Porter [9] has described the entities by model consisting of five forces. Effective management of relations between the forces enables enterprises to add value to their products and services and to gain competitive advantage. For example, enterprise having ability of receiving and processing of information and knowledge from its business partners can increase value of its products and services. Key aspect of *relationship* capital is cooperative behaviour of business partners. Such behaviour is critical for transformation of business alliance value in real economic value.

2. Customer capital. Customer capital represents relationships which an enterprise has with consumers of its products. Management of the capital includes processes, tools and technics supporting increase number of enterprise customers. Example of the capital is a well known brand. Unique examples of recognizable brands are: *Coca-Cola*, *Microsoft* and *IBM*. *Coca-Cola* brand had value of \$69.6 billions, *Microsoft* \$64.1 billions and *IBM* \$51.2 billions in 2002. In many cases, when the other factors are same, customer chooses products and services of concrete enterprise because that prefers to buy particular recognizable brand from the enterprise. [10]

5. IT AND INTELLECTUAL CAPITAL MANAGEMENT IN SMEs

Whereas that intellectual capital is source of competitive advantage and profit, for an enterprise is vital to accept and implement information technologies in intellectual capital management. Transformation of knowledge resources to intellectual assets is more effective when it is supported by information technologies. We present brief review of the most important IT and its roles in knowledge management:

- **Systems for document management** are warehouses of important documents of enterprise and worth tools for creation and processing of complex documents. Content of documents along with principles of its organisation makes explicit intellectual assets of enterprise.
- **Data warehouse** is hardware and software platform with integral and cleaned operational data of improved quality for support of decision making processes in organization. **Datamining** is technology which is used to extract and analyse useful information from great database, such as data warehouse.
- **Enterprise information portal** is web application enabling company to make available stored information to internal and external users. Portal obtains to internal and external users unique gateway to personalized information needed for decision making.

- **Web search engines** improve rapidity and accuracy of information search through nature query languages, information filtering or creation of abstracts. Push technologies and intelligent agents facilitate tracking of some types of knowledge, so users do not have to learn complex syntax of searching.
- **Groupware** improves exchange of tacit knowledge allowing formal and ad hoc conversation between employees in spite of time, spatial and social barriers.
- **Workflow** applications enable users to codify formalised knowledge transfer processes and to manage flow of information compatible with flow of work processes in enterprises.
- **Help-desk** technology is used in many organizations as mean of response to requirements of internal and external customers. Accumulated knowledge in using of such systems has more extensive application in fast design and improvement of products and services.
- **Knowledge mapping** is technology playing role of yellow pages for transfer of best business practices to interested users.
- **Training systems and simulation software** enable employees to acquire knowledge and support conversion of explicit knowledge to tacit knowledge.

Besides great expectations, individual technology can not solve all problems of knowledge management in enterprise. Thus mix of several technologies should be considered. It is important to understand how creative development of existed technologies to connect with new IT products entering on market.

Question is to what degree IT can be used in management of intellectual capital and knowledge. In last several years, there are many researches on how enterprises use IT in intellectual capital management. One research [11, p. 134-140] that its results will be presented in the paper includes 145 enterprises of various sizes, spatially distributed all around the world. The enterprises are from various industrial sectors. In the research, all information technologies for management of intellectual capital and knowledge are clustered in eight categories: internet, intranet, extranet, data warehouses, document management, decision support systems (DSS), knowledge agents\intelligent agents and e-mail/groupware. The information technologies can be used for management of basic intellectual capital categories: human capital, customer capital and relationship capital. Role of IT is different in enterprises with various sizes. Some information technologies have greater importance in large enterprises, while the others technologies deemed more effective for knowledge management in small and medium enterprises. Rang of information technologies is achieved for large enterprises, small/medium enterprises and for all examined enterprises regardless of its size.

One interested result following from the research is related to impact of enterprise size on use of IT in intellectual capital management. This fact is

important for determination what information technologies are more successful in intellectual capital management taking into account size of enterprise.

If we view large enterprises with more than 10000 employees, high ranged information technologies from aspect of success in intellectual capital management are following: 1. intranet, 2. artificial intelligence/knowledge agents, 3. groupware, 4. DSS, 5. extranet, 6. document management, 7. internet and 8. data warehousing.

If we view small and medium enterprises with less than 10000 employees, range of information technologies is different in comparison with large enterprises. Small and medium enterprises deem that following information technologies are most successful in management of its intellectual capital: 1. groupware, 2. data warehouses, 3. data mining, 4. extranet, 5. artificial intelligence/knowledge agents,, 6. internet, 7. intranet and 8. DSS.

As we can see, artificial intelligence/knowledge agents are ranged lower than in case of large enterprises. It can be partially explained by fact that small enterprises have smaller amount of data which can be analysed by knowledge agents. Because of that, appropriateness of the agents is much lesser in small enterprises. Also, high price of the agents and requirement for greater processing power are reasons for low use of the IT category in small enterprises. However, as field of artificial intelligence continues to advance, more adoption and implementation of the technology is expected in smaller enterprises.

The research tries to determine degree of use various information technologies in management of specific intellectual capital categories (human capital, customer capital and relationship capital). However, the research has shown that enterprises do not distinguish the categories of intellectual capital. In other words, enterprises try to unite whole intellectual capital to manage it by information technologies and do not make difference between its distinct categories. Change of behaviour of enterprises in IT use for management of specific intellectual capital categories is expected. One example of the change is emergence of CRM technology supporting management of customer capital. Development of other technologies for management of specific intellectual capital categories is expected as well. Software firms which are innovators in the fields include Seibel, SAP and IBM.

6. CONCLUSION

Presented results of research show that knowledge management continue to develop and change in enterprises. The research is focused on very specific area of knowledge management and that is how information technologies support intellectual capital management. Naturally, every enterprise is specific from aspect of internal potentials, external state, mission and goals, so these factors must be taken into account when new knowledge management technologies are

adopted. The research shows that there is strong relationship between the technologies and size of enterprises. As field of intellectual capital management continues to develop, we can expect differentiation of intellectual capital on individual categories. Therefore, information technologies will become more specialized for specific categories of intellectual capital.

This research gives foundation for investigation more practical aspects of knowledge management in our enterprises. Future empirical researches could be directed towards examination of which knowledge management technologies are used in Serbian SMEs and why managers have decided to use particular technology. We could range the technologies by importance for knowledge management in our SME, such as it is done in presented research. Also, further investigations could be focused on factors of successful implementation of KM IT in Serbian SMEs.

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**BUSINESS NETWORK STRATEGY CREATION OF LARGE
AND SMALL COMPANY STRATEGY FOR THE SECURITY**

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Abstract: The fact that we live in a time of faster, more dramatic, complex and unpredictable changes. Technological, market-economic, political-legal, but more and more global factors and changes affect the design practice and management theory and organizational behavior in general. Business entities that are constantly struggling to survive and progress in the global market often do not realize the importance of alliances between "big " and "small" companies. Changing, often turbulent, changing business environment requires appropriate strategic responses. In contemporary conditions, to meet the needs of all demanding consumers and maintain competitiveness, companies, regardless of their size must be taken into account inter alia the quality of products and services, as well as quality costs. The fastest, safest, least time with uncertainty, in terms of economic growth is the way to create business networks. Everyone has their own reasons and in accordance with this, the author deals with issues related to the concept, size, cost and reasons for the creation of strategic business networks from the perspective of stakeholders.

Keywords: strategy, business networks, the reasons, small and large companies, competitiveness.

INTRODUCTION

In recent years, very considerable attention, in transition countries, as our case is, has been given to the importance of restructuring of small and medium enterprises (SMEs) and economic development. In particular, we stress the comparative advantage that is reflected in the flexibility, entrepreneurship and innovation, as well as the ability to make quick adjustments to environmental changes. However, the comparative advantage, which comes primarily from the size of these companies, is not always transformed into a competitive advantage. In economies with limited capital and restrictive investment policy, small production and business units are favorized. Small enterprises are source of

local development and growth of national economy. Through this work we will try to point out the advantages and disadvantages of small and big enterprises in practice, particularly the differences that appear when we try to apply the theoretical knowledge to the advancement of small business store in economic conditions, such as ours. The survey was conducted in one small store in the handicraft trading commission sector, called "Mobile Team" and located in Šabac, whose main activity consists of:

- Sales and service of mobile phones and accessories
- Sales and service and maintenance of PBX equipment
- Point of Sale Services Mobile Telephony of Serbia.

"Mobile Team" operations began in November 2001. year with two employees. Currently, the store operates with nine employees engaged on a fixed term contract for an indefinite period of time and with two shops of which one is in Šabac and the other one in Bogatić. The strategic management focuses on the process of current situation analysis and formulates appropriate strategies that are implemented in a practice and evaluated, modified or changed, depending on our needs. In this paper, we will try to show a small part of the owners' and employees' experience of the business environment from the perspective of this small store, as well as the key reasons for building an alliance between small and medium sized enterprises and the advantages and disadvantages of implementing business networking strategies. After developing the strategy, the following task, which is also very significant and complex, refers to its implementation and usage. Having in mind that even the best defined and chosen strategy can be ruined by inappropriate use or method of preparation or simply by poor execution of strategy implementation, the implementation strategy should be given special attention, and, if planned to be efficiently, in order to be efficiently implemented it should be well prepared and organized.

ADVANTAGES AND DISADVANTAGES OF "SMALL" ENTERPRISE

Enterprises of different size, which are able to offer customers products and services in an effective and efficient manner, are the preferred solution for market economy. There are numerous activities which do not require mass production. Also, it is well known that mass production companies can not operate successfully without a large number of "small" and "medium" enterprises. Competitive and to a reasonable level open market is the arbiter that encourages – enterprise-business to a rational business behavior regardless of its size. SMEs create the basis of competitive advantage upon their advantages over big enterprises. The analysis of advantages and disadvantages of "big" and "small" innovative companies are reliable basis for identifying the sources of competitiveness of "small" business enterprises. In this paper, we will discuss about some of the most important basis through the different areas and from the

perspectives of "big" and "small" enterprises. Naturally, regardless of its size, the specificity of each enterprise should be borne in mind, as well as the questions as: Are there and what are the potential benefits of "small" enterprises in different areas?

THE AREA OF MARKETING

Today, more than ever, companies face the fiercest competition. Nevertheless, if the focus is changed from the production and sale philosophy to the marketing philosophy, the company has a better chance to overtake the competition. The basis of carefully planned marketing orientation relay on a strong relationship with customers, fast demand response and focus on a "niche" market. Fast response to market demands in practice, primarily refers to the possibility of "small" enterprises to respond fully to the emerging market demands. Here, first and foremost we relate to market demands that give an essential priority to "small" enterprises over the "big" enterprises. In our terms, marketing "niche" strategy refers to the advantage of "small" enterprises based upon their possibility of focusing on a situation and requirements, or, better yet, the "chances" that arise in the market which, at the same time, are not interesting for the "big" enterprises. To prove our point, we'll give an example of a simple purchase of the latest models in cell phones. When appears a new model of mobile phone, which is advertised and sold on the developed "western" markets, due to the advancement of technology (primarily the Internet), there's an increased demand for precisely that model in our market. Potential buyers are not interested in the fact that "big" companies will need several weeks, or sometimes months, to order the specific model, import and clear the release through a network of retail market. These are real and secure buyers who want exactly the model mentioned above because it is the latest, because it offers options that current models do not provide, because no one in the market has it and is very expensive, which is, perhaps, for some customers even the most important fact. We are talking about a consumer, or consumers who are indispensable for the small enterprises in order to gain a competitive advantage. "Small" enterprise can, relatively quickly, respond to market demand or, in other words, it can purchase the required model of mobile phone and sell it to the public sector in a much shorter period of time than the "big" enterprise. Apart from the income produced by a particular sale of new cell phone, what is more important is the fact that by satisfying the expectations of customers we have ensured a secure customer who will not only buy the phone for other members in his family but also spread positive information about the business of "small" enterprises.

This is just an example, but, on the other hand, we should bear in mind that "big" enterprises have many other advantages which can represent or better said represent to "small" enterprises issues with witch they can't deal with, or problems witch some of the enterprises can't even overcome. When speaking

about latest mobile phone models, we would like to give one example which reflects a dominance of "big" companies, at least in the to mobile phone sector. Companies like *Telenor*, whose mobile network operator is 063, and *VIP*, whose mobile network operator is 061, periodically place on the market a variety of mobile phone models which are sold with the subscriber numbers at very attractive terms. Their offer is so good that mobile phone shops, which purchase goods through traditional sources of supply, have no ability to compete in the area of sale of these mobile phone models. From the above examples we can realize, at least partially, the main advantages and disadvantages based on the size and the competitive superiority in enterprises located in our market.

THE AREA OF MANAGEMENT

For all current and future managers, one of the most important aspects, we would like to point out is that the way to govern one enterprise depends primarily on the character of practiced ownership. That is the fundamental link between ownership and management. It is easily visible at almost all levels. The main advantage that "little" enterprises have over the "large" ones is reflected in their absence of bureaucracy or, to put it differently, in owners' presence and management involvement. That actually means, as is the case in most "small" enterprises that the owner of capital is directly interested and involved in the issues related to decision making and problem solving, which results in faster response to market demands and risk acceptance entailed by these decisions.

One of the advantages, that can as well turn out to be a disadvantage, lies at the root of consultations held by the manager/owner of "small" enterprises before the decisions are made. The advantage is that decisions are made by itself or in consultation with a smaller number of associates, which all can be performed in a relatively short period of time. Drawback of such decision-making model can be related to insufficient expertise of the manager/owner of "small" enterprise, as well as of his close associates. Decision made individually, or decisions made in this manner are, realistically, more likely to be risky than those joint decisions filtered through the "big" enterprises, but that is one of the risks taken up by the management of "small" enterprises.

Decision making is the process of selecting from several alternative options, or between several possible actions that could be implemented. Bearing in mind that the owner is the one who makes the best decision, or, at least, the one who tries most to make the best decision for the enterprise at the moment, in that shortest period of time it can be observed the absence of typical phenomenon, characteristic for much better organized "big" companies, such as the phenomenon of losing valuable time in strategically valuable decision making due to various stages through which a decision has to go until its final verification. In order to illustrate the above mentioned situation and reinforce our conclusions, we will the following example.

If in the city of Šabac, or better yet, if in the market of town of Šabac appears the demand for "064 prepaid (mobi-click) cards of Mobile Telephony of Serbia, the manager/owner of "small" companies will, due to current high demand for the "mobi-click" cards in the city, immediately make a decision to go to Belgrade to visit the Mobile Telephony of Serbia and buy the cards which will immediately be released back into sales. This means that in one day, from the moment when the demand for the cards appeared on the market, the decision is made without any delay, the required scarce goods are obtained and placed on the market of Šabac. On the other hand, the "big" company like, for example, JP PTT Serbia, which is the exclusive distributor of Card Mobile Telephony of Serbia, given the procedures to which are exposed all "big" companies in order to acquire the same card, would have to "lose" a few days until the cards re-appear on the market offer of the city of Šabac. Also, we should bear in mind a satisfaction of the customers who in the following supply-purchases may come first to the Mobile Team, regardless of the fact that the Serbian PTT is much "bigger" company.

It is realistic to denote the advantage of "large" enterprises in their ability to manage complex projects, but, on the other hand, there is always a risk of lack of dynamics regarding the implementation of those decisions. Surely, we should bear in mind the crucial advantage of "small" company's management, primarily of those which are serious and competitive, and which is relative to their level of motivation. It is impossible for "big" enterprises to achieve the level of motivation of their workers equal to the intrinsic motivation of the manager/owner of small enterprises if they were his own property.

THE AREA OF INTERNAL COMMUNICATION

In order to be successful, organizations need to recruit talented people, employees at all levels that possess the right mix of skills and abilities that go along with real values and attitudes. Such skills and attitudes must continuously be developed, strengthen and reinforced, and each employee must be motivated to accomplish the goals and objectives of the organization.

When we want to define the benefits that "small" company may have in comparison to "big" companies in internal communication, which is not as easy in practice as it is in theory, we should first put emphasis on speed of action and informality of communication. Also, we should bear in mind that the costs achieved through internal communications in "small" enterprises are significantly lower or, better said, almost minimal. What does this mean in practice? Actually, this is the advantage that reflects on the organizational level of "small" companies which in fact operate as a successful family. Very often the manager/owner entrusts the most important of the business affairs to his well-known acquaintances and reliable persons who may even be family members. The closeness and intimacy which is typical for "small" enterprises is impossible to achieve and apply to large business enterprise.

The "small" company called Mobil Team Šabac currently has nine employees with a contract for an indefinite term. Precisely for being motivated by safer and easier ways of communication, the manager/owner engaged only people he personally knew, or, in our opinion, people for who someone could offer an unconditional guarantee in terms of honesty, efficiency and communication skills. Regardless of the employee selection process, often there is the need to point out some flaws in the work as well as in the behavior. The basic advantage of the manager/owner of "small" enterprise, when compared to managers in "big" enterprises, lies in his excellent understanding of each worker's personality which enables him to offer them his rightful and necessary guidance, so that his employees can achieve the results with which he as well as they will be equally satisfied. We wouldn't want to exaggerate things by saying that any problem could not occur; it's actually quite the opposite, but it's a fact that a quality internal communication and rather real relationship between employees and owner/manager in "small" companies can yield many positive outcomes, like quick and easy problem solving.

Nevertheless, it should be borne in mind that sometimes the intimacy that must somehow prevail in "small" companies might also bring some problems. On the other hand, the big enterprises management could also face problems of that kind in companies, regardless of their size and features of organization. To put it mildly, due to the existence of different levels of management between worker and general manager which require certain levels of internal communication, in large business systems the process of internal communication is quite complex. It's quite normal for the general manager of a major business system not to know all the employees or their problems. However, we should keep in mind that if the chain management, formed and approved by the General Manager, along with other managerial structures of company which impose certain internal communication policies, is not well established, and, even more importantly, well controlled and monitored, an unhealthy situation caused by the difficulties in implementation of internal communication could arise in the entire system. Among other things, the success of "large" company is reflected in the quality of internal communication as well as in the degree of employees' satisfaction.

THE AREA OF EXTERNAL COMMUNICATION

External communication is the area where "small" enterprises do not have some advantages that could be considered as competitive in comparison to those of the "large" enterprises. Big enterprises maintain everyday relations and contacts with a large number of research centers as well as with the professional development centers or science centers for professional development. Relying on the fact that "big" enterprises are investing in the development of science and above all of their profession, in order to maintain a competitive advantage, it is easy to understand their interconnection. In small enterprises, like this one which is the object of our analysis, seldom we encounter the need for external

communication. Precisely, one of the main reasons for small enterprises to join the large ones lies in the possibility to apply different kinds of discoveries to which due to their size they could not come by themselves.

The area of „finances”

When discussing finances and they are a crucial foundation that leads to birth, survival and competitiveness of all enterprises, regardless of their size, we encounter a whole range of problems. Problems that every enterprise has to face from the moment of the emerging concept of new business until the latter stages when the same business already is competitive on the market, are always problems related to finances. If someone who is starting a new business had a large sum of money he would start right away the large enterprise company. As we can see, the problem of finances is present in every stage of "small" business development. The main question relates to the advantage in the area of finances that a small business enterprise could have in comparison to the large one.

Surely, to start any business we must have some money funds. Depending on the amount of money we will startup a particular business. In terms of our market economy, a prerequisite for success is that our initial capital is not borrowed, or, if it has been borrowed, that the business is organized in a way which brings profit and can cover the borrowed money as well as enable certain revenue to us as entrepreneurs that could be considered as our capital. Under the conditions of slow growth and strong competition, the main problem lies in borrowed capital. If not invested properly and adequately in any stage of "small" business development, the initial borrowed capital will lead not only to bankruptcy, but also to the total destruction of potential entrepreneurs who will have to return capital loan without collecting revenue derived from the "small" business. Therefore, we think that the initial capital should be personal and that the business enterprise should only be extended to the point of capital guaranteed fund of the manager/owner. So did the job in SZTKR Mobile Team in Šabac went from store with two employees and a dozen phones in the store to a small business with currently nine employees, which operates in place of Sales of Mobile Telephony of Serbia and offers a wide range of latest models of mobile phones and accessories. Hence, as business expands so does the profit and the proportion to improve the financial situation of the owner/manager, which all leads to the creation of conditions for expanding business and new revenue increases. Through this story, we wanted to point out the fact that if the owner loses even once the capital in small business it will be very difficult for him to recover it. If exists at all, the advantage of "small" business over the big one, reflects on the fact that if successful owner/manager of "small" business follows his hunch and fully exploits "chances" on the market, he can relatively quickly redirect his capital, or one part

of it, and invest it in other business which is not within a same professional area but could bring revenue to him. From any of the aspects of business, it should be borne in mind that "big" enterprises have many more options in terms of

finance. The main advantage of "large" enterprise lies in its ability to spread risk across the entire product portfolio, which means that the financial loss in one business segment will be covered and outdated by successful operating in other business area of large system.

THE AREA OF RESEARCH AND DEVELOPMENT

We can say that if the owner/manager wishes to maintain his market competitiveness, he must comprehend an area of small enterprise research and development. Also, we must mention that the owners/managers of small enterprises have limited time, limited resources and suffer from a lack of needed functional support in aspects such as financial management, operational management and marketing (they often do all this work by themselves) and have no time to analyze the environment. Besides mentioned above, precisely in this area should be made the main difference between competitors within an industry. Each "small" enterprise must try to change something and make innovations in its offer of goods or services. It's necessary to focus on improving the offer as well as on how it's being made. Every innovation and change is at the same time a prerequisite for survival and existence in the market. The area of research and development embraces ways to achieve better sales and service quality as well as the competitiveness level, because market conditions and requirements demand everyday adaptation.

How and why the manager/owner of a "small" mobile store wanted and managed to enter into a contract with the enterprise *Telekom Serbia a.d.* to open the selling post of Mobile Telephony of Serbia in Šabac and Bogatić? Thinking about how to beat the competition in sales of mobile phones which is every day more and more present not only at the local but also at the regional level of Serbia, the manager/owner came up with the idea of building an alliance with the "big" enterprise "Telekom Serbia" ad. He elaborated a business plan for his "small" store, obtained a bank guarantee, meet the space standards and skill level requirements for the stuff set by the sales managers from Telekom Serbia AD who are responsible for the operations of Mobile Telephony of Serbia, and after a series of conditions and tasks which were successfully resolved, he opened a sales outlet Mobile Telephony of Serbia. By developing and opening of sales outlet he gained a huge competitive advantage in his environment because he became collaborator of the most important and competitive enterprise in Serbia concerning cell phone products.

Big enterprises have a completely different and much more qualitative approach to research and development issues. They focus their attention and resources on the development of new resources, technology and various other ways to improve the sales and service quality as well as the competitiveness level. They compete for "turn-key" projects in order to increase its business portfolio and therefore their profits. Nevertheless, on the market, regardless of their size,

surely only will survive those who invest in research and development, while those who prescribe and copy will be of brief and insignificant life expectancy.

ENTRY OF "SMALL" ENTERPRISE IN BUSINESS NETWORK

It is widely known that the market value assess a company's performance. It is also known that networks of small, medium and large enterprises are most successful in practice. The root of success lies in the network structure and reliability of business contacts. Complex networks of relationships between various participants are more and more frequent in practice of modern enterprises not only in developed but also in transition countries. Experience shows that the motives for entering into different types of networks are various and often asymmetric. Hence, while the large global corporations seek to exploit the advantages offered by the globalization, by forming different types of networks, small and medium enterprises are only trying to protect themselves from its impact.

Strategic alliances with other organizations and institutions enable a more successful management of most valuable assets due to quick and quality innovations in all areas, which is the key success factor in business today. Networks accompanied with a critical mass of knowledge, generated by continuous chains or connections between enterprises, create superior customer and shareholder value. Given that the motives for entering into various forms of networks are directly or indirectly related to the market, it is logical that marketing plays a very significant role in the creation of strategic alliances. In era of interdependent relationship, marketing activities are essential in all phases of strategic alliance management.

MOTIVES ESTABLISHMENT OF STRATEGIC BUSINESS NETWORKS

Strategic business networks and joint ventures are increasingly playing a more involved role in strategies of "small" business enterprises and "large" leading companies. Such cooperative networks have many potential advantages. The formation of business networks is caused by different motives and goals. Factors that influence the company to engage in strategic business networks are various and numerous. It is undisputed that the limiting factors are: environment characteristics, characteristics of the industry in which the company competes and organizational characteristics. Organizational orientation, as well as its culture and the need for more efficient use of resources, have stimulating effect on involvement in strategic alliances. Within this group of factors, certainly, the most significant changes are reflected in the needs and behavior of the customers during the purchase process, appearance of uncertainty and risk, rapidly changing technology, intense competition as well as other significant changes of further environmental conditions. Changes in the fields of activity in

which the company competes are very common threat that can be effectively neutralized by entering into strategic business network. Threats are caused by potential, as well as by existing competitors.

Motives for making connections through strategic business networks are different. Depending on his strategic position, competence, competitiveness, availability of resources and risk exposure, each participant has its own motives. All motives lead to achieving common objectives of all enterprises that are connected to the system through various models of strategic alliances. On the basis of numerous investigations, we can conclude that the most commonly cited are the following motives:

- Training through networks for doing business in a global market; a large number of companies is positioned in mature markets and by forming global strategic alliances they can change their orientation more rapidly and replace outdated and failed business models with more successful ones;

- Overcoming market barriers and more effective participation in emerging markets through local partners; maintenance of competitiveness on already conquered market; reducing the potential threat of new competitors by neutralizing market uncertainties and the imperative of being first-to-market;
- More efficient use of existing materials as well as of the intangible resources; creating of new ones and building competency-based resources;
- Faster introduction of new products and their diffusion on a global scale;
- Creation of additional consumer value by responding adequately to their problems occurred during the consumption process;
- Effective cost management and cost reduction due to business network;
- Shaping industry structure by industry breakdown and creating new ones from it, creation of new technology standards, establishment of new relationships between market participants, suppliers, customers, channels.

Cooperation between groups is becoming an important strategic management tool to improve the competitiveness of some participants. Quality of service is closely linked with the quality of service providers. The result of strategic groups is creation of trust and valuable assets, or better yet, the increase of profits and capital. Each strategic alliance, as well as each branch network, is specific and requires a unique approach to the strategic alignment of partners. Strategic business networks allow to overcome the gap between desired and achieved position of an enterprise in the market.

Example of business cooperation "small" and "great" companies

"Small" and "medium" enterprises in Serbia, as well as all others, are exposed to numerous risks, which are more pronounced in conditions of globalization. Risk, among other things, could be reduced by the strategic management based on relationship marketing and networking with different business partners as the primary source of competitive advantage. The advantages of competency can be realized, especially in areas where development is a fundamental determinant of

business success. By networking are obtained resources that convert into sources of competitive advantage which reflect in: access to new markets and technologies, effective ways of reducing business costs and risks, gaining experience in the global market, etc. "Small" and "medium" enterprises are being included in the formal networks where the value system of partners is in compliance and where predictable behavior contributes to the reduction of uncertainty. Sources of competitive advantage of these networks are: more members, greater information availability, and reputation capital extension to all members of the network.

As an example of business cooperation between "small" and "big" enterprises we cite the business cooperation achieved between the "small" store Mobil Team from Šabac on one side and the "large" company Telekom Serbia AD on the other side. In this contractual relationship, regardless of their size, rights and obligations of both parties are clearly defined. It is understood that in this joint venture (the opening of Sale of Mobile Telephony of Serbia which is part of Telekom Serbia AD) both parties entered voluntarily and with different motives and different reasons, but also with a common purpose: to provide long-term competitive advantage, if possible, and as it is goal of any business, to provide profit. First, we will mention the motives and causes of realization of this project from the perspective of "small" business enterprise:

- Strategic partnership – the fact alone and knowledge that Mobil Team shall cooperate with and represent Telekom Srbija AD in the town of Šabac in mobile phone sector, is the fact which in the colorful market of the town of Šabac provides immeasurable competitive advantage;
- Access to new technologies and increase in the knowledge of the mobile telephony - a condition for signing the agreement on mutual cooperation was that all employees were to be trained in Telekom Serbia AD where they would gain new expertise and pass the professional exam before receiving certificate of dealers work for MTS-e;
- Shorter time to enter the market - we are entering in a very short time to an already prepared and what is more important "hungry" market for services and goods that we provide through the collaboration with Telekom Serbia AD;
- Reduced costs - basic cost reductions lies in sales of goods and services that are already backed by the appropriate marketing strategy by "big" enterprises, and more importantly, the purchase, the warranty and service support for products sold in the dealer MTS-e provides Telekom Serbia AD;

- Reduce risk - the very fact that Telekom Serbia AD determines which models, at what price, what services and at what price, as well as that they invest in purchasing products for resale, and, given our market terms, the fact that should not be avoided, that the whole business is done exclusively through legal channels, in accordance with the law and the agreement on cooperation was signed and applied, that risk is minimized with respect to the current market environment;

- Achieving economies of scale - the first time in their business they get into the situation to reach the level of sales that to "small" enterprises seems like an

impossible mission. By selling a large number of "Mobi-click cards they receive the benefit of increased profits, regarding the fact that at first sight profit made by selling one card is insignificant; • Increased bargaining power – by the very fact that such a big company like Telekom Serbia AD entered into an agency with "small" enterprise like Mobil Team, its bargaining power is enlarged and strengthened;

- Reduce competition – we cite it as one of the most important motives for realization of this work. The advantage gained by the "Mobile Team" is extremely competitive and transparent. Of course, Telekom Serbia AD could assemble this work with some other "small" store, but that would not be good for "small" business enterprise "Mobile Team". Beside the ones already mentioned, there are many other motives and reasons for this merger, but they all essentially boil down to the fact that this kind of cooperation brings profit to both parties concerned in accordance with the invested funds and resources and in accordance with the signed agreement of cooperation that defines the operations down to the smallest detail, while protecting Mobil Team "as a" small business enterprise, on one side, and Telekom Serbia AD as a "big" company, on the other side.

We'll list the reasons which lead "Telekom Srbija" as a great company into a situation like this, or, rather motivated, to enter into these types of contracts on business cooperation. The reasons for these decisions are following:

- Access to local markets in a competitive manner through business with the known and positioned "small" enterprise at the local level;
- Strategic partnerships in terms of execution of work with the leading "small" enterprise in the business industry at the local level. By this we primarily mean that an alliance with a leading "small" store in the business industry at the local level could be made by a second or third major mobile operator in our market, which would make the position of Telekom Serbia AD slightly worse. They would be forced to realize a business cooperation with more anti-competitive co-worker, or few of them, at the local level;
- Fast local market entry through the sales office which has been worked out through business cooperation with well-known "small" enterprise in the business branch of the Šabac level. Reduced time of sale advertising, selection and training of workers and, most importantly, the existing number of regular, occasional and potential customers;
- Reducing costs in all areas of business through this type of cooperation. Savings through the lease of office space, staff salaries, advertising at the local level, maintenance of facilities and equipment are the benefits of Telekom Serbia AD benefit through this relationship;
- Achieving economies of scale through the creation of a large alliance contracts on business cooperation with the most successful "small" enterprises in the industry at the local level in Serbia, thus increasing the competitive power of Telekom Serbia AD and its business associates.

- Reduce competition is certainly a common interest. By competitive offer, innovation and new product and services introduction, the position of Telekom Serbia AD, and the position of Mobile Team as well, in relation to their competitors is being enhanced.

In our opinion, we stated the key motives that Telekom Serbia AD has in the process of creation of such business arrangements. By entering into strategic alliances with successful "small" enterprises, Telekom Serbia AD provides the best ways to create value by intense rapid organizational learning which contributes to reducing uncertainty and risk in implementing a strategy.

CREATION OF INFORMAL BUSINESS NETWORKS

The key advantage of "small" and "medium" enterprises is reflected in the creation of informal personal networks which are based on direct contacts of entrepreneurs and business partners. Trust, commitment and compliance strategies are the basic characteristics of the relationships in the network. In all successful networks business relations are friendly and long term.

Learning from the experience of "small" store "Mobile Team" Šabac, we know that in practice, very often, business cooperation done through informal networks has better business results than business operations burdened on various business contracts and procedures. Personal or rather direct contact, created by two or more business associates who are interested in a common goal realization through informal networks are precisely the advantage that "small" enterprises have over the "big" ones. It is understood that agreement on the start, conditions and ways of cooperation for the realization of business is made by owners/managers of "small" enterprises who are maximally motivated to achieve a high quality competitive deal. This statement is true only when we talk about cooperation between correct, fair, market and long-term-oriented entrepreneurs. One of the problems refers to the question how to choose from the large number of potential candidates on the market the "right one" for the business. Addressing this problem, as well as all others which are present in the business of "small" enterprises, is the task of the owner/manager on whose actual decisions depends whether the company will be successful or not.

INSTEAD OF CONCLUSION

There are different opinions about what is the target function of the company's owner. The fact is that the capital investment in the establishment and operation of the company is owner's capital investment and that he will choose such an alternative only if it is the cheapest for the realization of its objective function. Business owner, as owner of the capital, aims to maximize the form of profit that will for him represent a pure gain. We will try to reveal what is the target function of the business owner because that's precisely the essence of the

operations of all companies, regardless of their size, administration and business organization, as well as their ownership structure. Maximization of profit maximization, or better said, the owner's wealth, is the key motive for making all decisions related to company business.

Precisely the answer to the question which strategy allows the company to succeed in dealing with turbulent and complex environment leads us to the fact that each company has its own specific way, or better said its strategy to achieve the goal. Certainly, not every strategy is good and successful and therefore not are the all companies competitive and successful.

Strategy is not everything, but without it everything becomes nothing. The focus of the strategic decision-making is on the ways to achieve competitive advantage because there are different ways of its implementation. Certainly, we should bear in mind that successful companies have the same or similar goals, but different ways of their realization. From the aspect of the owner/manager "small" enterprise, we can safely say that the selection of the appropriate strategy may as well be the crucial thing in temptation to gain competitive advantage. When one enterprise is creating a competitive advantage, regardless of the market and firm size, that means that it has something that other competitors do not have, or is doing it better than the competition, or is doing something that other competitors can't do. The story of two friends who are frantically considering the best way to escape from the tiger illustrates the essence of competitive advantage in the concept of strategy. When one of them was asked if he really thought that sneakers he was putting on would help him to escape from the tiger the other responded that his goal was to run faster than his friend, not the tiger.

We believe that the quality strategy, competitive advantage, minimization of costs with maintenance of the quality and competitiveness of products and services, knowledge management and resources, creation of successful strategic business networks with companies, regardless of their size, are crucial factors for a company which wants to stay active for long period of time and which seeks to maximize the profit-making results and create the basis for future development. It is clear that the problems faced by the "small" and "large" enterprises in terms of our market, which is in a transition process and without clearly defined strategy and goal, are neither small nor easily solvable. The one who is able to recognize the real and key issues and to solve the aroused problems will survive in these really tough times. Effective and quality managerial decision making based on relevant and reliable information and analysis requires decision making which will recognize problems before they occur in their true form and will lead to sure and certain success and survival of the enterprise in the long run.

The strategy is a sort of "game plan" which enables us to achieve planned goals. Like boxers in the ring, enterprises are participants in a fight and the goal is to win. As in boxing, there are several categories, from light to super heavy, and in the market we have enterprises in that balance of power. Each enterprise must

be aware of its category. To be able to win all enterprises must have a fight plan and know how to defeat an opponent, as well as to protect themselves during the fight, know how to move and attack at the same time without falling. In addition, each of enterprises can beat its opponents in various ways: by knockout, by points or by disqualification. In the case of business enterprises, the survival on the market requires a constant struggle to survive and gain a competitive advantage that can be achieved in different ways and one of them is surely by creation of business networks. Each company has its own peculiarities and its own way. What is the right and safest way no one can answer with absolute certainty. In the future we will get answers to these questions: "Who has chosen the right strategy, who has made the right decisions, who has made effective and efficient business network, who played and lost all and who remains ahead of game market."

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**THE TEAMVIEWER SOFTWARE FOR TEAMWORK
MOBILE SUPPORT**

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Abstract: Due to continuous development and globalization of the modern workforce, there are more and more companies, small and medium enterprises and institutions thinking of adopting the strategy of teleworking, in order to save costs and retain quality workers. The TeamViewer software solution, which is presented in this paper, reaches new levels of efficiency and effectiveness by enabling users to work and cooperate with each other no matter how far they are physically located from each other. Its application enables the connection of remote users, as well as their virtual collaboration, which contributes to increase the measurable benefits of working for both employers and workers.

It is pointed out that TeamViewer is a simple, fast and reliable program that acts as a remote control. Special attention is paid to the scenarios it can be used in, and especially to the new version of TeamViewer application for mobile devices, as well as mobile (tele)working entirely over iPhone, iPod Touch, and Android devices. In addition to possible applications, it is dealt with their shortcomings as well.

Keywords: Teleworking, Team work, TeamViewer

JEL codes: L86 - Information and Internet Services; Computer Software

1. INTRODUCTION

The expansion of the Internet can be illustrated by the latest statistical data as follows:

6. Over **210 billion email** is sent per day, which is more than the annual turnover mail in the United States.

7. There is a daily **3 million images** on Flickr, a sufficient number of images to fill 375,000 pages in photo albums,
8. Send a daily basis via mobile phone **43,339,547 gigabytes** of data, a comparison, necessary because the amount of data to fill 1.7 million Blue Ray discs, 9.2 million DVD discs, or 63.9 trillion disks.
9. Make up a day to **\$ 145 million** mobile services, and more than \$ 13 million on mobile video games.
10. On Facebook every day **700,000 new users** join, which is approximately the population of Ghana.
11. Daily blogs set to **900,000 new articles**, which requires a number of articles to fill newspapers New York Times for the next 19 years. [1]

By linking a growing number of companies, enterprises, universities, schools and citizens to the Internet, either by joining through regional nonprofit network or subscribing to information services of relevant professional companies, expanding the possibilities for bridging the distance and time of access to end users.

Thanks to the rapid development of information and communication technologies (multimedia, computer networks, the Internet), the ability to work remotely, outside the traditional office space became a logical consequence. Teleworking (telecommuting, e-commuting, e-Work, Telework) is a new concept that involves working from home or from some other place that can be hundreds of kilometers remote from the seat of the parent company. Working in this manner rejects the rules of classical work environment, featuring a fixed-time employees, limited work space, the daily journey to work etc. It is often said that “*Work is something you do, not something you travel to*”.

Psychologists argue that telework fits employees, as well as their employers, due to increased work motivation and job satisfaction [2], and reduced stress and turnover. These conclusions are based on a meta-analysis of 46 examples of research considering work at a distance, conducted on 12,833 persons in [3].

Given all the positive aspects that make this type of business and its positive impact on the environment [4], with the use of legal, security and other mechanisms and policies for the organization of work [5], you should review the work habits, and perhaps, move to more efficient man and natural way of [6], [7], [8].

In order to more effectively perform the work remotely, there are many different types of software with a wide range of applications in the market, all depending on the purpose and needs. For this reason, and for ease of finding solutions (software) for users, this paper will present the TeamViewer software solution, version 6.0, to access and control a remote computer.

In addition to the aforementioned programs, there are a number of software with the same or similar purpose in the market, namely: GoToMyPC, I'm In Touch, ISL Light, GO-Global, IBM Director, LogMeIn, NetSupport Manager Remote Desktop Connection TS, SimpleHelp, Timbuktu, TightVNC, Webex and others. TeamViewer is chosen because it is free for personal, noncommercial use and very easy to operate.

The importance of this work is in the processing and presentation of TeamViewer software in the suitable form, effective both for understanding the mechanism of the remote computer for beginners and for easy learn and use by experienced workers at a distance as well.

2. PRESENTATION SOFTWARE SOLUTIONS – TEAM VIEWER

This part will be about the main features and structure of TeamViewer software.

2.1. Basic Characteristics of TeamViewer 6.0 Software

TeamViewer is applicable when there is a need to access data from home that are on your computer at work, or when the user is on a business trip, and the necessary materials on your home computer. When someone's in our neighborhood has a problem with your computer and require no physical presence to access the computer and help in removing the fault.

TeamViewer is a simple, fast and reliable program that acts as a remote control (application). It can be used in the following scenarios:

12. fast (ad hoc) support remote colleagues, friends and clients;
13. Remote control operating system, server and workstation (the software can be installed to run the operating system and without the need for registration of users to manage a given computer);
14. desktop sharing and view online presentation, the presentation of a procedure, etc.;
15. Copy files and folders from a remote computer;
16. networking - VPN (virtual private network);
17. multimedia capabilities with shared user (audio, video, chat);



18. video recording mode (intervention, demonstrating a procedure, talk, etc.) on the remote computer.

The program is free and can be downloaded from the website of the manufacturer [9]. Size of installation file is 3.83MB for the new version of TeamViewer 6.0. The program normally uses the standard HTTP protocol (port 80), which means that the user will have no problem with the firewall or with blocked ports. Optimized environmental quality and speed are performed no matter which client uses the connection (LAN or Dial-up).

There are versions of TeamViewer Portable and TeamViewer Quick Support. When working with these versions, it is not necessary to install the program to work, either on client or on the server side, and administrator permissions are not required just to start. In a few minutes and few clicks it can be mastered and new to work. To use the program, in addition to Internet connection, no nothing to the additional hardware and software requirements. It is available for all operating systems (Mac of MacOS X 10.4 and above, Windows Vista, Windows 7, then Linux, as well as for mobile devices iPhone, iPad, Android).

TeamViewer now has 100 million users in over 200 countries and is available in 28 languages, including Serbian.

2.2. The Basic Structure of the TeamViewer 6.0 Software

Features of this software are such that the conclusion is that its creators took maxim **genius is simplicity**.

After installing the free software versions "**personal /non-commercial use**", the program will automatically assign an identification number (ID number), (Figure 1 item 1), which is required to connect to a partner on the remote computer, and password (Figure 1, item 2). In the blank field on the right side (Figure 1 item 3), it is necessary to enter ID number of the remote computer that wants to establish a connection.

Figure 1. Main window to access with the computer



Figure 1 item 4 above options are types of work that can be established with the remote computer. These are:

- **Remote Control** - share the desktop and the control of the remote computer;
- **File transfer** - to transfer a file from the user's computer to a remote server which we access and contrary to (this is possible and selection of modes Remote Control);
- **VPN** - to establish a VPN (virtual private network) connection to a remote computer. For this purpose it is necessary to be installed TeamViewer VPN;
- and a choice of cards (Figure 1 item 5) - **Presentation** - shows the user's desktop to a remote computer;

Figure 2. Main window to access with iPhone

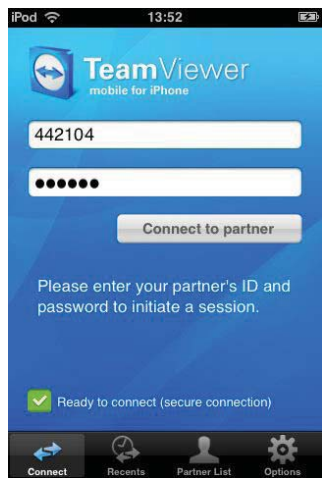


Figure 3. Main window to access with iPod



Figure 2 shows the appearance of the window to access the remote computer with the iPhone, and in Figure 3 with the iPod. Options to access and work are the same as in access to computers.







After selecting the mode (in this view, Remote Control) by clicking the **Connect to a partner** (Figure 1 position 6) establishes a connection to the remote computer and the desktop users appear to desktop of the remote computer on which it wants take control (Figure 4).

Figure 4. The appearance of the window after connection to the remote computer



In the lower right corner, at the starting line (Figure 4 position 7) shows the ID number of the remote computer where the user has access, while the upper part of the desktop, below the title bar, toolbar (Figure 4 Position 8) where the menus with the commands of which are shown in Table 1.

Table 1. Command from the toolbar

	<i>Close connection</i>
	Terminate the current connection
	<i>Actions</i>
	<i>Switch sides with partner</i>
	<i>Remote reboot</i>
	<input type="checkbox"/> <i>Log off</i> - Log off from the system or switch user
	<input type="checkbox"/> <i>Reboot</i>
	<input type="checkbox"/> <i>Reboot in safe mode</i>
	<i>Disable remote input</i>
	<i>Show black screen</i>
	<i>View</i>
	<i>Quality</i>
	<i>Scaling</i> – Original, Scaled, Full Screen
	<i>Active monitor</i> - <i>Show monitor</i> / <i>Show all monitors</i>
	<i>Screen resolution</i>
	<i>Select single window</i>
	<i>Show whole desktop</i>
	<i>Refresh</i>
	<i>Remove wallpaper</i>
	<i>Show remote cursor</i>
	<i>Audio/Video</i>
	<i>Voice over IP, My Video, Chat, Conference call</i>
	<i>File Transfer</i>
	Allows data from a remote computer to user and vice versa (<i>Figure 5.</i>)
	<i>Extras</i>
	<i>Session Recording</i> - (<i>Start, Pause, Stop</i>)
	<i>VPN</i> - <i>Start, Stop, Status</i> Activating a VPN can be set up virtual private network between the user and a remote computer. Two computers are connected by VPN to a shared network can access network resources from another computer on your local computer.
	<i>Remote Update</i> - Remote update function can be updated TeamViewer on the remote computer. This feature is especially interesting to update TeamViewer on servers. The condition for this function is that TeamViewer on the remote computer is configured to run automatically with the operating system (this option is selected during installation TeamViewer).
	<i>Remote System Info</i> - Basic information, Processor and Memory, Operating system, Devices, Network card
	<i>Connection Info...</i> – Shows the current connection information (user-remote computer) such as the right of access, data transmission, TeamViewer versions and more.

Depending on the users needs to establish the connections to the remote computer, given the choice of a specific command, which are presented in Table 1 As the most commonly used trade data to the remote computer, further exposure is more exposed to carrying out the option "File Transfer". For the study of other commands, the authors recommend references [10].

Click on File Transfer (Figure 4 position 9), in the toolbar (Figure 4 position 8), open a window (Figure 5) that enables users to exchange files on the remote computer. [11]

Figure 5. The appearance of the window to exchange files with remote computer

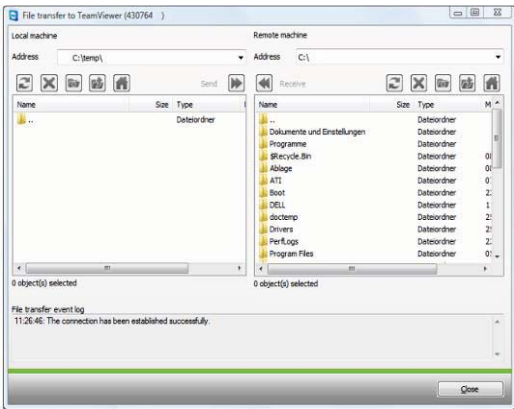








Table 2. The keys to control data transfer operations

	Refresh (Hotkey: F5) Refreshes the current folder.
	Delete (Hotkey: del) Deletes the selected files or folders.
	Create a new folder Creates a new folder.
	Browse to parent folder (Hotkey: Backspace) Moves to the parent folder.
	Browse to drives (Hotkey: Ctrl+Backspace) Moves to the drives view. You can also reach special Windows® folder such as documents and desktop here.
	Send (Hotkey: F1) Sends the selected files and folders to the remote machine.
	Receive (Hotkey: F1) Transfers the selected files and folders from the remote machine to the local machine.
Rename	To rename a file or folder click once on an already selected item to make the name editable.

In the left side of window (Figure 5) is a file system user's computer, while the right side displays the contents of the remote computer's files. There are several keys to control a data transfer operation (Table 2). [11]

3. ADVANTAGES AND DISADVANTAGES OF TEAM VIEWER SOFTWARE SOLUTIONS

Using the slogan "*Simple-fast-secure*" the owners of TeamViewer stress the main advantages of the TeamViewer software:

- quick and easy installation, and the possibility of using software version TeamViewer Portable TeamViewer Quick Support and free installation;
- can be achieved through the connection and Internet browser using the option Connecting Via the Web Connector and Connecting Via QuickConnect [10];
- TeamViewer supports Windows, Mac, Linux operating systems;
- TeamViewer supports mobile (tele)working over iPhone, iPod Touch, and Android devices;

- provides direct LAN connection via TCP / IP protocol, while the software is also suitable for use in the LAN with no Internet connection;
- works without configuration, even through firewalls and proxy servers;
- has an automatic proxy configuration;
- Worldwide distributed routing servers - TeamViewer seems very fast in the international use;
- simple and clear view windows and commands, with a large range of functions and performance;
- the ability to create a VPN network to the remote computer;
- quick, easy and economical communication with remote computer, chat, voice and video communication;
- Unlimited data exchange, regardless of the size and type of file;
- provided on-line support by a professional team and TeamViewer [12].

TeamViewer GmbH is one of the few companies in the market with a Certificate Quality Management System (QMS) according to ISO9001, which is further verification that the program presented in this work meets international quality standards [13]. TeamViewer is the responsibility of the German company FIDUCIA IT AG, which is in addition to the above, as the operator of the center for information security is responsible for about 800 German banks, which means that the proposed software provided with the safety and security. In addition to the above system of data protection and privacy, TeamViewer includes protection technologies **RSA private / public key exchange and AES (256 bit) session encoding** that the client provides full protection of data and are considered completely safe by current standards [14].

On the downside can be noted that with the installed version of TeamViewer 6.0 can access and establish connections with remote computers, users TeamViewer 3.0, 4.0, 5.0. While, users TeamViewer versions 3.0, 4.0, 5.0 can not establish a connection with the user version TeamViewer 6.0. Then, users of mobile phones can not install TeamViewer if iTunes has not been previously installed. The inability to use TeamViewer more than two users at the same time establishing a connection (this service is provided to users of Business, Premium and Corporate versions, that has to be paid separately), as well as installation of software on server operating systems [15].

4. POSSIBILITY FOR APPLICATION

In general, each user would require as much work done as possible by means of a single software solution. The TeamViewer team is precisely guided by this idea, and tried to incorporate all the options that have been helpful to work on remote computers in the presented software (one-stop solution for remote access). Further exposure to these possible applications of the software TeamViewer are as follows [16]:

- j.* The solution for each case, all-in-one - remote management and system administration, presentation, access to remote servers, hence the use of the same software support, sales and training;
- k.* In communication with business partners and colleagues [17], [18]. It includes original VPN channels, which gives the possibility to create a virtual private network to the remote computer;
- l.* Multi-monitor support, carry or display monitor by the user's choice. The ability to record sessions for remote control / maintenance, as well as films, for purposes of proving;
- m.* Is there an option to display table for writing, including a variety of shapes, markers, paints, and can save the screen recording for future viewing;
- n.* Then, a function of dimming screen (Black screen), when for example a user has got access from a remote computer, your computer at the office, and does not want anyone to see;
- o.* Chat, audio and video functions, as well as conference calling, to communicate with remote clients with the ability to create a partner list. Unrestricted exchange of data with remote computer to a secured privacy and security.

5. CONCLUSION

Teleworking in recent years has become increasingly important, both as a full-time or part-time job (part - time), supplementing the household budget. Office today can represent any location where there is access to telephone, fax and computer. International Labour Organization - ILO (International Labour Organization), telework is defined as work that is performed at the location away from the office, at which the worker has no contact with other colleagues, but can communicate with them using modern technology. Due to continuous development and globalization of modern workforce, more and more companies considering implementing telework strategies aimed at cost savings and reduction of carbon dioxide emissions.

Cisco company reaches new levels of efficiency and effectiveness since it enables workers to work and cooperate, regardless of where they are physically located. According to data from the group responsible for Cisco's Internet Business (Internet Business Services Group), the branch responsible for

global strategic consulting, it is estimated that the company achieved annual savings of 277 million thanks to increased productivity as a result of the decision to allow the workers work at home or in a another remote location.

In addition, the introduction of technological solutions that allow connection of remote workers (such as a TeamViewer software solution), contributes to increase the measurable benefits of telework for employees and employers.

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**INTERNATIONAL SCIENTIFIC CONFERENCE
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PERSPECTIVES 2011”**

International University of Novi Pazar. UDC 050:004

**DEVELOPMENT OF ELECTRONIC JOURNAL
“ROAD MASTER”**

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Abstract

This paper describes development of web application for electronic journal named „Road Master”, as an example of employment of contemporary Information and Communication Technologies (ICT) to the Small and Medium Enterprise (SME). Implementation of ICT to SME will improve their business, as well as self management.

Due to network cross-linking of office branches, implementation of collaborative applications, remote access of `telecommuters` and mobile users and integration of multimedia streaming services (voice, data, video) inside the same network, development of modern IT technologies provides us with series of new possibilities for improvement of SME (Small to Medium Enterprise) business solutions.

During the research and application development of “Road Master” e-journal, advantages over the hard-copy journals came to focus. For example, funding costs are considerably lower, same as the designing and publishing costs. Also, there is quicker access and search possibility, including links to bibliography and other databases, quick spreading of ideas and dialogs to a wider population, reader-author communication, integrating images, sound and video content to an article and so on. Using the proper applications for tracking the visitors, popularity of certain articles and types of articles that readers prefer etc, it is much easier to follow the journal’s success and overall popularity and reference.

Keywords: small business, e-business, electronic journal, web design, information and communication technologies, small and medium enterprise, web site development

1. INTRODUCTION

Electronic journalism has a huge role as a tool in promoting different enterprises, events and individuals and the advertising effectiveness is higher than in its regular form.

First electronic journals (e-journals) emerged in XX century, during the seventies. Their inaccessibility to a wider audience was something that led to very narrow field of appliance. In the last ten years number of journals that converted to its electronic form has grown. Under the term “electronic jurnal” we consider all the journals that are available in its electronic form and over the World Wide Web.

Most of the journals are written and published in HTML (Hyper Text Markup Language) which is used for creating web pages and/or in PDF (Portable Document Format) format. E-journals are accessible to reader over Internet browsers (Internet, Explorer, Opera, Mozilla FireFox, Netscape, Google Chrome), and the ones published in PDF format require Adobe Acrobat Reader. With many built-in options and tools they provide help in reading and manipulating the journals.

Question that is a priority in development of SME sector is the one about implementing the IT technologies. This question has great influence on present and future competitiveness of this sector of development and the solution to this question is one of the missions of Ministry of Science and Technological Development (MSTD). MSTD supports small enterprises that deal with software development and provide services over Internet media, and in that way are building better IT support for domestic companies, and also raising the quality and efficiency of their own businesses [1], [2].

Web sites are being widely deployed throughout industry, education, government, and other institutions. In practice, the importance of the use of Web technology for electronic commerce (EC) activities has been discussed widely in [3,4,5,6,7]. EC is away of conducting business by companies and their customers performing electronic transactions through computer networks [8]. EC can help business organizations cut costs, interact directly with customers, run more smoothly and in a more timely manner, and even better, it can help an organization outperform its competition [9].

Sustainable design applications for small businesses through the Life Cycle Assessment and supply chain publishing platform Sourcemap.org is described by [10]. Their experiences confirm the potential of web sustainability tools and social media to expand the discourse and to negotiate the diverse goals inherent in social and environmental sustainability.

Small business owners who turn to professional web development consultants for assistance with building a web site may need support not only in terms of the technical aspects of web site implementation, but also in terms of understanding their options for e-business[11].

This paper consists of five sections. After introduction, Section 2 adduces the user requirements definition, analyses of potencial users and content of web presentation for electronic journal „Road Master”. Following Section 3, describes the development of web based electronic journal, presents the organizational scheme of „Road Master” web site, and induces client side and server side programming. Section 4 gives a short view of developed presentation and an example of use. Last, Section 5 conclude that electronic journal compared with the classic printing paper publications have several advantages, promote the role of ICT to the small businesses economic development and noticed some recommendations which business organizations and Web developers have to take into consideration when developing high quality web site. List of literature closes the paper.

2. USER REQUIREMENTS FOR e-JOURNAL ”Road Master”

Journals available over Internet provide easy and quick access to expert’s articles and information on researches and research results. Electronic access to a publication also benefits the publisher. Publishers have the possibility to track their e-readers and get in touch with them.

The goal of the “Road Master” journal is: to improve communication and availability of the material to users, to present them to a wider population in a multimedia format, to advertise the partners of the presentation and provide easy access to information.

2.2. User requirements

Owner of the application wants the journal to be sorted thematically, to expand it’s area of interest and availability, to present the newest info and provide additional service for drivers (road info, weather, safety measures, parking services...) Also, access to e-journal for registered users only, advice on safety measures while driving, option for uploading their own materials on our presentation, clear and concise explanation to users on how to access the material, to make it fun and somewhat time spending etc.

2.3. Analyses of potential users

The potential users/readers are: wide population of different age and interests, potential buyers and users of motor vehicles that wish to know the performances of their current or future vehicle and potential clients that would like to advertise through our presentation. Analysis of potential user lead to conclusion that:

- Users/readers are both male and female groups, starting from age of 7 to 77 years, with a technical and computer skills varying from beginners to advanced users. Type of connection that they use is usually ADSL, and the browsers: Internet Explorer, Netscape, Mozilla FireFox, Opera.
- Users/readers want to know the information details about certain brands, and types of cars and motor-bikes. Our goal is to provide all that in one place. There could also be some web pages meant to entertain the user, like on-line games, videos, galleries.
- Users/readers don't have a need for additional effects on the web page besides banners and navigation links.
- The web page will contain the elements with effects like interactive Flash menu, advertising banners and web page header with the name of the website, also in Flash.

2.4. Content of „Road Master” web presentation

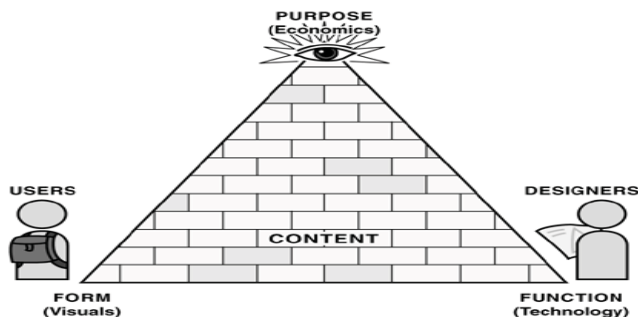
„Road Master” e-journal should contain: interviews and dialogs, car presentations, news, presentation of the vehicle concept, car technologies (radars etc.), price info, service info (road info, weather, safety measures, parking services...), videos, galleries, on-line gaming and contact page.

3. DEVELOPMENT OF WEB BASED e-JOURNAL

3.1. Basic of Web design

One way to think of all the components of Web design is through the metaphor of the Web pyramid shown on Figure 1.[12].

Figure 1: Web pyramids: the facets of Web design

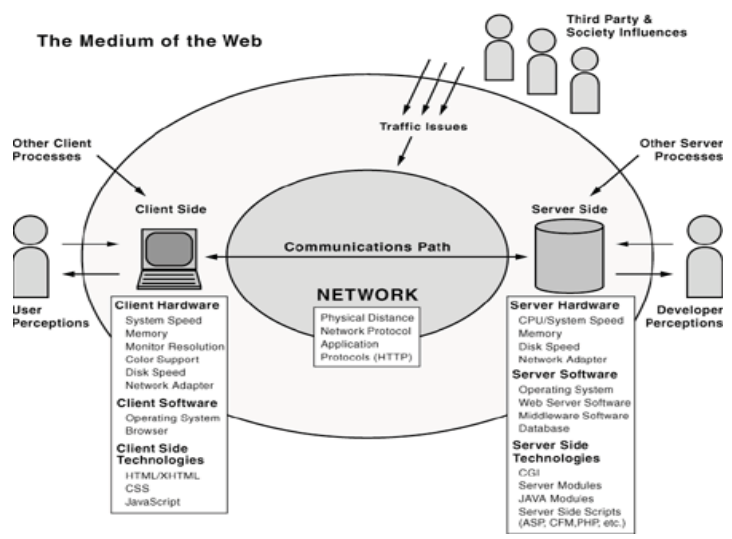


The pyramid provides a simple way for designers to think of all aspects of Web design in interplay, but does little to provide a deeper understanding of the Web medium. Paradigm of Web design is well described in [13] and [14].

While the Web pyramid analogy is a very abstract way of describing Web design, it is a useful tool for showing the interplay of the various components of Web building. A more practical way to discuss Web design is to think of the various components of the Web medium, as shown in Figure 5. [15].

Today's Web sites are primarily a basic client-server network programming model with three common elements: **the server-side** (includes the Web server hardware and software as well as programming elements and built in technologies from simple CGI programs written in PERL to complex multi-tier Java based applications), **the client-side** (concerned with the Web browser and its supported technologies, such as HTML, CSS, and JavaScript languages and ActiveX controls or Netscape plug-ins) and **the network** (various connectivity elements utilized to deliver the Web site to a user).

Figure 2: Components of the Web Medium



Businesses of all sizes are pigging out on social media without putting an equal amount of effort into forging a solid foundation built on a user-friendly Web experience and great content. To deliver a site that gives users the experience they are looking for, we need to set it upon a solid foundation of content, usable navigation, and strong SEO (Search Engine Optimization) practices. With this in mind, we can present that by "The Web Strategy Pyramid", Figure 3.[16].

Figure 3. The Web Strategy Pyramid



3.2. Technologies used in „Road Master” application

Client programming

When developing the client side of web application for “Road Master“ e-journal, usually called user interface, we have used the following technologies:

- **HTML** (Hypertext Markup Language) for marking the text, inserting pictures, graphics, animation, sounds and video on the each page of the presentation [17].
- **FLASH** for making graphics and animation on the web page [18], [19].
- **CSS** (Cascade Style Sheets) and CSS1, CSS2 as well as CSS3, for defining the unique stiles for all pages of eJournal presentation, as it is fonts and background or background pictures, size of leters, headings and so on [20].

User interface. User interface is simple with clear and easy understanding navigation, placed at the top of the presentation as well as on its left side. The navigation is realized by CSS. All elements on the web page are arranged and defined by CSS, also.

Navigation. The navigation is the most important part of any web application. According to the fact that the navigation is basically the list of links, so it is implemented as unordered lists by HTML tag ``. The advantage of this method specially comes to expression when using SEO (search engine optimization) and with accessibility. Figure 4. shows the example of slideshow menu.

Figure 4. Example of slideshow menu on top of presentation



Visual effects are implemented by FLASH. The visual effects appear in the form of slideshow menu and if you move the mouse over slideshow menu, and stop at the moment, you will activate the chosen effect and see it. For development of described menu the *Aleo 3D Flash Slideshow* program is used.

Server programming and data base

Server side programming have menu options including CGI (*Common Gateway Interface*) scripts, API (*application programming interface*), as NSAPI-ja (*Netscape Application Programming Interface*) and ISAPI (*Internet Server Applications Programming Interface*) and JAVA programmes as ASP for Microsoft and COLDFUSION (Allaire).

We have used the development environment for Windows called WAMP (Windows, Apache, **my**SQL and **P**HP). So WAMP includes Windows platform, Apache server, mySQL (Structured Query Language) data base and PHP programming language [21,22,23].

The Data Base for this presentation is developed in WAMP environment. Data Base name is "*sajt*" and it consists of table "*korisnik*" with fields user name and password. It contains all information from login sessions. Example of SQL code for Data Base "*sajt*" is shown on Figure 5.

Figure 5. SQL code for data base "*sajt*"

```
-- Database: `sajt`
-- Table structure for table `korisnik`
--
CREATE TABLE IF NOT EXISTS `korisnik` (
  `id_korisnik` int(11) NOT NULL AUTO_INCREMENT,
```

```

`ime` varchar(20) CHARACTER SET latin1 NOT NULL,
`sifra` varchar(20) CHARACTER SET latin1 NOT NULL,
PRIMARY KEY (`id_korisnik`),
KEY `sifra` (`sifra`),
KEY `ime` (`ime`)
) ENGINE=InnoDB DEFAULT CHARSET=utf8 COLLATE=utf8_unicode_ci
AUTO_INCREMENT=30 ;
--
-- Dumping data for table `korisnik`
INSERT INTO `korisnik` (`id_korisnik`, `ime`, `sifra`) VALUES
(24, 'miki', 'miki'),
(25, 'nena', 'nena'),

```

Programming code for *login sessions* and *registration sessions* is written in PHP 7.0 [23] which is the integrated development environment. Example of PHP code can be seen on Figure 6.

Figure 6. Example of PHP code

```

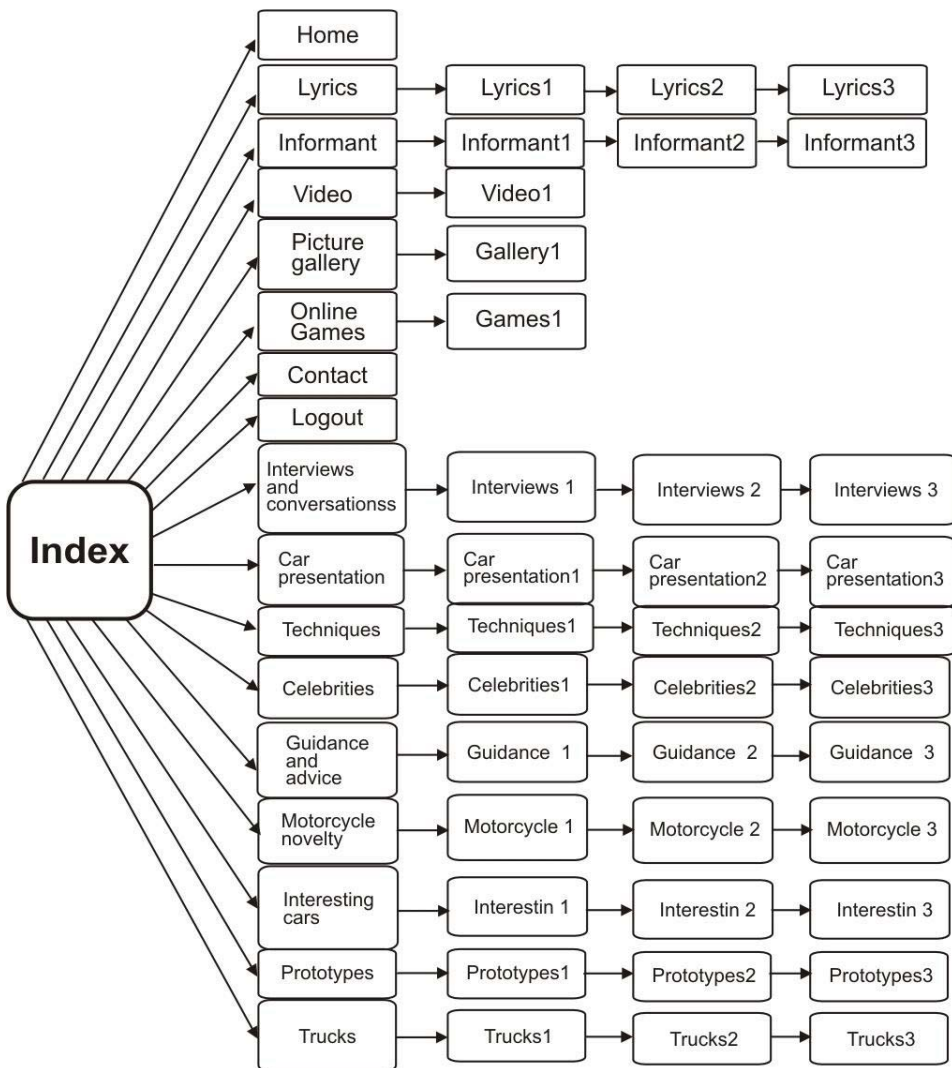
session_start();
//dodeljivanje vrednosti sa forme index.html promenljivma
$ime=trim($_POST['ime']);
$sifra=trim($_POST['sifra']);
//Uspostavljanje veze ka bazi podataka
$veza=mysqli_connect("localhost","root",""," sajt") or die
("Veza sa bazom nije uspostavljena");
//definisemo sql upit kao string kojeg prosledjujemo
funkciji mysql_query
$sql="select ime, sifra from korisnik where ime='$ime' and
sifra='$sifra'";
//funkcija mysql_query sa parametrima veze ka bazi podataka
I tekstom sql upita
$sqlrezultat = mysqli_query($veza,$sql) or die ("upit nije
izvršen");
$br_red=mysqli_num_rows($sqlrezultat);
if($br_red==1){
    $_SESSION['ime']=$ime;
    header("location:uspesnaprovera.php");
}
else{ header("location:index.html");}
?>

```

3.3. Organizational scheme of „Road Master” presentation

Organizational scheme of „Road Master” presentation is shown on Figure 7. After Home page at the first hierarchical level, the second hierarchical level contains 17 pages and each of them can contain the various number of instances.

Figure 7. Organizational scheme of „Road Master” presentation



4. SHORT VIEW OF e-JOURNAL “Road Master”

A web page is a document or information resource that is suitable for the World Wide Web and can be accessed through a web browser and displayed on a monitor or mobile device. Web pages usually include information as to the colors of text and backgrounds and very often also contain links to images and sometimes other types of media to be included in the final view.

A *web page*, as an information set, can contain numerous types of information, which is able to be seen, heard or interact by the end user: *Textual information, Non-textual information, Static images, Animated images, Audio, Video, Interactive information, Buttons, Hyperlinks, Forms, Comments, Linked Files through Hyperlink and so on.*

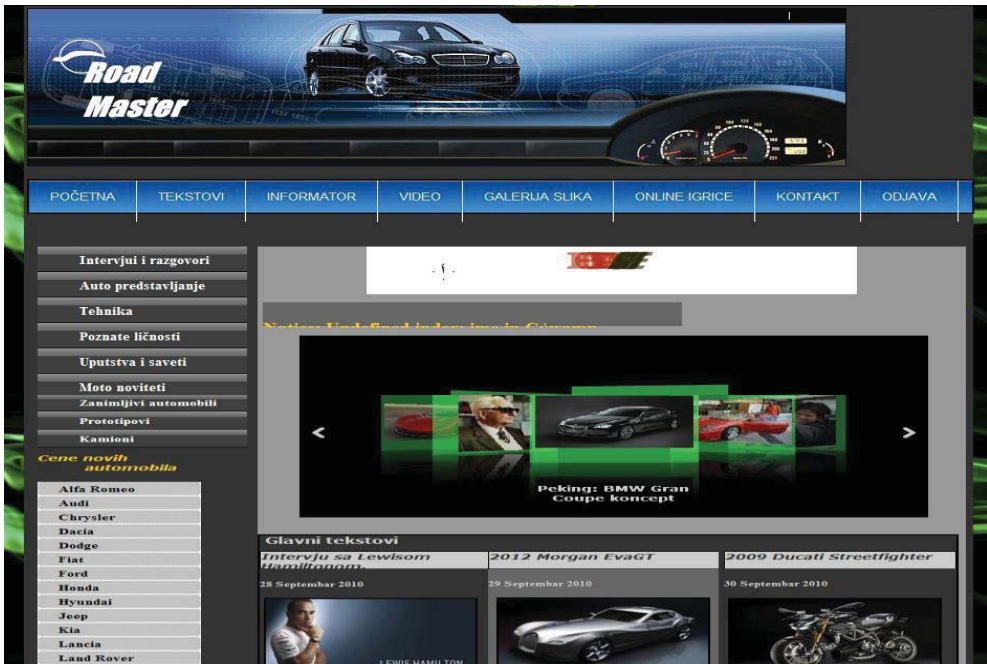
The point of organizing the presentation is to arrange parts of presentation content to the more related pages, which is easy to find, follow and use. The web presentation for e-journal “Road Master” is organized in the following way:

- At the first level of hierarchy is Home page;
- The second level of hierarchy contains following pages: Lyrics, Information pages, Video, Picture gallery, Online games, Contact, Logout, Interviews and conversation, Car presentation, Techniques, Celebrities, Guidance and advice, Motorcycle, Interesting cars, Prototypes, Trucks;
- Next levels of hierarchy consist of large number of instances for content defines at the previous level of hierarchy.

3.1. Home page

The home page of e-journal “Road Master” is shown on Figure 8.

Figure 8. Home page



Home page for e-journal “Road Master” presents key information about e-journal, services, special offers; contact information; and calls to action—giving customers direct access to what they need quickly.

The home page sets the atmosphere of the location. The main elements of graphical design are suited here: company logo, colors of presentation, designed menus, used fonts, shape, size and color of icons and buttons, in one word everything what determine the visual sensation of presentation.

One of most important attribute of good presentation is easy navigation of the web site, which is done by establishing links to the key areas of the site. Elements to include here are logo (which should link back to home page), as well as links to the main sections of the site. The “Road Master” home page contains navigation menu at the top line of presentation as well as at the left side of presentation. The same navigation menu appears at the all inside pages of presentation.

At the top level of home page there is a menu which cotains: Text, Information, Video, Picture’s gallery, Online games, Contact, and Close page. Left side navigation menu shows defferent category and domains connected to the cars and motorcycle world, as it is: Interviews and conversation, Car presentation,

Technique, Famous persons, Guidance and advice, Motorcycles, Interesting cars, Prototypes and Trucks.

3.2. Information

Here we chose to present one of inside pages of e-journal “Road Master” and it is placed under *Information menu*.

On this pages the following informations are aviable: Conditions at the roads, Obligatorily car or motorcycle accessories, Price of fuel, Green card, Traveling commission, Carfare costs, Parking service and price, Weather forecast, Laws about traffic security on the roads - PDF, Registration of motor cars and motorcycles, Accise for cars, motorcycle and tracks and a lot of other useful information, Figure 9.

Figure 9. Information page

The screenshot displays the 'Servisne informacije za vozače' (Service information for drivers) page. The sidebar on the left contains a menu with the following items: 'Intervjui i razgovori', 'Auto predstavljanje', 'Tehnika', 'Poznate ličnosti', 'Uputstva i saveti', 'Moto noviteti', 'Zanimljivi automobili', 'Prototipovi', 'Kamioni', and 'Cene novih automobila'. The 'Cene novih automobila' section lists various car brands: Alfa Romeo, Audi, Chrysler, Dacia, Dodge, Fiat, Ford, Honda, Hyundai, Jeep, Kia, Land Rover, Mazda, Mercedes (highlighted), Opel, Peugeot, Renault, Seat, Suzuki, Subaru, Skoda, Toyota, Volkswagen, and Volvo.

The main content area is titled 'Servisne informacije za vozače' and includes the following sections:

- AMS OSIGURANJE**: Stanje na domaćim putevima, Obavezna Oprema u Srbiji i inostranstvu, Evropa propisi - cene goriva, Cene goriva u Srbiji, Zeleni karton, AMSS dozvole i cene, Putni nalog - Pravilnik PDF.
- PARKING SERVIS**: Cene putarine, Parking servis usluge u Beogradu.
- Vremenska prognoza**: Republički Hidrometeorološki Zavod Srbije, osnovan 1885. god.
- Registracija motornih vozila i motocikala**: Vozačka dozvola - pdf dokument MUP Srbije, Preuzmite Zakon o Bezbednosti saobraćaja na putevima - PDF (na snazi od 02.06.2009), Registracija - Ekološka taksa, Porez za putničke automobile, kombi vozila i motocikle prema radnoj zapremini motora.

5. CONCLUSION

Small businesses are not only consumers: they have the capacity to contribute new products to the market, influencing sustainability choices of their customers and the strategies of their competitors. Use of ICT in the SME can help business organizations cut costs, interact directly with customers, run more smoothly and in a more timely manner, and even better, it can help an organization outperform its competition.

This paper describes development of web application for electronic journal named „Road Master”, as an example of employment of contemporary information and telecommunication technologies to the Small and Medium Enterprise. We conclude that electronic journal compared with the classic printing paper publications have several advantages, as it is:

- More interesting, rich and with multimedia prepared content of journal,
- Access any time and any where, to any volume or issue,
- The price of eJournal publication is much cheaper according to the publication of paper journal,
- The wide possibilities on world wide web for advertising and promotion,
- Automatic tracking and analyses of eJournal use.

While developing the e-journal „Road Master”, we have conclude that web site success in the context of use ICT in the small and medium enterprise is related to four major factors: quality of information and service, system use, playfulness, and system design quality. Based on that, several recommendations can be advanced to the business organizations and Web developers:

- To actively seek ways to improve information and service quality provided through Web sites. They should establish a service-oriented concept for both pre-sale and after-sale stages to provide high quality service and high quality information.
- To focus on the way in which customers use a Web site. The results indicate the importance of successful Web site design to system use. Customers rather than business organizations should control the on-line transaction process.
- To cultivate hedonic pleasures in the Web site by motivating customers to participate, promoting customer excitement and concentration, and including charming features to attract customers and to help them enjoy the visit. Creativity must be incorporated into the design process in order to obtain customers' psychological satisfaction when engaging in marketing on the Web.

- To provide security as the most important system design quality factor. But without security, no customers would shop around. Security is only a necessary condition; although alone it can not attract customers and promote electronic marketing activities.

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International University of Novi Pazar. UDC 005.591.6

**APPLICATION OF MODERN TECHNOLOGY IN
FACILITATING BUSINESS DEVELOPMENT**

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Abstract

In this paper, I tried to respond in more detail on the subject of connection and influence of modern technology on business development. Entrepreneurship and innovation is now world wide in the center of interest because the further economic growth and reduce unemployment may be based only on the entrepreneurial society. Capitalist society is characterized by entrepreneurial economy with entrepreneurs in whom there are a number of new businesses. The entrepreneur is a person who is willing to take the risk of starting business ventures and the establishment of new businesses. The main characteristics of entrepreneurial companies are constantly establishing various small enterprising-companies/trades who have employed any workers to entrepreneurship employing up to hundreds of employees. Private entrepreneurship based on experiences undeveloped countries is the most efficient economic operations. The success of entrepreneurship is based on the constant changes and responds to changes. Basically all the changes lies the innovation of products and services and high quality new products that may only be confirmed by the market.

Keywords: entrepreneurship, innovation, economic growth, technology, business.

JEL classification: M21,O32,O33,Q55.

INTRODUCTION

The management of the application of new technology, innovation and the question is all what a manager needs to know about the role of modern technology in the development strategy of enterprises of all types of businesses. For the management of small and medium enterprises and new technology innovation and management at all important question is what the manager needs to know about the role of technology and innovation strategy firm. One approach assumes that technology is a black box and that was enough to know how to operate, or enough to know what it works and not how it works. The second approach assumes that it is necessary to know and what works and how to operate technological black box. We start from the premise that the manager is not necessarily a thorough basic knowledge of science and technology. For managers is essential to have a master the skills necessary for understanding the importance of new technologies and innovation in modern business activities

and the ways that technological innovation and potential use for improving the functioning and development of the company and catching up, maintain and develop the competitive advantages of economic agents. Way to express the integration of technological and product-market strategy for the firm to carry out the decomposition of each product and service in the constituent technologies and assessment of relative strength - the degree of distinctive competence - the company taking into account the technology and displayed by product / technology matrix.

The importance of technology can be expressed by an additional value for consumers to certain product groups and by the potential value that could be added to other product groups. The significance of each specific technology depends on the phase of the technological cycle in which it is located. Relative technological position can be expressed by comparison with competitors through some measurable indicators: patents, know-how, trade secrets, learning curve effects and key knowledge. Technological change is one of the key forces that affect the competitive advantage of firms and that is very difficult to respond in a timely and satisfactory manner. Integrating technology and strategy is a dynamic process that requires an understanding of the dynamics of the life cycle of different technologies that are engaged in business activities of firms.

Table 1 shows the relationship between the stages of technological life cycle and potential for competitive advantage. An important element of integration technologies and strategies is the existence of the capacity for continuous technological prediction. Various authors have presented useful technique for technological forecasting, such as a function of technological progress (S curve), trend extrapolation, and Delphi method and scenario development. For some of them will be more words in other parts of the papers.

Technology phase	
Life cycle	The importance of technology for competitive advantage
Technology development	They have not yet demonstrated their potential to change the basis of competitiveness.
Mature technology	Demonstrated the potential to change the base of competitiveness.
Key Technologies	Key Technologies Have the greatest impact on the flow of added value (cost, features, prices). Allow ownership position.
Base Technologies	Negligible effect on the flow of added value, common for all competitors, supplies.

Table 1 The life cycle of technology and competitive advantage

1. EVALUATION OF INNOVATIVE CAPABILITIES

A managerial activity in the field of new technologies and innovation requires knowledge of innovative potential of the company, but also an obstacle innovation process. To assist the manager in this process, developed a framework for assessing the activities of innovative capacity (innovation capabilities audit) (according to Burgelman, Maidique, eds, 1988).

Five major groups of variables affect the innovation strategy of business units:

- Availability of resources for innovative activity.
- Ability to understand the competitive strategies and the evolution of economic activity in terms of innovation.
- Ability to understand technological developments relevant to the business unit.
- Structural and cultural context of the business unit that supports internal entrepreneurial initiatives.
- Ability to deal with strategic management internal entrepreneurial initiatives.

The first three of the above categories are related to the formulation (1-3) and the next two (4-5) on the implementation of innovation strategy business unit. It is necessary to determine the extent to which innovation capabilities corporations increase innovation capacity units, and whether and how corporate innovation capability greater than the sum business innovation capability unit.

The level of innovation capability is characterized by the following indicators:

- The extent and rate of development of new products and services and / or production and distribution system, which is derived from a combination of innovative capabilities of existing business units.
- The extent and rate of development of new business activities based on corporate R & D and technological development.
- Time of market entry, given previously.

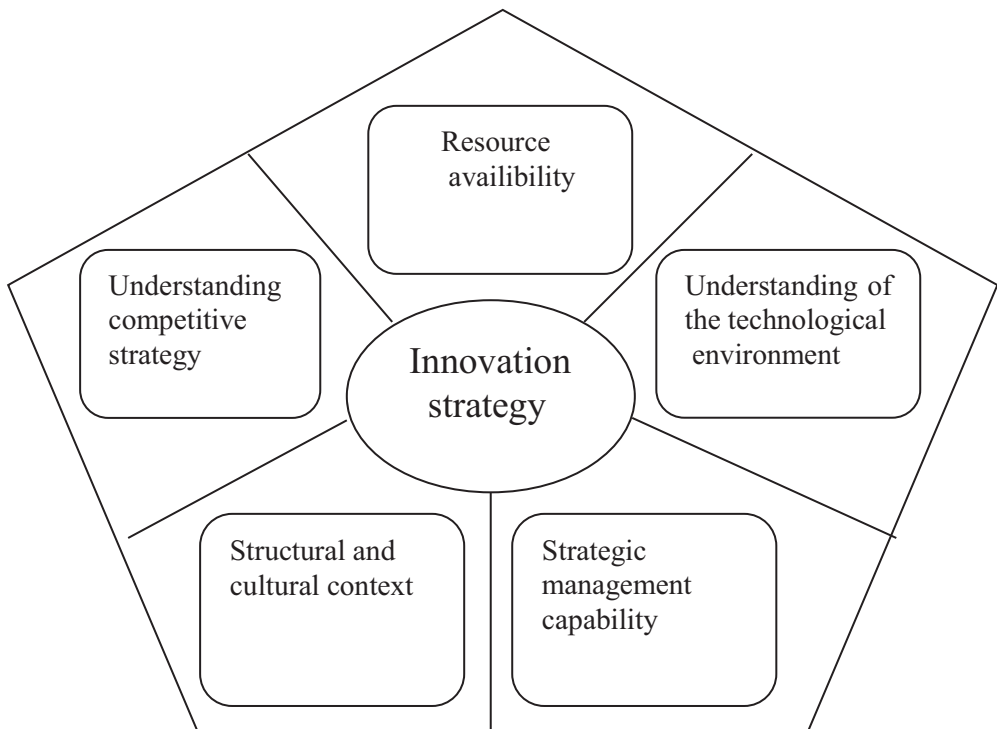


Figure 1: Framework for the assessment of innovation capability. The level of business units.

2. STRATEGIC APPROACHES IN BUSINESS DEVELOPMENT

Positive approach to strategy refers to the current strategy of the company and how to get it accomplished. The normative view refers to what the strategy of the company could be. A positive approach to the strategy of the company reflects the attitude of top management on the basis of past and current business success.

This approach applies to the following factors (Burgelman, 1983):

- Core competency;
- Product / market agents;
- Key value;
- Employed.

To understand the company strategy is not enough to know, certainly not only, attitudes and beliefs of top management on business activities, but also analyze what the enterprise really works and to what extent there is agreement or difference between positive and normative, which is actually expressed as the

difference between the proclaimed strategy and strategic action. The product - the market access strategy refers to how a firm competes with its products and services. Access strategy based on the resource assumes that the firm provides factors necessary to create the core competencies and capabilities as the basis for developing and maintaining competitive advantage. During the 1980-ies, the normative approach to strategy based on resources was very prevalent.

Porter (1979, 1985) five forces approach:

- New actors,
- Customers,
- Suppliers,
- Riva,
- Substitutes

This approach provides the framework for explaining why some activities more attractive than others and why some firms such a position compared to rivals, as well as for the formulation of strategic actions that will have an impact on the attractiveness of activities as a whole and the strategic position of individual firms. The normative approach to the cores of competence and skills during the 1990s has evolved in the direction of integration of product-market approach and strategy-based approach to resource management. At the same time, understanding of technology has evolved in the direction of one of the most important elements of the definition of business and competitive advantage.

3. COMPETITIVE ADVANTAGE AND PERFORMANCE OF COMMERCIAL ENTITIES

There are a number of different factors whose absence or abundance attributed characteristics of international competitiveness, or lack of competitiveness of some industry or company. International competitiveness of an economy are viewed as a macroeconomic phenomenon affecting the different variables: exchange rates, interest rates, government deficits, strengths, and cheapness of labor, ownership and abundance of natural resources, politics, public administration, organizational structure and operations, etc. For the importance and ranking of each of these factors for the international competitiveness of an economy there is a corresponding argument. Any attempt to, in the contemporary economy, competitiveness explained solely on the level of economic space in some countries is inadequate. Tran nationalization of production processes and systems and create a space where there is high concentration, integration and intensification of the reproduction process and which comprise one part, multiple segments of the economy of certain countries or them in general, direct line of analysis is not the whole state economic areas, but in certain industries and segments in which the properties are concentrated

competitiveness.

Facing the weighing of domestic producers from international competition affects the creation, in each of the industries and activities, the absolute standard for weighing their own economic performance necessary for successful participation in the competition in the global market. The relative standard economic indicators taken individually are not sufficient for the evaluation of competitive success. Especially not enough for comparison with other local industries and economic activities within the space of a state. Many traditional activities in developed countries still have high output per worker, paid high wages to employees and their economic characteristics are much better compared to other domestic economic sectors. But compared with foreign competitors who have also improved their economic performance, particularly the level and pace of productivity growth, their competitiveness characteristics are considerably weaker. This results in a decrease in employment, decline in participation in the gross domestic product (GDP - Gross Domestic Product) and international trade and the weakening of the importance of these sectors as a whole in the national economic structure. There are no economic competition that features shows and can be exercised in all industries and their segments. International economic relations and international trade allows each country to provide all the necessary products and services alone do not produce, and that in the competitive domestic industries and raise the rate of growth of productivity, specialization in those industries and their segments in which to focus given the competitive position economy. The flow of international economic relations and the dynamics of international competitiveness caused by the change or loss of old, as well as winning, professional development and improvement of new competitive positions. This is a necessary condition for the economy of a country as a whole to maintain and improve the competitive position in the global economy. Global Strategy, which is a necessary condition for competitive advantages for all businesses, it means the sale and purchase under the best conditions in the global market. This is not the same as usual operations throughout the world, especially if you have not realized the assumptions and characteristics of the integral competitiveness and changes in TEP. Economies of some countries succeed in the international market in those industries and their segments that are experiencing the benefits of domestic and international verification. This is happening in those sectors and segments whose characteristic, improvement and innovation manage to approximate the requirements, established norms and standards of international competition and competitive markets.

4. COMPETITIVE ADVANTAGE

Porter (1990) finds that the state has the highest chance of success in those industries or segments in which the best and diamond, a term used to refer to system settings that are supporting each other support in achieving the most favorable results for the system as a whole.

The weakness of any guidelines will limit the potential of the entire industry for the advancement and improvement. Benefits of a determinant can create or improve benefits in others.

Advantages of the entire diamond are necessary to achieve and maintain competitive success in industries that require intensive use of knowledge, and constitute the basis of the structure of developed economies and the world economy as a whole. Basically, the concept of competitive advantage is innovation and change, including changing and creating competitive advantage. Porter as part of extensive research, which included the study of the competitive advantages of ten national economies with more than 50% participate in world exports 1985th years, his attention focuses on the process of achieving the advancement of competitive advantage in relatively sophisticated industries and segments, and the competitive advantage of industries and segments that are significant factors in international trade.

We have analyzed only those branches and activities that are studied in countries base their competitiveness. The answer to the question of why some states have achieved international success in any industry and the segment, according to him, lies in the four global attributes, which influences the incentive environment in which local firms compete.

- Factor conditions. The position of the country in terms of production factors, such as qualified labor or infrastructure is necessary for competition in a given activity.
- Demand. The nature of domestic demand for goods and services industries.
- Related and supporting industry.
- Strategy, structure and rivalry of firms. The conditions under which the country determines how to create a company, their organization and the way they are managed and the nature of domestic competition.

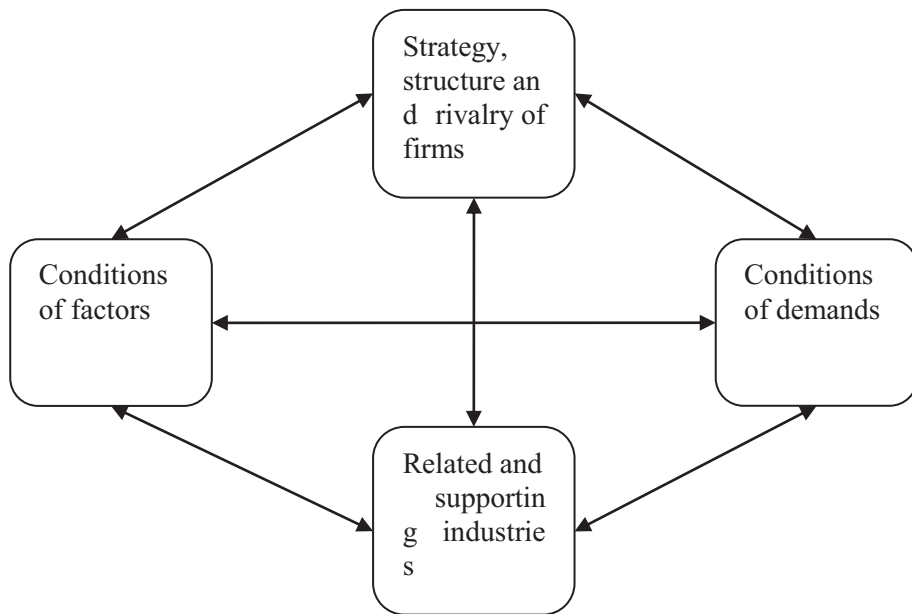


Figure 2. Determinants of competitive advantage of the state.

5. CONCLUSION

Improving the quality of the business is imperative of the contemporary market and global trends. The implementation of quality systems according to ISO 9000 standards and the establishment of a process of continuous quality improvement, together with the application re-engineering techniques, is used to improve business productivity of SMEs and creating competitive advantage in international markets, primarily because of market and technological flexibility companies from this group. To apply modern methods and techniques of management as a way of managing the company and its activities, more are needed adequate knowledge and skills that are obtained in special schools. The largest number of first generation entrepreneurs today educates her children at numerous schools of management, economics, finance, marketing, business information, etc. This is a good sign that the approach to management changes. Investment in knowledge is an investment that pays off many times.

In addition to institutional higher education, there are many other ways to company management and employees are educated and under different functional education programs-seminars, courses and workshops. It is desirable for small and medium enterprises use the same consultants and application development management. SMEs can develop only certain managerial

functions, and for other purposes of business development, finding a solution to the outsourcing or the occasional engagement of external specialists and consultants.

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**INFORMATION AND COMMUNICATION TECHNOLOGY
IN SMALL AND MEDIUM ENTERPRISES**

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Novi Pazar Serbia

ABSTRACT

Information and communication technologies have entered a completely new basis on which base business relationships between companies and more efficient business transactions take place, established sales and purchases to reduce costs and enable the high availability of information that is very important for modern business. For medium- and small enterprises, all government activity should be directed to create an enabling business environment, providing tax relief for the procurement of IT resources, free education to use them, providing earmarked money ... and in order to SMEs help intention to introduce informatics its business, it is equally important that the management itself of small and medium enterprises identify the importance of IT in terms of improvement and business development.

Keywords: Information and communication, technology, small, medium, enterprise

1. INTRODUCTION

The time in which we live and operate marked by the speed of information transfer, the globalization of the changes, the struggle for new customers, increase productivity in order to achieve competitive advantage. All of these characteristics and features define modern business. For modern business, which is a necessity of today its needed to educate existing current drivers for the use of ICT.⁴⁷ Rare are the companies that can boast of having full use of opportunities provided by the current state of their computer equipment and you would say that the new equipment procurement decisions to follow a fashion trend and thus impressed its business partners, but we really believe that their new technology, and hardware-wise and in terms of software, can make the job easier. Small and medium enterprises are a key factor in the development of Serbian economy. Over 100,000 companies and over 200,000 entrepreneurs, it seems 99% of total registered enterprises, employing 60% of the total number of employees and account for 50% of gross domestic product. Small and medium enterprises in Serbia, as well as throughout South East Europe are a key factor of economic development, drivers of structural economic reforms, important

⁴⁷ Dr. Radislav Vulovic, Assistant Professor, Faculty, Cacak, E-mail: vulovic.r @ nadlanu.com

factors for reducing unemployment, generating growth competitiveness, reducer of trade deficit, raised living standards ...⁴⁸

In the European Union there are twenty million companies of which about 99% of small and medium enterprises (SMEs), and 93% of SMEs have fewer than 10 employees. SMEs are a major source of employment and wealth creation in the European Union:

- Provides more than 80 million jobs, ie. employed in SMEs account for two thirds of the total number of employees in the private sector, the European Union
- The SME sector accounts for 70% of the total turnover in the European Union, and
- The SME sector contributes 60% of the total GDP of the European Union.

In March 2002 during the Summit of Heads of Government of the European Union in Lisbon, the SME sector has been marked as one of the pillars in achieving the goal that the European Union become ;the most competitive and dynamic knowledge economy in the world by 2010. In June 2002 European Union leaders adopted a European Charter for Small Enterprises, which calls on EU Member States and the European Commission to support and assist small businesses in a number of key areas, such as education and training of entrepreneurs, ICT and the creation of effective legislation, regulation, tax and financial system.⁴⁹

Use of ICT SMEs become flexible and can adapt quickly to change supply and demand in the market. It allows creation of new jobs, promote diversification of economic activities, contribute significantly to the increase in export ... and generate increased economic development of the country. States should and must use all instruments of monetary and fiscal policy, to allow smooth functioning of small and medium enterprises. One way of enabling better functioning of small and medium enterprises in Serbia is to raise the importance and facilitate the implementation of information technology in small and medium enterprises.

The main barriers to development of the group of small and medium enterprises in the domestic market occur : a lack of funds to purchase ICT, lack of knowledge, lack of markets and lack of adequate institutional infrastructure. Bill Gates in his book, *Real speed of thought* assertion : “To act in the digital age, we have developed a new digital infrastructure. Its similar to human nervous system. Companies for smooth operation and efficiency in the activities required a similar nervous system, a system that will quickly respond to emergencies and suddenly highlighted opportunities to obtain relevant information quickly to those in need and enable quick decision-making and contact with clients.⁴ ; Ministry of Economy and Privatization of Republic of Serbia 2003-2008 elaborate a strategy for small and medium enterprises and entrepreneurship. One of the most important elements of the strategy among other things, the

⁴⁸ Dollinger, M.J., „Entrepreneurship, Strategies and resources“, Prentice Hall, 2003.

⁴⁹ <http://www.prsp.gov.rs/download/strategija>

preparation of SMEs in the Republic of Serbia for the digital age the development of modern and competitive telecommunications infrastructure, support the application of information and communication technologies in business, support the development of software industry and e-business, and the gradual introduction of the principles of electronic government (e-government) which would facilitate SMEs carry out administrative procedures, ie via the Internet. on-line and increased opportunities for participation in public procurement;

2. IMPORTANCE OF INFORMATION TECHNOLOGY FOR THE IMPROVEMENT OF SMALL AND MEDIUM ENTERPRISES

It is also necessary at the same time extremely important that both the state and management of small and medium enterprises recognize the role and importance of information technology as an important factor for small and medium enterprises in Serbia. The first step by the government in this direction was made when the middle of last year the Ministry of Finance of the Republic of Serbia made a revision of the value added tax within the same adjusted value added tax for the purchase of IT hardware and software from 18% to 8%.

Research has shown that management of small and medium enterprises in Serbia recognizes the role and importance of information technology to improve business results, and also seen the introduction of information technology as a long-term investment. Also, it is important to emphasize that the study showed that over 50% of small and medium enterprises in Serbia have the Internet. Research also shown that in Serbia 58% of small and medium enterprises connecting their remote location to the central location of the company via the Internet and remote access to email.⁵⁰

Representation of information and communication techniques and technologies in SMEs in Serbia today is modest and it was unable to make significant changes and impacts. So, the starting position of Serbia in this regard is poor, which limits the greater and more widespread use of Internet in Serbia. In Serbia, the problem is also that many people, even the manager believes that the basic problem of insufficient use of information technology in the absence of appropriate infrastructure. Practice shows that the SMP, or state organizations that have even the most advanced information technology, use it inappropriate, or use it for the least productive activities, such as sending e-mails, data collection, and so on.

Research shows that staff in Serbia are major problem in greater use of IT. They are resisting the introduction, and often the obstruction in the use of the Internet. It can be concluded that information technology, and Internet can't solve any problem without the presence of competent IT and other professionals. In Serbia

⁵⁰ Paunovic, S., "Entrepreneurship - from business idea to realization"; third edition, Faculty of Management, University "Braca Karic"; 2003.

they will be a bigger problem, because practice shows that in provision of Internet technology, the only problem are finance, while the problem of competence in people and their resistance to the acceptance of new technologies. It is not uncommon for the next introduced the Internet and still use fax machines, or electric, and manual portable typewriters, and to the SMEs, government, health centers, local government, etc., or that is in addition to the existence of email continues to use classic mail and the like. Accordingly, it is necessary to understand the Internet as a tool that is effective only if it comes at the hands of a good professional. SMEs can via IT have access world market and to harbor origin products as do and developed countries. Internet in this case doesn't differ goods coming from developed and developing countries, but only on its quality. For example, it allows tailor from Shanghai to sew a custom-made suit for a lawyer in Boston and deliver it to his home address. Or, female weavers association from a remote village in Guinea-selling hammocks online for \$ 1,000. Companies from Africa can compete in the tender of General Electric, participate in e-auctions under the same conditions, and so on.⁵¹

Thanks to new, especially information technology, small companies, and it can be stated that with a minimum number of employees can be large, while at the same time big companies measured material values of assets may be small by turnover, profit, or when exercising. Small has strengthened and can often be more effective than large companies, such as the value of the chip from a few millimeters may be worth more than a ton of hardware. In the Internet economy, there has been a radical change in which David has become Goliath, which is even considered to be a bit nicer.

3. STATE OF ICT IN SERBIA

The analytical analysis of the situation Serbian ICT must be borne in mind the following facts:

- The political - economic environment over the last decade, it is not favorable for the development of telecommunications infrastructure and the Internet. Here we mean the sanctions the United Nations which was included in the field of science and technology. In the period of sanctions, the then Federal Republic of Yugoslavia was excluded from all international organizations, professional (regional or international) organizations and had no access to scientific information in any sphere.
- Low standard of living, doesn't allow the purchase of PCs, modems and other fixed assets needed to connect to the Internet. In this situation, acquisition of information equipment has not been exempt from many imposts there was no proper credit or other incentive policies that would facilitate the purchase of computers and software, although it is evident that investment in this equipment back quickly and with high levels of profitability. In the first half of 2007. to

⁵¹ Statements used Andy Xie, a famous economist from Morgan Stanley in Hong Kong.

purchase a computer must be set aside for five to six average monthly salaries, depending on configuration and brand, which is burdensome and aggravating for large-scale purchase of computers. If you add that about 30% of the working population is employed, then we can get an idea of how many partial financial strength is a limiting factor in further development and use of the Internet in Serbia. Interesting is the relationship of computers, depending on monthly income. In Serbia, according to estimates⁵² of households with monthly income of up to 100 euros have a computer in 2% of cases, those with incomes from 101 to 200 euros in 9%, and those with income in excess of 200 euros in 28% of cases. Households with income of 300 euros have over 50% of computers in Serbia.

- Lack of interest of political structures in developing and investing in the only free medium. Often, the political structures in addition to were not interested in the development of Internet and communication with the world, suppressed advances in this field (except during the NATO aggression on Yugoslavia, when the Internet and communication via the global network was the only possible route for transmission of information). , Tendency or attempt to control Internet communications and censorship by the political elite in power is a failed attempt, but in itself indicates the attitude towards this type of communication and human achievement.

- Lack of knowledge of English as the dominant language on the Internet. English language level needed to use the Internet in Serbia knows less than 20% of the population above the age of eighteen years. But even here there is a big difference between knowing the language of certain ages. In the age group 18-29 years the population of English language is used every other respondent, while the proportion aged over 60 years, only slightly higher than 3%.

- The degree of technological development of information - communication technologies, is very similar, but the scope is much slower in the countries of Eastern Europe. This retardation is primarily a consequence of the first three of these properties of Serbian Internet space.

- Relatively small number of administrative jobs PC, compared to the number of private computer owners. It turns out that over 95% of computer owners is in the household and to every fifth household has a computer.

- Availability of computers and computer components, compared with the European Union, is extremely low, due to low standards and low purchasing power, and underdeveloped culture, and resistance that is created by this type of technique and technology. The relationship between price and quality of the components in our extremely bad, either due to lack of competition or monopoly, or because of irregularities in the procurement of imported and aspirations to be an island big profits.

- While in the modern economy is about virtual markets, and markets communication networks in Serbia is almost non-existent. Legitimate software market. For this reason, especially in the post of United Nations sanctions, many

⁵² The data are mainly used in: Ibidem Ljiljana Bačević with certain corrections to its assessments.

companies are reluctant to establish a permanent connection to the Internet, because the legal software is extremely difficult to obtain. In addition, it is necessary to allocate a significant amount of money for the legalization of software., When most users are not ready, which shows the relationship to intellectual property in Serbia.

- A small number of classical⁵³ and mobile phones, as well as insufficient capacity, speed and reliability of lines. At present it is evident that over 25% of households in Serbia does not have a fixed telephone network. The reasons are mainly lack of technical conditions for their implementation and the relatively high cost of introducing fixed phones,⁵⁴ which is conditioned and locations, as well as the relatively high price momentum that does not fit the family budget. However, precise analysis shows that the telephone connection and its cost of introduction is a crucial factor affecting the use of the Internet. Regardless of the unreliability of statistics, the fact that of those who have a telephone connection about 50% do not have a computer, it is confirmed.

- Poor infrastructure - the lack of digital exchanges, digital lines, optical cables and the like. The existing infrastructure is largely outdated and not able to respond to new demands in terms of speed, reliability and capacity that is required in this type of technology.

- Monopoly position of Telekom Serbia is certainly the biggest constraint in the development of information - communication technologies. Today in Serbia it's impossible to expand telecommunications infrastructure without the participation of the National Telecom. Also, the state has very restrictive legislation which does not allow development of large computer network if these networks are owned and managed by Telekom Serbia. On the other hand, Internet users often have problems with the transfer of data because the phone line connection is bad and unstable ("shoot"). Underdevelopment mobile telecommunications network citizens of our country does not allow for keeping up with the world.

4. CONCLUSION

For small and medium enterprises, all government activity should be directed to create an enabling business environment, providing tax relief for the procurement of IT resources, free education to use them, providing grant earmarked funds ... and all in order to help small and medium enterprises with their business informatics, it is also important to find and management of small

⁵³ Taken and adapted from the study "Information Technology - The World and Yugoslavia," Dragan Bogojevic, Institute Mihajlo Pupin 2000th

⁵⁴ According to estimates the average cost of introducing a fixed phone in Serbia in 2007. vol. Amounts, depending on the existing infrastructure, from one to two average monthly salaries.

and medium enterprises identifies the importance of IT in terms of improvement and business development. Representation of information and communication techniques and technologies in Serbia today, a modest and that it was unable to make significant changes and impacts. So, the starting position of Serbia in this regard is poor, which limits the greater and more widespread use and Internet use in Serbia. Research shows that staff in Serbia a major problem in greater use of IT. They are resisting the introduction, and often the obstruction in the use of the Internet. The main obstacles for the development of the group of small and medium enterprises in the domestic market to emerge: a lack of funds for the procurement of ICT, lack of knowledge, lack of markets and lack of adequate institutional infrastructure. Procurement of ICT was previously only available to developed countries while poor countries lacked.

Conducted on information and communication technologies in Serbia has shown that he has great potential. Companies involved in this kind of technology have gained a certain reputation in the international market, especially when it comes to financially software. Researches indicate that the problem of organizations dealing with information technologies, small and young and to the specific national mechanisms could affect their growth. Proposed and the formation of coordination bodies that would provide logistical support for a joint appearance more companies that jointly applied in international bidding for the sale of goods through the service.⁵⁵

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⁵⁵ Research on this issue conducted by the U.S. Agency for International Development, in late 2006.

9. According to estimates the average cost of introducing a fixed phone in Serbia in 2007. vol. Amounts, depending on the existing infrastructure, from one to two average monthly salaries.

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PERSPECTIVES 2011”**

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**THE IMPORTANCE OF INFORMATION SYSTEMS IN
SMALL AND MEDIUM COMPANIES**

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Abstract: This paper examines the research conducted on importance of introducing information systems to small and medium companies. A survey research on the possibilities and the advantages and disadvantages of modeling small and medium-sized and support of information systems to their business has been conducted. The survey was carried out in the Sanjak region. All problems of companies that could be solved using IT were presented, as well as the experience gained in companies that use information systems. The premise is that the businesses of small and medium enterprises can be improved by introducing information systems, regardless of the limited financial and human resources power of such companies, mainly large costs of purchasing computer equipment and the introduction and maintenance of information systems. The contribution of this paper is to bring closer the most efficient solution for the introduction of information systems in small and medium enterprises based on the requirements, capabilities and experience of its users.

Keywords: Internet, IT, model, e-business, records of goods, applications, company

Introduction

The importance of small and medium businesses cannot be reduced in comparison to the importance of big businesses, since the small and medium businesses have a stake in economic development, retention of staff and the existence of the population in certain areas. They structurally fit into the economic area that is not covered by enterprises and undertake tasks that are not of their interest, or which are not profitable for larger companies.

Modern technology and automation of work processes can provide high volume of production with a small number of employees. Therefore, the criterion of size is an optional category and, at the same time, does not represent an indicator of company's economic significance.

The criteria for classifying companies as small, medium and large are different at the state and even regional level. Based on data given in the literature that deals with this issue, we come to the conclusion that there are three key criteria for the division of businesses by size: 1. average number of employees of

workers over the last year, 2. annual income and 3. average annual value of assets. In the Republic of Serbia, companies with less than 50 workers are small and those who have 50 to 250 workers are regarded as medium. The second and third criterion are evaluated relatively according to the average gross earnings of employees in Serbia and range, for annual income up to the worth of 8,000 gross wages in small and from 8,000 to 40,000 in large companies, and for annual value of assets from 6,000 in small and 6,000 to 30,000 in large companies.

One of the most common scenarios is that small and medium companies are financed by private owners, who are, in most cases, the general managers at the same time. The consequence of this is a small financial and personnel support to businesses. It is assumed that in such situations, proper awareness would significantly help in managing and improving business operations. According to the present time, the cheapest and most effective information support can be obtained from a computer equipped with good software. It is therefore necessary to investigate what are the problems that can be solved with the help of information technology and the way of introducing the best solutions.

1. PROBLEMS OF INFORMATIVE NATURE IN SMALL AND MEDIUM COMPANIES

The most common problems of informative nature in small and medium companies that do not use computers and the Internet to keep business records are:

- Lack of information about the stocks, raw materials, products and commodities;
- Lack of evidence of movement of goods;
- Unclear records of payments and debts kept in accounts;
- Lack of access to information from different company facilities, as all the records are kept at one place;
- Complicated exchange of information with partner companies by fax or mail.

The most common consequences of these problems may be as follows:

- Huge waste of time;
- Higher costs of travel, mailings and phone calls;
- Common errors in entering data and its analysis;
- Occasional delays due to unfinished business paperwork;
- Abandonment of certain activities due to the inability to exchange information with partners within the preset period.

The proposed solution is the creation and use of Web applications with a catalog of products, which would have the following elements:

- Product catalog;
- Picture gallery and video clips;
- Info pages which would business partners find interesting;

- Possibility of ordering products or services through Internet booking.

One thing omitted from the proposed solution is the possibility of electronic payment. This element is deliberately omitted, since the system of e-banking is not sufficiently available in the area where the research was conducted. This possibility could be the subject of another paper, in a situation where there will be a real chance of realization.

In order to assess the validity of such a solution, research through a survey that required answers from the owners of small and medium enterprises in the Sanjak region about the efficiency of conducting business through paper records and the willingness of transition to the use of Web applications was conducted.

Target group were managers of different companies and the goal was to speed up the development and improve operations of small and medium companies.

2. RESULTS

The study was conducted among the managers of companies in Sanjak during March 2011. For our study we selected a sample of 120 managers. This is a selected sample whose structure is shown in Table 1.

Table 1. Sample structure

Activities	Type of company		Total
	Small	Medium	
Production-Trade	20	20	40
Trade	20	20	40
Providing services	20	20	40
Total	120		120

2.1. Analysis of the need to exchange information with partners and the level of international cooperation

According to the survey, 60% of the companies involved in production and trade "often" have the need to exchange information with partner companies, 30%

"occasionally" and 10% "never ". Results are the same in the trade group of companies. 30% of companies providing services said "often", 60% said "occasionally" and 10% "never ".

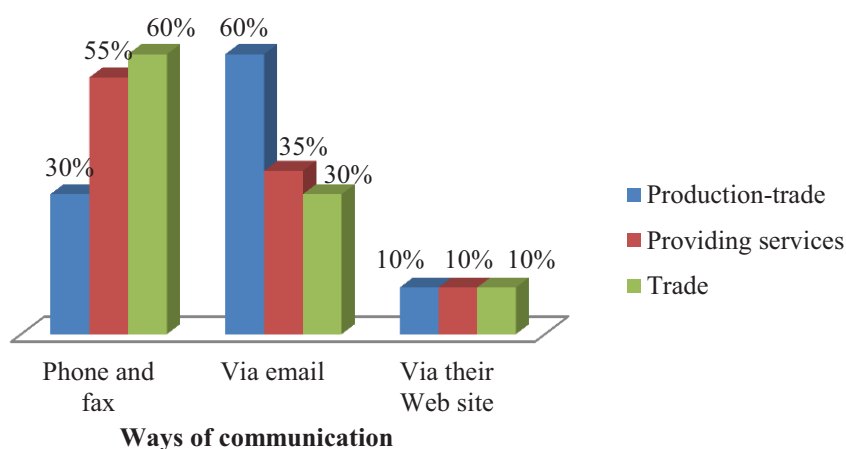
Answers to the question: “To what extent do you internationally cooperate with other companies?” show that this kind of cooperation is achieved by 20% of companies in production and trade at high level, 60% at middle level and 20% at low level. 30% of companies in the trade activities have middle level of cooperation and 70% low. 10% of companies providing services have high level of cooperation, 30% medium and 20% low, while 40% of service companies have no international cooperation.

Following is an outline representation of the most common ways that companies use to exchange information with partners.

Table 2. Numerical display of ways companies use to exchange information with partners

Way of exchange Activities	Phone and fax	E-mail	Via web site
Production-trade	12	24	4
Providing services	22	14	4
Trade	24	12	4

Chart 1. Ways companies exchange information with partners shown in percents

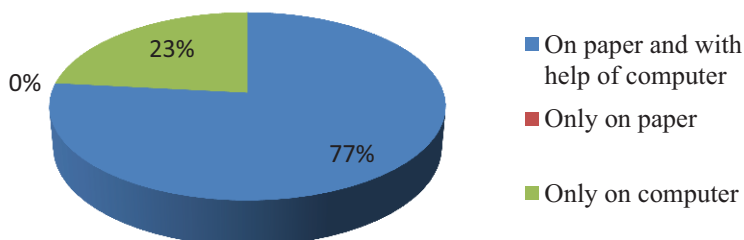


The foregoing analysis shows that most companies have need to exchange information with partners, and achieved international cooperation. Also, all companies, to a lesser or greater extent, use e-mail or Web site to exchange information with partners.

2.2. Analysis of keeping the records

We asked managers in small and medium companies about the way they keep records. The results show that most companies, as many as 77%, for this purpose use both paper and a computer, 23% use only a computer and no one keeps records only in papers.

Chart 2. Ways companies keep their records shown in percents



We continued the research through examining possible flaws that exist in the records of business transactions, in order to verify the feasibility of keeping records on a computer.

In this regard, we asked four questions. The first of them was: "How is it easy to keep track of information you have in your paper records?". 3% responded "excellent", 57% "good", 33% "poor" and 7% "no way of keeping track of records on paper". Since the excellent overview of paper records is achieved only by 3% of the companies, and despite the 57% of those who said they have "good" overview, we can say that keeping records in terms of overview is not satisfactory.

We evaluated the loss of papers in which records are kept. 13% of respondents said they lose their papers "often", 67% "sometimes" and there are only 20% of those who "never" lose their papers with business records.

We also asked if there were any problems caused by keeping records of transactions. 27% said "several times", 57% said "a negligible number of times" and 17% of companies never had problems of this nature.

The fourth question we asked was: "To what extent you experience keeping paper records as a burden?". 10% of respondents said "very much", 27% said "much", 37% said "not that much" 20% "a little" and only 7% said "not at all". Of course, every job is a burden, to a lesser or greater extent, and analysis of this question shows that percentage of those who perceive this matter as a big burden is not insignificant.

Every ambitious entrepreneur thinks of expanding the business. In this research, we asked the entrepreneurs: "When you think about expanding the business, do you see more complex records as a problem?". 67% answered "yes" and 33% said "no." Probably the complexity of business records is not seen as a major problem, but 67% of the respondents see it as kind a problem. Therefore, the logical conclusion is that problems should be solved, regardless of their size.

Since the business records call for frequent and extensive data processing, it is necessary to find a way for easier, faster and more accurate processing, or in other words, for more efficient data processing.

2.3. Analysis of the readiness of small and middle-sized companies to use Web applications in their business

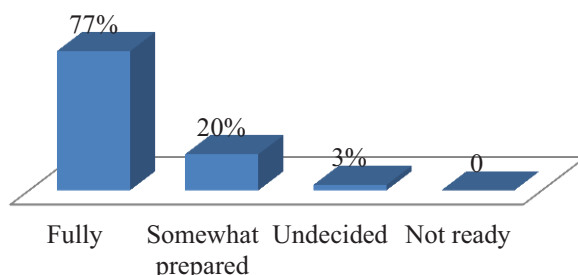
It is a fact that the Internet is the most advanced form of communication today. 92% of all respondents are connected to the Internet while only 8% has no connection to the Internet, which is the basis for the use and implementation of a Web site (application) in the business.

Besides, 47% of respondents already have a Web site and 43% responded that the exchange of information via Web site has increased their business, while 53% of companies do not have a Web site.

The previously mentioned results indicate that the introduction of Web applications in business increases the volume of business. To the question: "How ready are you to use a Web site as a means of exchanging information

and business records?”, 77% said “fully prepared”, 20% said “somewhat prepared” and only 3% said “undecided”, which indicates that we need to find the best possible software solutions related to Web sites (applications).

Chart 3. This chart shows in percents the number of entrepreneurs willing to improve their business using Web applications



3. CONCLUSION

By analyzing the results of research conducted, we come to the following conclusions:

- Many small and medium-sized companies have international partners, and only 10% of companies, from the ones providing services, do not need to exchange information about products, such as catalogs, samples and documents, with partner companies.
- Exchange of information via the Internet is present in 51% of companies (62 of 120 surveyed).
- As for the ways in which the companies keep their business records, all of them use computers for this purpose, although a certain percentage still keeps records on paper.
- It is proven that keeping records on paper is flawed in terms of overview of information, data loss, as the burden at work and as one of the obstacles during the expansion of business. Of course, we can say that some of these flaws may appear in keeping records of business using Web applications. We will give some characteristics of Web applications which show that the aforementioned flaws can be corrected or minimized.
- There are excellent conditions for the implementation of Web applications in small and medium companies, since we know from the research that every company has a computer, 92% of them are connected to the Internet, a significant number said that their Web site has helped them in expanding the business, and 97% of companies are ready, fully or partly, for use of Web applications.

A clear solution emerges from these findings: a web application with:

- Product catalog in the form of picture galleries and video clips.
- Interface for keeping business records, for which data is stored in databases on the server. This interface would help creating and printing documents using data from the database. It also should be similar to the most popular Internet networks, like Facebook, Twitter and others.
- pages with aim to promote and market products and,
- E-cart.

We will mention several features of Web applications, which verify that they cannot be replaced in the service of exchanging information and keeping business records in small and medium companies:

- Ability to access applications and data from any computer connected to the Internet,
- Security of data loss, because the data is kept on servers that have back-up systems,
- Ability to search, quick data analysis and clear review of reports,
- Availability of Internet which contributes to a huge number of visits to the promotional part of company's site,
- It is easy to use these applications; since there is a vast number of Internet users, there is no need for further staff retraining.

For the introduction of Web applications to companies that haven't used them yet, all you need is a computer and Internet connection. Lack of software solution is the biggest drawback of the area where the research was conducted. Since there is a large concentration of small and medium companies of similar activity in a small area, joint efforts to develop Web applications are possible, which would have a positive effect on the price of the software license.

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**THE APPLICATION OF EDI TECHNOLOGY IN SMALL
AND MEDIUM ENTERPRISES**

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Abstract: In this work we consider the key factors and more recent theoretical approaches related to the limitations and usefulness of electronic data interchange and electronic distributions in small and medium enterprises. Primarily refers to technology that includes processing and exchange business information between businesses in the national and global environment through information technology and exchange of business and administrative messages between computers two or more business partners with the use of agreed standards to structure the transaction or data.

Key words: EDI, e-commerce, electronic data interchange, e-distribution.

1. INTRODUCTION

The introduction of e-business in small and medium enterprises is a challenge, primarily citing investment in information and communications equipment, then the lack of technical and managerial knowledge and the possibility of implementing a network system which is based on information technology. EDI technology used mainly by large companies and institutions because of high implementation costs. For the application of electronic data interchange that are listed in this work are lower costs, better customer service, relations with other countries and marketing.

The rapid development of the telecommunication infrastructure in recent years has provided broad network coverage with high quality and fast transmission. This factor has facilitated the development of inter-organizational systems (IOS). Electronic data interchange, or EDI for short, is one type of IOS that enjoys the above benefits. EDI is a system that transmits electronic information via telecommunication links in a structured format. By establishing links between different parties, EDI provides a speedy, accurate and efficient means to exchange information. Many benefits such as increasing accuracy, improving productivity, and reducing transmission time can be obtained from the adoption of EDI.

The major objective of this study is to investigate and determine what factors would influence EDI adoption decisions in SMEs. As mentioned above, EDI adoption in SMEs is not as popular as it is in large organizations. Despite the abundance of the attractive benefits of adopting EDI, SMEs are still reluctant to use the system. SMEs contribute the gross domestic product (GDP) and employment rates and thus play an important role in the economy. The overall lack of EDI capability of SMEs is a serious issue and may very well have a negative impact on the economy of a country. Moreover, owing to the networking nature of the technology, the more organizations that adopt EDI, the higher the benefits are to all adopters. The fact that few SMEs are joining the EDI community significantly affects the benefits of EDI-capable organizations inside the network. Clearly, recognizing the factors that influence EDI adoption will be useful in suggesting strategies to overcome the constraints that inhibit adoption. This line of inquiry benefits both researchers and practitioners. Researchers will benefit from the study's theoretical insights and explore further EDI adoption and diffusion patterns. Practitioners who learn why organizations adopt EDI and what the related factors are that influence the adoption process will make better strategic decisions concerning the adoption of EDI.

2. ELECTRONIC DATA INTERCHANGE

EDI is the exchange of structured business data between separate computer companies, carried out without manual intervention, electronically, by means of standardized messages that replace traditional paper documents.

EDI is the exchange of business or administrative messages (orders, invoices, notifications, billing, and inventory), the computer two or more business partners using agreed standard to structure the transaction or data.

EDI is often defined as the exchange of formatted business transactions in a standard format, from computer to computer between business partners. Business partner usually have different computer systems and business applications, EDI environment standard data formats and protocols to send and receive business documents. The data is formatted with each end to allow for integration into the established system. Like other models of electronic communication, such as fax and e-mail, EDI allow information is sent over a public or private communication lines. EDI is one of ways for crossing the "paperless society". Submission of business documents is done in seconds instead of several days, and reduces the possibility that such documents are lost or be corrupted. Unlike other types of electronic communication, EDI allows the computer to process the information received, thus eliminating the task of rewriting and the possible errors when retyping.

EDI system takes information from incoming source through a network address of the seller, and sends them directly to the application to further process the data. This ability to forward information directly to applications makes EDI a powerful tool for business. EDI is defined as the process of communication (computer to computer) business information in standard formats. Electronic commerce is a broad term includes EDI, but also includes interpersonal communication (human to human), Transfer Money, and the sharing of common databases with added activities and assist in the efficient conduct of business. To understand the true meaning of EDI is best to consider what EDI is and what is not [1].

EDI is:	EDI is not:
<ul style="list-style-type: none">• Direct communication between two applications• Use of electronic media for transmission instead of magnetic and other media• Use the electronic postage compartments for sending and receiving of business documents• Use precisely structured documents based on agreed standards	<ul style="list-style-type: none">• Electronic mail (e-mail)• File transfer (File Transfer)• Remote Data Entry (Remote Data Entry)• World Wide Web technologies (WWW)

Using EDI in their daily operations company creates:

- faster delivery of documents without losing or damaging
- significant savings in time needed for document processing by eliminating the need for re-typing documents
- Increase productivity and efficiency
- Significantly reducing the cost of processing paper documentation,
- reduce of errors in data processing
- Improved transportation management, distribution, inventory...
- significantly reduce procurement costs and the like.

2.1 EDI system development phases

The appearance of EDI technology has caused a series of stages that have gradually developed EDI system and eliminate a number of short comings and drive innovation.

- Discovery: more problems, a small advantage
- Introduction: pilot applications starting with a document, and 1-2 business partner
- Integration: the formation of interfaces between the EDI applications and IS
- Action: the achievement of a sufficient number of transactions, with more business partners using a number of documents
- Strategic changes: updating the document of a job and savings in time
- Innovation: personalization solutions and new services

2.2 Structure and functionality

EDI structure consists of five components (aspects), which form a whole:

- Technical components: communications, hardware, software
- Economic aspects: costs and benefits of EDI, the impact of the transaction, the impact on the structure market
- Strategic aspects: the potential benefits
- Organizational aspects: introduction of internal processes under the influence of EDI
- Social and political aspects: selection of EDI partners, re-distribution of power within the framework EDI network control technology

EDI is composed of four levels as follows: Semantic level, the standards, the level of transport and physical level.

SEMANTIC LEVEL APPLICATIONS
LEVEL STANDARDS ANSI ASC X12, EDIFACT
LEVEL OF TRANSPORT Point-to-point ,X.435 ,E-Mail ,WWW,FTP ,Telnet ,HTTP
PHYSICAL LEVEL Dial-up linE ,Internet

2.3 Semantic level of EDI system

2.4



Level of business processes, the scenario between buyer and seller including:

- Marketing: the available and accessible information
- Contracting: negotiating price, delivery and payment
- The transport through a third party, subject to appropriate conditions and documents
- Administration: Taxes and Customs Declaration
- Payment: The transfer of money from the buyer to the seller directly through the bank or directly

Level services

- Security: authentication, confidentiality, integrity and the exclusion of non-recognition
- legal information and advice: in international business
- Establishing a market: in many areas, auctions, information retrieval
- information about the company: the economic power and the organization of

- EDI Integration: the link between EDI translators and related data formats

Level technology

- security: cryptography, digital signatures and smart cards
- legal information and advice: agree on the exchange, electronic contracts, review of legal content
- formation of the market: catalogs for auctions, data discovery, electronic negotiation
- Company information database with data on companies
- EDI Integration EDI translators, standards, Light-EDI

2.4 Level Standards

General EDI processes of transactions can be seen through the following examples. Exchange business data between the two firms. The company broadcasts customer business transactions from their internal business system as a subsystem of trade. Transactions are translated into standard format (ANSI X.12) so that the supplier can understand. Translation software is usually separated from the business system. The transaction is sent to the supplier throughout this allows the controlled exchange of electronic documents. The company's vehicle receive transaction and translates it into a format for printing or format that is acceptable for its independent operating system, such as a system for processing orders. As the company buyer, the seller company usually sends back an electronic confirmation of firm customer that the transaction has been completed and that in the proper format [1].

The following example shows, how EDI can be used to achieve interactive electronic market. Buyer transmitted to the system and all registered sellers public demands for some commodity prices, the sellers take over the system demand of goods in accordance with their interests. Sellers respond by sending the document to the prices buyers and inform them electronically. The decision may be sent to each one, for example, directly with customers. Customer can review all the replies received using making some kind of software, deciding to offer the most convenient for AND / OR criterion set, and sends an order selected merchant. The buyer may also transmit information to the seller got order.

Buyer after receipt of the goods may issue a document for the payment of dealer orders, and send money to the merchant using electronic funds Transfer (Electronic Funds Transferring - **EFT**) [1]. As more firms are using EDI to exchange business documents there is a need of standardization of fields that are exchanged. If the company would comply with the standards will accelerate the process of implementing EDI and reduce the complexity of the enterprise. Each business partner may be on its operations outside their own business application to translate the standard format and agreed with other business partners. In his speech, when the transaction is received, the business partner checks in a

standard format and appropriate software can be translated into the format required for internal business applications. There are two public standard formats for EDI transactions, ANSI ASC X.12 and UN /EDIFACT. Most EDI transactions are exchanged in this format (with the appearance of web, there are other formats that are used).

2.5 UN/EDIFACT

International standards laid down in the EDI occur under the auspices of the United Nations (UN). The international standard is called UN/EDIFACT (Electronic Data Interchange for Administration Commerce and Transport) - EDI for Administration, Commerce and Transport. The most widely accepted EDI standards in developed countries; legislation was adopted as the official national standard EDI.

Application of standard UN/EDIFACT in several areas: Trade, Transportation, Finance, Customs and Insurance, Statistics, Construction, Health, Tourism, Social and Public Administration, Public Order. Disadvantages UN / EDIFACT are Analogy with TTY: only text files. Provides only the format of exchange between different applications (and not the complete solution).

2.6 TEDIS program in Small and Medium Enterprise

Because of realization of this idea 1987th was launched TEDIS (Trade Electronic Data Interchange System) program at the initiative of the European Community. TEDIS is a system that supports the electronic exchange of business information, allows avoiding the use of paper documents and provides a system that works globally. Role TEDIS system is fast and efficient internal and international trade.

This applies to traffic in a broader sense when taking into account the timely supply of production by suppliers. Further development of this system is moving toward an interactive exchange of information between information systems of business partners.

2.6.1 Phase of TEDIS program

In developing the program TEDIS there were two phases:

- In the first phase, that continued since 1988. for 1991. was performed to identify communications needs and requirements of the existing networks in terms of connectivity, interactive work and integration. Examined the possibility of telecommunications networks to support the development of such systems.
- The second phase began in 1991. and lasted until 1994. The main objective of this phase was to make the integration of information systems.

It was also very important to study the effects of using the electronic exchange of data on governance in public and private companies. Another task was to initiate compliance with standards (EDI) in small firms as well as European producers of software and hardware.

Security, the possibility of using TEDIS programs and applicability:

- One of the important issues is the security of data sent in this way. TEDIS system is on it paid special attention. When any information sent, it automatically encrypts TEDIS and disables read data or making any changes. Also on the data and assigns a digital signature that only the user knows.
- Any company can use the system easily. Not require expensive computer systems, or some special software, but it is sufficient that the company owns a computer and a connection to the Internet.

The program TEDIS there has been a huge increase in the implementation of electronic data exchange in Europe for the past few years. It will play a role in increasing the competitiveness of European firms in the context of the internal market. Trend improve efficiency in administration is already evident [3].

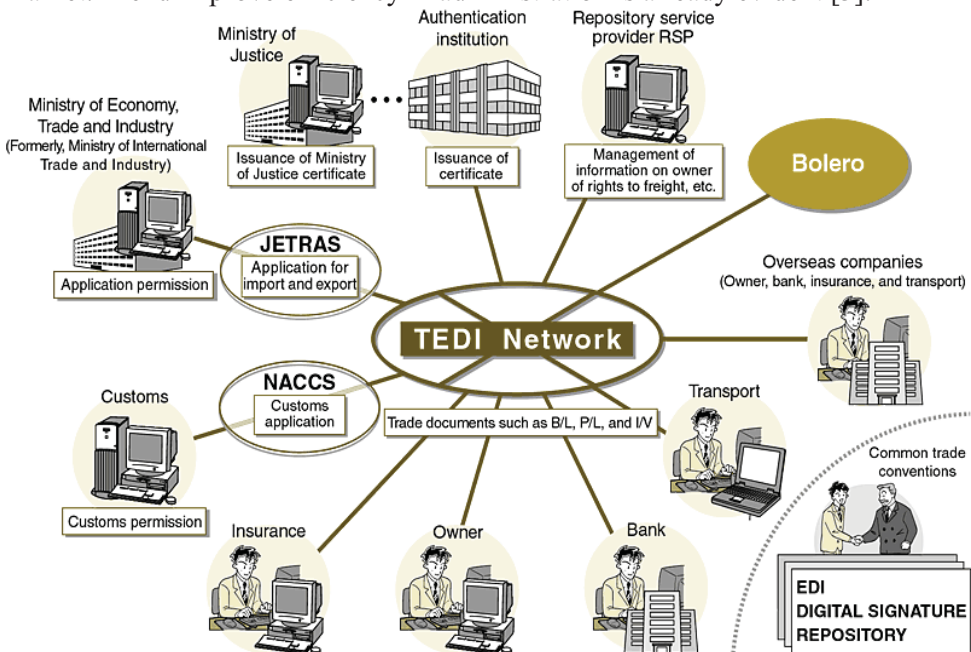


Figure 1. Overview of TEDI.

3. STUDIES OF EDI ADOPTION IN SMEs

Few EDI adoption studies in the SMEs context have been conducted. A notable one is Iacovou et al. (1995), which proposed a theoretical model consisting of three contextual factors: 1) perceived benefits of EDI, 2) organizational readiness, and 3) external pressures, which determine EDI adoption in SMEs. Perceived benefit refers to Rogers' (1983) characteristics of innovation. Organization readiness refers to "availability of the needed organizational resources for adoption". External pressure refers to influences from the organizational environment [2].

Seven organizations, which were selected from a list of suppliers to the British Columbia government, were investigated by using case studies. The findings indicated that the external pressure from EDI initiators had the strongest explanatory power to influence EDI adoption in SMEs, followed by perceived benefits. Also, non-adopters had lower levels of awareness of EDI benefits and focused on direct benefits rather than on indirect benefits from adoption. The relationship between organizational readiness and adoption was not strong but the cost of the investment and the lack of technical knowledge were important in the adoption decision.

Iacovou et al.'s study provides preliminary empirical findings on the adoption of EDI in SMEs. The insights obtained also help to formulate hypotheses and provide theoretical background for further confirmatory investigation. However, the small sample size and the lack of reliability and construct validity tests restricts the validity of the overall findings, suggesting that a large-scale study might be needed to ensure greater reliability [4].

Raymond and Bergeron (1996) surveyed 39 SMEs to examine EDI adoption from another perspective. They proposed a model of success factors of EDI in SMEs. Six factors, namely, organizational support, the implementation process, the control process, internal and external integration and imposition levels were used to study how they affect the advantages to be obtained from using EDI. The results suggest that more benefits from adopting EDI are obtained if more organizational supports such as training for employees are provided. This implies that lack of resources is an important inhibitor for SMEs to realize the potential benefits of adopting EDI. Also, the imposition level was found to have an adverse effect on obtaining EDI benefits in SMEs.

The findings of Raymond and Bergeron's study were also compared with those obtained in another study in which the same research model was applied to large organizations. The comparison indicated that factors affecting EDI advantages might be different between large organizations and SMEs in terms of strengths and directions. One significant difference is the degree of influence of the organizational context on both large organizations and SMEs. The organizational context, which includes organizational support, the implementation process and the control process, plays a significant role in successful use of EDI in SMEs [2].

EDI traditionally has been used by large organizations that can afford to spend huge amount of money on converters as well as maintaining private point-to-point networks for security and reliability reasons. This was an unthinkable proposition for the small and medium sized enterprises. The advent of Internet has brightened the possibility of doing online transactions by these small and medium enterprises, but with the compromise on security. Ensuring the flow of EDI data transfer over the Internet in a secure manner is the objective of EDIINT [5].

3.1 Benefits of EDIINT

EDIINT solution helps to level the playing field for SMEs by providing a solution that allows these companies to do business with larger organizations and, at the same time, enjoy the cost savings, speed and other benefits of e-Commerce.

EDI over the Internet (EDIINT) is a working group of the Internet Engineering Task Force (IETF) that is chartered with creating specifications for transporting EDI or XML documents over the Internet in a secure (digitally signed and encrypted), highly reliable manner [3].

EDIINT “EDI over the Internet” offers the opportunity for large, medium and small enterprises to connect and exchange business documents over a secure public network and significantly reduce communication costs.

The following are some of the benefits

- ▣ Secure: Addresses the issues of privacy, integrity, authentication and non-repudiation for B2B e-commerce over the open Internet.
- ▣ Increased Reliability due to the usage of secure protocols, guaranteed delivery, and encryption decryption techniques
- ▣ Low-cost as compared to the VAN based transactions
- ▣ Highly accessible as connectivity to Internet is no more a luxury
- ▣ Supports high bandwidth communications
- ▣ Technically mature as the specifications are being continually refined based on the feedback from industry usage

CONCLUSION

We conclude that the benefits of using EDI in small and medium sized businesses primarily delivery of business documents is done in seconds instead of several days, and reduces the possibility that the documents are lost or damaged. For unlike other types of electronic communication EDI enables the computer to process the information received, thus eliminating the task of rewriting and the possible errors when retyping. EDI is most frequently used in electronic commerce and digital economy. The main application of EDI applications in carrying out functions such as buying and selling goods and services, but EDI can also is used for a wide range of business applications.

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**VIRTUAL OFFICE, OPPORTUNITY FOR SMALL AND
MEDIUM ENTERPRISES**

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Abstract: This paper describes the virtual office as a new form organizations structure. Today's organizations are faced with dynamic and turbulent environment that expects them to react to changes in business environment at all levels, from the office.

Virtual economy, or rather the business needs to make greater frequency business operations in all aspects of economic development of mankind with use of modern information technologies and knowledge. The paper considers the properties of virtual offices, and ways in which virtual office can respond to the demands of the modern market as and the global economic crisis.

Key words: Virtual office, virtual organizations, information technology, information systems, enterprise.

Introduction

More than ever, modern information - communication technologies, Personal computers, computer networks and information based on them systems are becoming a "strategic weapon" of companies. Of them depends on the overall success and long-term perspective of business. Information technology significantly changes the competitive perspective of all activities, production and services. Computers have the most direct impact of all the jobs that we do, for everything we do, not only to way to do it.

When computers are only integrated into the business many thought that the come to an and offices buried countless piles of paper, but things are just not taking place as expected, and the mount of paper in offices, instead of decreasing, is often increased.

Although there are all the technologies required to realize the idea of the office without Paper, Bill Gates said: "that the use of paper doubles every four year

and that about 95% of all information in the U.S. is still on paper, and only 1% of the information kept in electronic form”. Gates is the thesis the number of processes documented on paper grows much faster than they digital technology can be replaced. In addition, there is a significant increase use of paper in the modern business environment that evolves from the use of information technology. Moreover, some authors suggest that companies use more paper than ever from following reasons:

Long articles on display are endless, paper documents are stronger evidence rather than electronic, paper is seen as part of the organizational dynamics and culture, and his physical appearance gives managers a sense of control over complex processes. Therefore, the idea of a paperless office and the future will be very difficult to achieve and come across the resistance.

The concept of virtual operations and virtual teams is also difficult to achieved, because in addition to technology, including organizational, social, psychological and many other aspects. Virtual business is based on building a virtual office on which we, as the subject of this paper, the below emphasize more and more.

The electronic, office management

Electronic office management includes three components:

1. Digital Office
2. Mobile office
3. Virtual Office

The concept of digital office management or office includes D-concept of automation, standardization, and digital processing business communication and documentation during business processes. Digital office operations accelerates the development and operation of business communication. Acceleration of business communication, speeds up business process and achieve full coverage in the business process, and realized an increased flow of goods and money within companies and between companies and the environment. Using digital technology, particularly the procedures digitization of business documents and use patterns are obtained substantial savings.

In addition to increasing the quality of business communications by adding nonverbal elements in written business communications, and digital drafting business letters improved the quality of conventional communication. Mobile office operations, or M-office operations closer to office business processes by enabling the processing of transactions place and time of occurrence as the conventional treatment was not possible. Mobile technology provides an enhanced awareness of the business process as business information available with any type of mobile devices, and enables the processing of data in real time.

Mobile way of working has decreased the number of fixed office work spaces and office operations closer to the point of sale and makes it flexible.

Virtual office management or V-office also provides abolition of fixed jobs and improve productivity office staff as it is possible to work remotely. The savings are reflected in Elimination of expenses and procurement of office equipment and engagement of staff in the office.

Electronic office management or e-office provides:

1. Accelerating business processes
2. Create competitive advantage,
3. Building a better image of the company,
4. Increase awareness,
5. Achievement of significant savings,
6. Increase in profit (profit)
7. Increase satisfaction and employee productivity.

The introduction of e-office operations in the company requires:

1. Review and changes in business organization,
2. Changing business procedures in the office,
3. Change the configuration PC,
4. Expansion of software and network components,
5. Procurement of equipment for mobile communication,
6. Continuing education staff,
7. Education managers.

Information technology allows for office operations and the occurrence new business models, such as intermediaries for managing a virtual workplace power.

Virtual Office

Virtual Office is not limited by physical space, and is based on crosslinking of employees, teams and groups who share knowledge using Internet technology. The concept of a virtual office has developed the idea: A person should not be in the office, but should benefit from their work. Virtual Office allows the elimination of fixed positions and with the team and improving the productivity of office staff as the possible work distance, or the abolition of physical boundaries, access to common documents and services of their own company and full freedom of movement and dedicating the basic tasks of business.

Virtual Office is the basis for electronic commerce (e-commerce). E-business and small business offers great opportunities and benefits. Reducing costs, increasing revenues and improving relations with employees, customers, partners and suppliers are just some of the results more widespread "virtualization". Some advantages of new technologies in business improvement

services are most notable in the "business-to-business properties and distribution of products and services, but no less noticeable in other relations".

Virtual teams

The virtual organization (of which we will discuss below) employed working in different locations and different time, or are formed virtual teams that virtually perform their business tasks. Virtual teams are groups of people who primarily work together through computer communication networks and systems to connect physically displaced members (which only occasionally and if necessary communicate in person) and so achieve a common goal. They gather about solving a business problems.

Virtual teams can do all the things that make the other teams - share information, make decisions, completing tasks. They can also include members from the same organization or associate members of the organization with employees from different organizations (eg, suppliers or partners).

Can come together for a few days to resolve the issue for several months to complete a project or permanent basis to communicate in this way. Three primary factors that differentiate virtual teams are: The absence paraverbal and nonverbal cues In a conversation face to face, people use paraverbals (tone of voice, flexion, the volume of voice) and nonverbal (eye movements, facial expressions, hand gestures and other body language). They help clarify communications providing increased significance, but are not available in the online ineteractions.

Limited social context

Virtual teams often suffer from a lack of social relations and the lack of direct interaction between members. Unable to duplicate the normal a positive exchange of ideas as they do face to face discussion. Especially when they are personally do not know, virtual teams are more oriented task and exchange less social-emotional information. Not surprising that virtual team members talk about the lesser satisfaction process of group interaction than do teams that have interaction face to face.

Ability of overcoming time and space

Virtual teams are able to do their work even if they are members and thousands of miles apart and separated by a dozen or more time zone. Virtual team allows you to work together people who otherwise never to be able to cooperate.

Virtual worker

The basic unit of a virtual office is a virtual worker that uses computer system and programs to handle business processes, and the network is linked with other virtual workers in different virtual teams that we have previously explained.

Virtual assistants are the people who perform office duties through information and communication technologies in their homes.

In the U.S., just working mothers, and who popularized the job. Thanks to technology, various jobs increasingly can be performed outside the office. Specifically, the possession of a computer and Internet connection a number of tasks can be done from home.

Originally, the virtual assistant performed tasks that normally deal with machine, such as proof of various texts and documents, conducting telephone calls, managing databases and the like. However, as all more people are beginning to engage in this business in America and elsewhere in the world so the offer of jobs done by such assistants widening.

So Today there are virtual assistants who offer marketing, graphic and web design, legal consulting, translation, etc. Virtual Assistants communicate with their clients via phone, fax, e-mail or Instant Messenger, ie. direct messaging over the Internet, which is a virtual assistant able to work for particular client, although perhaps hundreds of miles away from him. Range of tasks that can run a virtual assistant is an ordinary input data into the system to designing Web sites and programming.

Virtual assistants can monitor, filter and respond to incoming messages all its forms, agree on meetings, write letters and memoranda, process text, browse the Internet, create business presentations, manage databases, etc.. Jobs that will run virtual assistants, will require some technical knowledge and specific knowledge about company as a service requester. It must be emphasized that all office jobs are not suitable for virtual business.

In the beginning of our cooperation, virtual assistants will carry out tasks that require low to medium level of technical knowledge and skills and low to medium levels of knowledge about the enterprise as the person requesting services such as eg. entry and word processing of voice mail. Long as cooperation, growth trust between assistants and businesses, and the assistant will be more acquainted with knowledge specific to the company because the company more managerial jobs requiring knowledge of specific company entrust their virtual assistant (eg preparation presentations, data collection and market research etc.).

Virtual Workspace

The information in these "areas" can share with colleagues no matter where they are currently physically located. The advantages of using virtual work space are:

1. One place from which access can reach all internal information needed to effectively perform the job,
2. Subscription and publication of the functionality that allows individual to easily publish new information or to subscribe to current,
3. Security at the level of groups and users that provides that everyone has access to information they need, and not those who are not required.

4. Cooperation among users must be simple, which implies joint design and working on documents and projects, and automated notification (warning) about the upcoming tasks,
5. The integration of business applications into a single corporate system easy to use,
6. Personalization is a very important function, and allows each to that (similar to "ordinary" sites) defines what the information available to him wants to see on the screen,
7. Search that should allow the user to obtain results only from those areas that have the power, and also that these results are included structured and unstructured data,
8. Openness means access to new sources information that did not initially defined, but it might appear,
9. Easy administration provides complete control over system, daily functioning and expanding.



Picture 1. Virtual office

Benefits of Virtual offices

The advantages of this type of work and business are quite clear. Reasons in favor of a virtual business can be viewed from two the point: from the enterprise to engage a virtual assistant, and from the standpoint of people who offer their work as virtual assistants. From the viewpoint of companies that are, above all, the savings due to reduced costs for businesses, which are very expensive and require large investments in equipment of fixed positions (procurement of furniture and office equipment).

Second, the company realizes savings in time because employees should not commuters during the biggest traffic jams. Third, as employees do not need to

travel to work, increasing their satisfaction, thereby increasing their productivity. In addition, hiring virtual assistants from different time zones, work can run in full 24 hours, and 7 days a week, and often companies are looking for the cheapest labor force to perform different types office duties. It is feasible because a virtual assistant i provide their work space and equipment they will be working, and i pay health and pension insurance.

These helpers are available when you need them. From the standpoint of employees to achieve the following advantages: It avoids the journey during rush hour, could be made more free time, improves to customize the workspace to your needs in your home working hours are freely set, the job market can be easily include persons with disabilities and people with small children. Parents can stay at home with their children, and also be employees, and this a compromise between family life and careers. Initial costs are minimal.

While this work offers several advantages, anyone who wants to engage in running a business that offers these services should you ask specific questions. First of all what are the services you offer, then how much time and energy you are willing to invest in the business, which will depend and whether you work full time or part-time only. Then necessary to conduct a little research to find out if there demand for the services you offer in your area. And of course, since Serbia is the kind of work still in its infancy, it is necessary to expand the news good marketing.

Disadvantages of Virtual offices in contrast to the many advantages that make a virtual way of doing business, there are also some important disadvantages, such as fear of technology for employees, trust and privacy in communication, stress at work large teams and serious projects. Besides these there are some disadvantages of virtual office physical and / or physical advantages over the virtual. For example, organizational culture in private offices because the offices with all Other places for socializing, communication and access to people because of physical offices and places where people find and solve problems and are being carried out frequent, unplanned communication while virtual manner communication is not suitable for this situation.

The physical office is managerial control because there is still presence of the person in the manager's office says that people work and employees have access to written materials, since companies have libraries and archives.

Why choose a virtual office?

So what are you lanning to do business or already do business internationally, which is why you can 24 hours a day to spend the telephone or computer, which is why your virtual office can be of great assistance in contacts abroad, therefore it is your competitive advantage, because cheap (imagine the real cost of renting a room, extra assets and employees), because foreign partners can communicate with you at any time, why you want to achieve more.

Conclusion

Virtual Enterprises and other virtual forms such as virtual teams, network and external relations, strategic alliances and partnerships are now well common occurrences of modern business enterprise that substitute traditional organizational forms allowing much greater flexibility and competitiveness in a rapidly changing environment. Virtual Office has many more advantages than disadvantages. Thanks to technology, various jobs increasingly can be done and outside the office. Specifically, the possession of a computer and internet connection large number of jobs can be done from home, thereby avoiding travel during rush hour - increases their satisfaction and time and productivity, could be made more free time, improves the adaptation of working space to its needs in own home, working hours are freely determined, and the labor market can easily include persons with disabilities and people with small children.

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IV Legal environment and SMEs

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**LEGAL AND ADMINISTRATIVE BUSINESS
ENVIRONMENT FOR THE SECTOR OF SMALL AND
MEDIUM ENTERPRISES**

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Abstract

In states of former Yugoslavia there's no distinct definition of Small and Medium Enterprises (SMEs). Generally speaking, the enterprise can be defined as a legal entity that carries out economic activity in order to gain income or profit. It is a complex, dynamic and open business system whose aim is to achieve efficiency, effectiveness, fairness, integrity, but also internal and external interest for continuous existence and development.

Bearing in mind unanimous opinion that the SME sector should be the engine of development of our economy, there is an inevitable need of creating a favorable environment – legal and institutional framework for development of SMEs, which will create conditions for the sector to provide new employment and thus contribute solving one of the key issues in states of former Yugoslavia. At present, the pace of reforms in the field of SMEs has been slowed due to the complex administration, incoherence of relevant regulations between the different levels of government, as well as their weak coordination.

Taking into account different criteria for classifying enterprises, this paper is based on the conditional definition of SMEs, which departs from responsibility of the owners of capital for duties and size of the company. In this sense, the acceptance of the European Charter for Small and Medium Enterprises is a starting document, whose provisions will be implemented and incorporated into the Law on Enterprises and Law on Accounting and Auditing of the Republic of Serbia and other regulations governing this area. The ultimate goal is to create a favorable environment for business.

Keywords: Small and Medium Enterprises (SMEs), legal and administrative environment, business, employment, etc.

INTRODUCTION

All countries that belong to the region of former Yugoslavia except Slovenia generally face the same problems. Most of them are faced with high unemployment, large imports, a significant balance of payments deficit, uneven regional development, but significant influence of the educational process for the economic needs and the needs of providing administrative capacity adequate to the aspirations of the region to join the European community, and more.

Montenegro is faced with these problems, too. Namely, finishing 2009th year with a lower level of economic activity, marked decline in real GDP of 5.7% during the Montenegrin economy in 2010 and especially in the first half, was faced with the transferred impact of economic and financial crisis. The problem of illiquidity and the difficulty in maintaining the reproductive process generally chose the setting and basic trends in the economy. In this sense create a favorable environment for small enterprises and medium enterprises are imposed as a necessity if we want to revive economic activities.

The small and medium enterprises are the main engine of growth in modern economies. This sector stimulates private ownership and entrepreneurial skills. They are flexible and can adapt to changing supply and demand in the market, they create employment, promote the diversification of economic activities, support sustainable growth and contribute significantly to exports and trade. Small and medium enterprises are a complex challenge that involves a number of direct stakeholders in each sector of the state and economy.

If we analyze the situation of the sector of small and medium enterprises in Montenegro it is not difficult to conclude that there is significant room for improving working conditions for these companies, which would provide that they in turn contribute to reducing the problems faced by the Montenegrin economy and society in general.

Starting from the fact that Montenegro is a candidate for the European Union it is also a signatory of the European Charter for small and medium enterprises, so in the future it is expected compliance with it. This will provide faster and cheaper establishment and organization of businesses, better legislation in this field, stimulating tax system and financial support, alignment of the educational process with the needs of small and medium enterprises, development of information technologies and innovative processes in general and the internationalization of small and medium companies. Improving the business environment with improved conditions and system solutions aimed at encouraging private entrepreneurial initiatives, will generate a creative force and the role of new business.

Bearing in mind the economic structure of Montenegro and its export orientation primarily to Serbia, it is necessary to focus primarily to agro-food sector, wood processing and tourism sector, and the need to reduce regional development

disparities within Montenegro and creating conditions for cross-border cooperation sectors of small and medium enterprises.

1. CONTEMPORARY UNDERSTANDING OF THE ESSENCE OF ENTERPRISES

The company is defined as a legal person carrying out business activity in order to gain income or profit. In the economic and legal sense it can be defined as economic and legal entity that has the resources to carry out business activities in order to achieve sufficient profit to stay in business in the long term. [1, p. 15] It is important to point out that the company is the basic unit of economic system and thus, the most important subsystem of the whole economic system. On the other hand, the economic system is a subsystem of the social system and is interdependent with other social systems: political, technical production, socio-cultural and legal.

The company is complex, dynamic and open business system which attempts to achieve efficiency, effectiveness, fairness, integrity and internal and external interest in the permanent existence and development. These characteristics of the enterprise as a system are particularly important in the modern market conditions. Dynamism implies that the company is constantly changing and evolving, because the development is necessary condition for survival. There is quite a lot of uncertainty in the business, which in turn makes it difficult to run a business. Company functions in an environment that is constantly changing; these changes affect to company, but company through its operations affect the environment changes. It should also be noted that the company is the organizational system also. Based on the purpose, place and role of enterprises in each of them, regardless of the economic activities they are involved, there are certain factors that define them, and they are: collective, resources and organization. [2, p. 14] Therefore, the company is considered from one hand, as an economic whole which operates to the market as an economic entity and in the other hand, as a human organization with the structure of functions, interest, authority and power. Where the collective, as a factor in the company, is organized whole in which people are engaged in some work and in which are organized certain economic relations. The collective consists of people of various structures and occupations, all depending on the tasks of the enterprise and its technical equipment. Namely, for the development of economic activities of enterprises it is necessary to engage the material and energy resources, which represent the company assets. Proper harmonization of human and material factors provides that a collective of people work effectively as a whole, which basically makes the organization of business enterprises.

Modern systems approach starts with assertion that the company operates as a set of meaningful connected elements, or the company is viewed as a business system in the economy. [3, p. 17]

The company is characterized by the following features:

- 1 *Goal* – what is the main purpose of the existence of the company and what is its main goal,
- 2 *Structure* – makes coordinated unity of labor, capital in various forms, and their relationship;
- 3 *Functions* – a set of aggregated and interconnected tasks which are implemented through coordination of administrative, executive and entrepreneurial activities of the company
- 4 *Inputs* – representing incoming, starting elements of the investment in the process of business activities,
- 5 *Process* – the execution of enterprise business activities, or the transformation of inputs into outputs in accordance with relevant regulations and laws,
- 6 *Outputs* – output, the final elements, or the effects, the results of business activities,
- 7 *Environment* – with which the company necessarily establishes interdependence and interactive relationship
- 8 *Information* – a necessary assumption for managing business process activities within the company and the relationships with the environment

1.1. Typology of companies

Understanding the whole problem of small and medium enterprises as well as enterprise's different legal forms implies knowledge of their shape and characteristics, criteria of the division enterprises and the choice of legal form and the structure of the conditional capital. There are several criteria and standards for the division of enterprises. If we start from the fact that the criterion for the division is ownership of capital, then we have: social enterprises, public enterprises, mixed enterprises, private enterprises and cooperative enterprises.

If we take as a criterion method of association of capital, then we distinguish the following companies: capital companies (companies, corporations) and the company of persons (limited Liability Company and Partnership Company).

Enterprises can be divided into simple and complex (home) depending on whether the company is part of a group or not. Holdings are those companies that manage by some basis other companies, or groups of companies. Depending on the activities the company performs we can distinguish industrial, agricultural, construction, transport and other enterprises. Within these activities further division of the company is possible. Depending on the size of the company we can distinguish micro, small, medium and large businesses, but regardless of any of these criteria, the point is that our law recognizes three forms of enterprises: individual companies, society of persons and capital companies. These types of companies are distinguished mainly by the way of acquiring the initial capital and their guarantees for the debts.

For the purposes of this paper I will mainly be based on the criterion of firm size, based on the fact that it is necessary to pay special attention to small and medium enterprises, because they are the motivating force of economic development.

2. THE DEFINITION AND ANALYSIS OF SMES IN MONTENEGRO

We can find various definitions of small and medium enterprises in the literature as well as criteria for their classification. The following table display and illustrated that.

Scheme 2 Criteria for defining micro, small and medium enterprises.

EU definition	Micro	Small	Medium
Number of employees	< 10	< 50	< 250
Total revenue		< 7 mil €	< 40 mil €
Total assets		< 5 mil €	< 27 mil €
Definition of world bank	Micro	Small	Medium
Number of employees	< 10	< 50	< 300
Total revenue	< 0,1 mil €	< 3 mil €	< 15 mil €
Total assets	< 0,1 mil €	< 3 mil €	< 15 mil €
According to the laws of Montenegro and Serbia	Micro	Small	Medium
Number of employees		< 50	< 250
Total revenue		< 1,65 mil €	< 8,25 mil €
Total assets		< 1,24 mil €	< 6,2 mil €

Bearing in mind the chosen legal form of organization as an enterprise and the criteria for their definition, we can conclude that the main characteristics of small and medium enterprises consist of the following:

- are owned by one person or a small number of partners
- focused on smaller market segments (local interest)
- have small market participation
- easy to adapt to market demands
- Management is, and reserved, for Business Owners
- a flexible organization (with no clear division of labor and structures)
- firm size is small compared to major competitors in an industry (by sales volume, number of employees, value of the assets of the company)

There are incomplete data on the number of these companies in Montenegro and the number of employees in these, by data sources of several institutions:

1. Central Registry of the Commercial Court
2. Bureau of Statistics – Monstat
3. Tax Administration
4. Republican Fund for Health Insurance
5. PDI Fund

These institutions are governed by different criteria for the monitoring of registered companies, and then the category of small and medium companies and employment in them. This disorder clearly indicates the need to develop legal and administrative framework for the development and monitoring of small and medium enterprises. But regardless of the different informational data base on small and medium enterprises, the current number of companies in Montenegro has not reached limit, but it tends to increase in the number of residents and in accordance with the situation in neighboring countries.

Some of the main characteristics of the SME sector in Montenegro are the following:

- the participation of active in the total number of registered companies is reduced, which may explain the higher growth rate of registered companies or the fact that CRCC monitors all companies registered in Montenegro and does not clear closed companies, and thus the basis for comparison is larger,
- According to the Tax Administration of Montenegro in June 2010 number of registered companies was 43,540 and 16,890 entrepreneurs. There were approximately 15,400 (37%) active companies of the total number of registered companies. The largest number of active SMEs (entrepreneurs and MSMEs) are in the sectors of wholesale and retail trade, repair of 38.06%, transport and storage of 14.94%, 12.98% of manufacturing industry, while the least of entrepreneurs and MSMEs are in sectors of financial intermediation 1.02%, quarrying and mining 0.31%, fishery 0.20%. Structure of enterprises by sectors and by other sources indicates that the majority of SMEs are in trade, transport and manufacturing industry and the lowest in sectors of financial intermediation, quarrying and mining.
- The largest number of active SMEs (of entrepreneurs and MSMEs) in Podgorica, Bar, Niksic, Herceg Novi and at least in Šavnik and Andrijevica.

These features clearly indicate to the sectoral and regional disparities. Therefore, the priority of the Government imposes to take action for the overall development of Montenegro, with special attention to the development of the northern region. In this sense, it is necessary to implement both infrastructural projects and those related to the employment and encouraging entrepreneurship, tourism, agriculture and environmental protection. The ultimate objective measures of the Government's is evaluation of the overall development potential, reducing disparities between regions and the promotion of development possibilities of those parts of the country which are lagging in development, to become more competitive.

The main characteristic of the corporate sector in Montenegro is that the majority of those work in the service sector. Companies from the agricultural and agro-processing industries are still at a low level of development so that Montenegro is a significant importer of the products of such activities, regardless of the resources available. Industrial production is at a much lower level than before the collapse of Yugoslavia. The wood processing sector, the sector of textile and leather and footwear industry, are in the worst situation where we have a situation that production in almost all major combines are closed down. The SME sector in the wood processing sector is mainly focused on the production of products is extremely low degree of completion, and Montenegro is in the region one of the largest importers of finished products of these activities.

Montenegro has been successful in achieving macroeconomic stability regardless of her condition. Inflation is at a very low level. Fiscal balances are

improved, and the consolidated budget deficit is remarkably reduced. The confidence in the euro is high. Successful debt rescheduling arrangements, backed by access to capital markets, have helped reduce the external debt to sustainable levels. Business environment in Montenegro has significantly improved during recent years. Over 90 laws were adopted which are largely harmonized with EU standards, and they have created a framework to encourage investment and economic policy embodied in the strategy document of the Government of Montenegro - Agenda of Economic Reforms.

3. POLITICS OF SMALL AND MEDIUM ENTERPRISES IN SERBIA

By signing the European Charter for SMEs 21st June 2003, Serbia has committed to work in harmony with the ways of acting which are valid in the European Union, taking into account the needs of small businesses. The Serbian government has done much to improve business conditions for small and medium enterprises, but the largest part the work in this area is yet to come. The highest level of integrated models to support SME development in Serbia makes: Ministry of Economy and Privatization with its two sectors (SME sector and sector for private entrepreneurship) with a role that involves competence in determining the strategic directions of development of the sector, creating a stimulating business environment for the establishment and operation of SMEs, defining and managing economic policy in this area and other work of importance to the SMEs and entrepreneurship, and the Republic Agency for SMEs and entrepreneurship and a network of 13 regional agencies / centers.

The SME sector, founded by the Government of Serbia, performs duties which consist of the following:

- Monitoring and analysis of business and business environment of Small and Medium Enterprises and Entrepreneurship
- Preparation of regulations within the purview of the Department
- proposing measures of economic policy for small and medium enterprises and entrepreneurship and to monitor the effects of proposed measures
- Preparation and coordination of the implementation of politics for small and medium enterprises and entrepreneurship in the Republic of Serbia
- Proposing measures to encourage investment in small and medium enterprises and entrepreneurship
- Coordination of the Serbian Agency for development of small and medium enterprises and entrepreneurship and other organizations
- Initiating, coordination of and participating in the implementation of donor activities in the development of small and medium enterprises and entrepreneurship

- Activities related to the implementation of the European Charter for Small Enterprises
- Proposing measures and elements of legal and other solutions to improve the business environment of SMEs and entrepreneurship, as well as other activities in this area

4. LEGAL AND ADMINISTRATIVE ASPECTS OF THE BUSINESS OF SMES IN MONTENEGRO

Montenegro achieved significant success in implementing economic reforms, but the financial crisis which has not bypassed this region has shown a potential weakness in the economic model. Therefore it is necessary to take further steps to improve better and simpler regulation of the business environment, and in particular to facilitate the functioning of small and medium enterprises. It is also necessary to improve the functioning of labor markets, and alleviating the disparity between needed and available skills.

During the period that passed we adopted relevant legislation of importance to this area. The most important laws adopted in the past are: Law on Business Companies, Law on Insolvency of Business Organizations, Law on Fiduciary Transfer of property, the law on VAT, Law on Accounting, and Law on Foreign Trade. Customs Law, Law on Free Zones, Law for the Protection of the competition etc.

It is important to point out the significant results in the process of registration, which now takes four days, and basic capital is 1 Euro (except for joint stock companies). According to this criterion Montenegro is the best in the region (World Bank report). It should also be emphasized that in order to promote the development of small and medium-sized enterprises further harmonization with the principles defined by the European Union in this field, Government of Montenegro on its session of 13th 01 2011th adopted, 'The Strategy for development of small and medium enterprises 2011 – 2015'.

But no matter how much is spoken about reducing of business barriers, those who develop business in Montenegro claim that it is not easy to operate and maintain in the strong competition among trees of various levies that come from the local centers. Entrepreneurs are still faced with the difficult business environment, which contributes the most complex regulatory framework and time consuming and costly administrative procedures, which negatively affects the level of entrepreneurial activity.

4.1. Identification of barriers for the SME development in Montenegro

This question is not simple. Namely, it is evident that the only obstacles to the idea of determined position that is defined as such. Usually the owners of capital outweigh the private interest and something that in practice maybe is not so define it as an obstacle. In terms of pluralism of interests of various stakeholders the issue of barriers for the SME development and their identification can sometimes be a deciding factor. In this sense the study of barriers for the SME development could be approached from different aspects. Bearing in mind the scope of this work, I decided to explore the administrative and legal obstacles with a look on some non-administrative barriers.

a) Insufficiently regulated legislation on development of SMEs

In Montenegro, there is no Law on the Development of SMEs. However, this area is regulated by the following system laws and sub-legal acts:

- Law on Enterprises;
- Law on Amendments to the Law on Accounting and Audit. Article 3 of this law contains the definition of SMEs;
- Decree on Detailed Criteria, Conditions and Manner of the Allocation of State Aid.

Bearing in mind that in previous period, during which Montenegro had to fulfil many tasks on its EU-path, significant number of laws have been adopted, their implementation means significant cost burden for the sector of SMEs. Despite all of that, it can be concluded that the adoption of new Law on Labour improved legislation in the field of labour law and that a number of local taxes that burdened businesses have been abolished by new Law on Funding of Local Government.

What should be a permanent activity of the Government and government agencies in Montenegro is: to create conditions so the sector of SMEs can operate in a much simpler and more secure legal environment, starting from the principle that the purpose of laws and regulations is to facilitate the work of enterprises and entrepreneurs, rather than to put up barriers. In this sense, the main instrument in the effective implementation of regulatory reform is a comprehensive revision, elimination and rationalization of existing regulations, i.e. “guillotine of regulations”, and the administrative procedures in a systematic

and transparent manner, with the creation of a permanent quality control system of new business regulations, to avoid the repetition of the same problems (the so-called “stealth movement” of re-regulations). [5, str.16.]

b) Administrative barriers

Administrative barriers, such as listing the rights of land ownership, land access, regulations in the field of labor, permits and requirements related to licensing, are today considered minor obstacles to business development and operation of SMEs in relation to the previous period. Running a commercial company, organized as a limited liability company in Montenegro is relatively inexpensive. Specifically, the sign-up procedure for the establishment of enterprises in the Central Registry of the Commercial Court is shorter; the general registration in tax administration is relatively fast and provided with unique application for the registration of taxpayers, payers of contributions and the insured in the Central Registry. However, entrepreneurs are still faced with the harsh business environment, significantly affected by the regulatory framework, and long term and costly administrative procedures, which adversely affects the level of entrepreneurial activity.

Research of the Union of Employers of Montenegro, on the basis of conducted survey, shows that municipal services and authorities, in the opinion of employers and businessmen, are neither well organized nor well-functioning, especially when it comes to licensing or timely informing taxpayers of municipal duties. Also, employers have a lot of complaints relating to corruption of municipal officials. Also, based on survey results, UEM concludes that certain forms of business barriers can be identified through:

- complex procedures and a multitude of documents required to start a business on the territory of a municipality;
- vagueness and ambiguity of regulations, especially obscure differences between certain types of tax instruments and instruments of charge, which increases the initial costs carrier to business due to additional hiring of experts for the interpretation and application of these regulations;
- duplication and overlapping of certain municipal taxes and charges, particularly in construction. Thus, 8 different municipal taxes, fees and charges based on the soil surface or object, for use of municipal property are charged to local utility taxes and administrative fees;

- Forms of discretionary decision making that unduly stimulate or discourage certain economic activities;
- applying a series of regulations, obviously outdated and contrary to the new system solutions and standards of the European Union (e.g. the Law on Transport of goods made in the main text back in 1978.g whose last amendments followed 1980th year);
- conditioning a certain requirement for obtaining a permit or approval, often without foundation, connected to fulfillment some other or another conditions that are not related together directly, but the holder of such conditions outside its scope, interprets and treats them in that manner. This seriously calls into question the effectiveness of the concept of "one stop shop" in the process of obtaining permits and approvals for the commencement of to business.

Bearing in mind the desire for to establish a favorable business environment, the Government of Montenegro in late 2007, adopted the Program to eliminate Barriers for the Development of Entrepreneurship in Montenegro, which contains an analysis with suggestions for the elimination of barriers for the the development of business. The goal of this program is to make prioritized recommendations in order to create a favorable business environment. Program provides an analysis of the business environment, property rights, tax policy, foreign trade, credit policy, labor markets, unfair competition and the gray economy and generally analyzes current situation and factors that may slow the development of the entrepreneurial sector in the country. In order to ensure efficient implementation of policies for improvement of the business environment, in December 2009, responsibilities of the Council for the elimination of business barriers were expanded, and the Council for the Regulatory Reform and Improvement of the Business Environment was formed, whose activities are defined in the Action plan for the regulatory reform and improving the business environment.

4.1.2. The availability of financing as an obstacle to development of SMEs in Montenegro

The availability of external capital appears as a problem, and is considered one of the major obstacles to development of SMEs Truly, the primary source of funding for new investments at the level of companies are internal companies sources. It often happens that in small business those who have savings with little or no general are found. Starting a business with very modest means, if not

secured by favorable loans and adequate support of the institutions that are responsible for business development, they are doomed to collapse. Because of their poor credit worthiness, the ability to obtain credit support from commercial banks, they are also limited. In addition, the cost of credit of commercial banks is significantly high and the rather complicated procedure of obtaining loans at present, significant barriers to SME development. Real interest rates are far higher than in other economies in the region, especially in comparison with the rates in the world. Commercial banks are become quite conservative and reluctant to engage in business with risky customers, regardless of the improved liquidity position in banks.

4.1.3. Inadequate evaluation and analysis of business idea (Business idea with no chance in the market) as an obstacle to development of SMEs

Choosing the right business for the individual, as a rule, implies a complex decision of each entrepreneur. This is why it is necessary to do a detailed feasibility analysis of entrepreneurial idea. Adequate analysis and evaluation are crucial for creation of a successful business plan and setting up of its own business. Identification and recognition of business opportunity is the first step in development of new business. Individuals come to the entrepreneurial opportunities in different ways (observation, personal contacts, visits, and reading, monitoring trends). Entrepreneurial opportunity must be attractive, prompt, sustainable and viable in product or service.

Precisely, the structure of the SME sector shows a significant share of traditional activities, such as trade and various kinds of services. There are few original ideas, particularly in the manufacturing sector, despite the potential that exists in Montenegro. For example, in northern Montenegro, which is valid for one of the richest areas of forest, have a significant number of small enterprises engaged in primary wood processing, and its primary product, timber, is sold on the market of Serbia and Kosovo, where represents important raw material for manufacturing furniture and joinery. Montenegro was significant importer, at the time of the investment boom. The same is true for agricultural and manufacturing sector. I cited an example of two sectors and the area north of Montenegro because, impartially, there are significant opportunities for the production to the area, both at local and the global market. Of course, there is a significant lack of ambitions of potential owners of enterprises to base their

business on well designed and innovative ideas. Also, institutional support, either financial, or the one which should carry out training for entrepreneurs before they start their own business, is seriously lacking.

5. PROJECTS ON CROSS-BORDER COOPERATION AND IPA FUNDS AS A CHANCE FOR SMES

The basis of cross-border cooperation in the framework of the IPA is the principle of "mutual benefit". Cross-border co-operation will operate on both sides of the border with a unique set of rules, thus providing the opportunity for equal and balanced programming and decision-making in member states and candidate / potential candidate countries. Therefore, cross-border cooperation in the framework of the IPA is intended to promote improved cooperation and economic integration between member states and candidate / of potential candidate for membership.

The objectives of the IPA components, among others:

- strengthening the market economy, primarily by helping the organization of economic actors and directly supporting economic activity, including assistance to the private sector and assistance to industrial restructuring and diversification of the economy, modernization of key sectors and improvement of specific areas;
- improving access to financial instruments for small and medium enterprises and public administration.

As an example I will mention a project entitled "Sustainable Tourism for Equal Opportunities", which refers to the promotion of tourism in border and Municipality of Berane and will be implemented in the framework of cross-border cooperation between Serbia and Montenegro. In the area of Zlatibor region, under the Program for CBC Serbia - Montenegro, were granted a total of more than 421 000 euros.

Of course, the use of pre-accession funds will be available and enabled only if we have quality programs and professional staff. Only with high-quality projects and business ideas we can create opportunities for new businesses and employment, primarily of young people. For North of Montenegro, there are significant opportunities for this in the fields of wood processing, agriculture and tourism.

CONCLUSION

One of the most important priorities of economic development of Montenegro and other countries in the region, besides the privatization and restructuring of large companies, is encouraging the development of SMEs. The importance of privatization and restructuring is undoubted. However, creating a critical mass of new SMEs is going to be crucial for further economic development. In order to succeed in this, one of the main objectives of economic policy must be to create a more favorable economic environment system that will allow the creation of a sustainable, internationally competitive and export-oriented SME sector.

Montenegro has made significant progress in developing a functional framework to support the development of SMEs. Development of institutional infrastructure and consulting, business services, aims to reduce the entrepreneurial risk, improve market access and accelerate growth and development of SMEs. Key institutions and implementation of the policy of providing support to SMEs is the Directorate for Development of SMEs.

In Montenegro, there is a trend of creating new enterprises that generate demand for various types of appropriate financial and non-financial support. Meanwhile, Montenegro is characterized by structural unemployment and unfavorable age and qualification structure. It is therefore necessary to take measures of support that will enable young people who are unemployed, and those who have lost their jobs, the increase of competence and competitiveness in order to facilitate their reintegration into the economic mainstream, through the start of their own business or through the creation of new jobs.

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**ADVANTAGES OF MULTI-CRITERIA DECISION-
MAKING (MCDM) IN CHOOSING OPTIMAL BID –
TENDER**

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Abstract: An enterprise management implicates accepting new innovations in the field of information technology, as well as of mathematical methods and optimisation, particularly those in the area of choosing adequate solutions which refer to better designed and more modern machines, equipment, price, conditions and deadlines of delivery, maintenance, etc. Choosing an efficient equipment and constructor leads to the improvement of the whole enterprise. More criteria, which are usually distinctive and of different importance, are simultaneously involved in making final decisions.

Key words: multi-criteria decision-making (MCDM), tender documents

INTRODUCTION

More and more complex business conditions coupled with a high dynamic of the environment impose the need for continuous, efficient and quality business decision-making to every enterprise.

In decision-making processes often there is uncertainty, ambiguity and imprecision of input data needed for making quality decisions.

The complexity, diversity and stratification of the decision-making process point out to the need of evaluation of measures taken in choosing the best solution. Such evaluation should be based on a combination of relevant quantitative and qualitative criteria rating, which should improve the quality of decisions made.

Complexity and stratification of the decision-making process in choosing the tender documentation requires a multi-criteria model for evaluation of proposed solutions in order to conduct a mutual comparison of different alternatives for each of the adopted criteria, and all this in order to obtain the final level of total value.

Establishment of relevant criteria and determination of their relative importance - the "weight" allows the expression of stratification of a problem that is going to be solved.

At the same time, a basis for comparison of different alternatives in terms of estimation of contributions to the achievement of a total utility, i.e. to a desired goal of a business, is created.

Only with knowing the core and the essence of the problem to be addressed, a set of relevant information needed for comprehensive and objective decision-making in the business decision-making processes and adequate models of decision making can be defined.

In almost every enterprise, there is a need for selection of appropriate tender documentation. The main problem is related to the optimal choice to be made. Technical-technological, economic and other characteristics of the tender documentations are known, but the main intention is to determine the optimal one, in terms of the best characteristics. This means that the level of variables should be established.

This work points out particularly to the possibility of using the multi-criteria decision making (MCDM) in choosing the optimal solution while selecting the tender bid.

Proposed methodology is reflected through the following:

- Determination of the criteria system for evaluation of alternative solutions;
- Determination of the relative importance of a criteria;
- Quantification of quality attributes;
- Selection of a method for establishment of a level of alternatives;
- Selection/development of the programme for proposed methodology.

Such approach allows decision-makers in some enterprise to connect all data and relations existing in multi-criteria optimisation in one rational unity.

Basic areas that should be detailed in tender documentations are as follows:

- Basic instruction to every tenderer,
- Project task based on conceptual solution (conceptual project),
- Basic elements of the investment study,
- Elements requested from the tenderers,
- Criteria for evaluation of bids,
- Basic assumptions of the concession contract,
- Optimal tenderer selection procedures and a like.

1. DETERMINATION OF THE SYSTEM OF CRITERIA FOR SELECTION OF BIDS AND THEIR RELATIVE IMPORTANCE

For the purpose of solving problems in the decision-making processes, it is necessary firstly to define system of criteria and the to determine their relative importance. Sometimes it is possible to use wide approach linked with some of the methods of group decision-making, including the following:

- brainstorming method,
- nominal group method,
- method of parallel comparison,
- cards sorting method,
- panel method,
- delfi method,
- expansion /contraction / crossing method

In a concrete case of evaluation of qualitative and/or quantitative characteristics of various tender documentations, the wide approach to the concept of a **delfi** method has been used. It should be implemented in two phases:

- I phase – determination of a system of relevant criteria for evaluation of alternatives;
- II phase – determination of the relative importance (“weight”) of adopted criteria.

Research studies have shown that the use of the Delfi method is appropriate for areas in which there is a lack of empirical data, like in case of determination of the relevant importance of criteria for selection of the optimal alternatives in choosing the appropriate tender documentation under the multi-criteria optimisation.

The first phase - determination of a system of relevant criteria for evaluation of alternatives, can be implemented by the initial team of experts engaged by the company that has announced a tender, through the aggregation of criteria based on previous experiences and other known methods, as well as through a series of meetings and discussions on selection of a group of criteria which influence can not be disregarded while choosing the appropriate tender documentation.

The second phase – realisation of a Delfi method in determination of the relative importance of criteria, is implemented through several steps and it includes a series of verifications.

After each checking cycle, the statistical and qualitative processing of evaluation of all participants has been done.

In dependence of the concrete problem, i.e. the goal that should be achieved by implementation of a Delfi method, the various approaches to the statistical data processing can be defined.

Use of the wide approach to the concept of the Delfi method, in establishing the system of criteria and evaluation of their importance, creates conditions for the improvement of the quality of designing multi-criteria base for decision-making.

The joint experts' forecast of qualification of "weights" of criteria can be achieved through methodologically defined, organised and systemised harmonisation of individual estimations with support of the statistical processing of those forecasts.

2. DEFINITION OF THE SYSTEM OF CRITERIA FOR CHOOSING THE APPROPRIATE TENDER SOLUTION

The starting point in definition of criteria was the fact that, in the process of finding solutions for each problem, various number and types of criteria can be adopted depending on the relevant decisions and available information. For that purpose, we started from the general review of criteria, out of which some more important will be cited in the text below:

1. Technical criteria – type of the technical solution, intensity of delivery, ways of delivery (continuous, discontinuous), influence of the quality, time of the delivery, etc;
2. Economic criteria – investment's costs, costs of exploitation, etc;
3. Criteria conditioned by the system – type of technical solution, capacity, frequency, delivery conditions, maintenance of devices, level of the automatisisation, etc
4. General criteria – various regulations (ecological and a like), guarantees, services, flexibility in work, time of the guaranteed delivery, etc.

Within the first step of the use of multi-criteria analysis in the process of choosing the tender documentation, there is a need also to examine is there a direct dependence between individual criteria. In case of the direct dependence of two criteria that are in specific relations, separate valuation can lead to the wrong results of the utility values.

When it relates to, for example, the building projects, analysis and evaluation of received bids should be based on assumptions from the investment study and tender documentations, and it should be done in accordance to the criteria classified in four following groups:

- Building phase;
- Management phase,
- Proposed model of project financing,
- Estimated project income,

whereas each of them will contain elements of belonging risks.

3. DECIDING ON WEIGHT COEFFICIENT OF CRITERIA

The next step in multi-criteria ranging of alternatives at the selection of appropriate solution refers to stating preferences of Delphi process participants for each of selected criteria decided for ranging. Stating preferences is represented in defining relative importance for each individual criterion assuming the total of all values, by all criteria, is 1 (100%, stated in percentage).

Delphi method is employed with chosen set of experts (E1, E2, ... Em) who are anonymous to each other in as many circles as it is necessary, to make differences in average values of weights of each criterion minor.

After answers are given by all participants in the first circle, they are processed. They are processed in MS Excel and it comprises the calculation of average value, standard deviation and variation coefficient for each criterion.

	Reliability	Number of functions	Delivery time	Outlook	Price	Service and maintenance	Technical characteristics
WB	2	2	2	1	3	3	3
CB : 1 – max, 0 – min	1	1	1	1	0	1	1
Bidder 1	40	11.6	17	450	0.6	1	3
Bidder 2	45	16.5	15	134	0.7	6	5
Bidder 3	45	17.4	34	120	1	12	6
Bidder 4	35	15	17	310	0.3	1	5
Bidder 5	35	9	15	500	0.4	1	3

This procedure is repeated until average values of the $i+1$ circle show minor differences from average values of weight coefficients of the i circle (mostly not more than 5 circles) i.e. until average value decreases to a satisfactory level. Then it is defined that an acceptable level of consensus is achieved which makes the process completed, and every participant gets final results.

3.1 Advantages of Delphi method

An advantage of proposed Delphi method is that consistency in experts' approach facilitates high level of approval in deciding relative importance of criteria. Perceptions of participants are not influenced by "face to face" conversation or the group pressure, and mutual anonymity enables participants to tell their ideas without influence of other, perhaps authoritative, experts.

However, sometimes it might be difficult to find enough experts who are familiar with given problem area. On the other hand, there is no mechanism which would give “more attentive” experts a deeper significance and influence upon the final result of the method.

A particularly interesting phenomenon is involvement of experts from not so related fields (precisely, economists, various managers in economic and non-economic fields, informaticians, designers), which can be very useful if their ignorance of concrete details of given problem is overwhelmed.

Skipping the first step in Delphi method is offered as a solution of the given problem. The idea is to provide initial estimation of coefficient of weight given by in-group experts. Further, participants would act by analogy with step 2 of Delphi method, i.e. they would be able to interfere and comment by themselves, expressing their own agreement/disagreement with the achieved results. The procedure would be completed in a method identical to original Delphi.

This procedure would in a way hinder ideas of in-group experts, and it would be possible to involve out-group experts who would use the results as a starting point to improve their knowledge of concrete problems.

Thus their suggestions in sense of sharing weight coefficient on the basis of their own experience would be more useful.

4. TOPSIS METHOD

TOPSIS is a method of multi-criteria optimization. Its name is an acronym for *Technique for Order Preference by Similarity to Ideals Solution*, which means ‘a technique for confirmation of priority solutions based on similarities towards ideal solution’.

The application of this method requires making a matrix from “I” variants and “k” criteria. Every criterion is joined by certain weight coefficient w_k , where $k=1,2,...,K$. Then all criteria are sorted into ‘benefit’ and ‘cost’ types, where the former are maximized and the latter are minimized.

Concretely, TOPSIS method comprises the following steps:

$$\|f_{ik}\| \rightarrow r_{ik} = \frac{f_{ik}}{\sqrt{\sum f_{ik}^2}}$$

Step 1:

A matrix from “i” variants and “k” criterion which has to be normalized is formed, i.e. all its values have to come to an interval between 0 and 1. In that way, dimensionless quantity is provided.

Step 2: in step 2 all values of the normalized matrix have to be multiplied with adequate weight coefficient w_k which are subjectively selected and normalized (2).

$$v = \|w_k \cdot r_{ik}\|$$

The two quoted steps represent preprocessing of the task.

Step 3: Within this step, ideal and anti-ideal points I^* and I^- have to be defined, depending on the use of either criterion “benefit” or “cost” type (3 and 4).

An ideal point has maximal value by all criteria of “benefit” type, and minimal value by all criteria of “cost” type.

$$I^* = \left\{ \max_i v_{ik} \mid k \in K_{\max}, \min_i v_{ik} \mid k \in K_{\min} \right\} = v_k^*$$

An anti-ideal point has maximal value by all expenditure criteria, and minimal value by all income criteria.

$$I^- = \left\{ \min_i v_{ik} \mid k \in K_{\max}, \max_i v_{ik} \mid k \in K_{\min} \right\} = v_k^-$$

Step 4: the point closest to the ideal one, and at the same time farthest from the anti-ideal point, is searched within this step.

$$S_i^* = \sqrt{\sum_k (v_{ik} - v_k^*)^2}, S_i^- = \sqrt{\sum_k (v_{ik} - v_k^-)^2}$$

$$C_i = \frac{S_i^-}{S_i^* + S_i^-}$$

Step 5:

Here, relative closeness representing a compromise between the proximity of the ideal and the distance of the anti-ideal is calculated.

For the ideal point, the value of closeness equals one, and for the anti-ideal point, its value equals zero. As it is really rarity to obtain the ideal point, ideal solution C_i is usually between zero and one.

Step 6: in accordance with obtained results, i.e. with C_i , a range of variations is formed. The best is the one where C_i is closest to 1. The point is to find a point (solution) which is closest to the ideal and most distant from the anti-ideal.

4.1 TOPSIS in choosing optimal solution of tender

Previously described TOPSIS method has been used here to define priorities of individual bidders which have to be realized in an enterprise.

In this example of choosing adequate solution of tender documents, the following criteria have to be considered:

- Price
- Service and maintenance
- Delivery time and conditions
- Technical characteristics
- Appearance, quality
- Reliability
- Functions, etc.

In contemporary conditions, due to restricted material resources, price is one of the most important criteria for selection.

Price is a deterministic value and very often it has a crucial influence on deciding on selection. Price primarily depends on the number of functions of machines, dimensions and quality of production.

Service and maintenance is also a deterministic value and, as well as price, it has a crucial influence upon the choice of bidder.

Appearance is a subjective evaluation, within which it is possible to make special demands. These demands usually refer to shape, colour, volume, design, etc.

Technical characteristics is a deterministic value and it represents an important criterion at the selection of certain machines given by bidders.

Reliability implies information about standardized number of hours of working of machine, i.e. warranty period duration prescribed by the manufacturer.

Number of functions of machine is a value which represents the number of stated possibilities of machine.

Delivery date is a deterministic value and it is very important for the company which invites a tender.

Values of individual criteria for each variant are given in Table 1. In Table 1 are also given the values of weight coefficient for each criterion. Weights are defined subjectively. Namely, price, service and maintenance, and delivery time are selecting factors, whereas the other criteria are of less importance. On the basis of value of vector C, it is possible to set the following range of alternatives:

	SOLUTION
Bidder 1	0.25566
Bidder 2	0.44626
Bidder 3	0.64449
Bidder 4	0.38641
Bidder 5	0.32453

CONCLUSION

While analysing tender documentation, every enterprise creates some solutions based on various criteria, but the aim is always to choose the most appropriate – optimal. In order to achieve this goal it is recommended to valuate qualitative and quantitative characteristics and solutions and to determine system of criteria for evaluation.

In this work, we have recommended use of the Delfi method while determining the weight coefficients, which should be seen in parallel with the method of a group choice for optimal choice in order to ensure that the more precise values of coefficient should be get. After the general review of the tender documentation and equipment submitted by the tenderer, the multi-criteria decision-making and TOPSIS selection method have been used.

In that sense, the appropriate level of variables has been got for subjectively selected weight coefficients attributed to the particular criteria, whereas there is a possibility to get a new level for some other values of weight coefficients.

However, TOPSIS method can be helpful in making managerial decisions and selection of the optimal solution while choosing the tenderer in the announced tender, which should not be done based on the experiences and intuition.

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V Perspectives of SMEs in tourism

**INTERNATIONAL SCIENTIFIC CONFERENCE
“SMALL AND MEDIUM ENTERPRISES - POSSIBILITIES AND
PERSPECTIVES 2011”**

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**IMPACT OF FDI ON DEVELOPMENT OF SME IN THE
TOURISM SECTOR IN THE UNDERDEVELOPED AREAS
OF SERBIA AND MONTENEGRO**

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1. DEVELOPMENT OF TOURISM

Tourism in Serbia as well as in the area of the municipality of Novi Pazar, Tutin and Sjenica is connected to the economic development of the region and entire Serbia, and clearly reflects many characteristics of the overall social and political events in Serbia and neighboring countries as well as in the EU.

Tourism with its properties ("invisible exporter") is the basis for further economic development of the three municipalities, the region and entire Serbia, especially economically underdeveloped communities. Multiplication effect which bears the tourism sector is the reason why it is considered of the future sector of many countries in the world, as shown in Figure 1 and 2, according to official data, of the world tourist organization. Characteristics of tourism in the modern world are the ability to realize the greatest growth of employment and job creation. Today in the world, is employed about 235 million workers by the year 2020 projections are for about 300 million workers in various sectors related to tourism development. Except for employment, tourism has a significant influence on the formation of gross domestic product and a positive impact on living standards and way citizens' living.

To explain why the developed rural tourism is the best chance for a better life in Serbia and Montenegro, it must begin from the development of mass tourism in the world, to see why a man becomes a tourist.

Mass tourism has emerged in the second half of the twentieth century, after the First World War. The main reasons for the mass of people started to go on vacation outside of their country were a great development of industry, large and rapid growth of cities, the rise in living standards, reflected in higher wages and longer holidays, mass production of cars, soft bank loans in particular in Western Europe, the development of air transport, greater choice tourist destination, quality services, greater consumer demand of tourists, more varied offer, the impact of competition and prices, a stable political climate in most countries in the world and well built accommodation capacity, etc.

Life in the big cities of Serbia and Montenegro with a lot of concrete and asphalt, tall buildings and a large number of cars, lots of people, noise, traffic jams, exhaust fumes, smog, stress, and accelerated pace of life very negative effect on all of man's senses. That is why the man felt the need to seek and find those places where he could rest in the true sense of the word, as were deserted coastline of warm sea and high mountains and villages where there is so much worth, and what are needed foreign tourists.

First, modern tourists today want to live in natural conditions prevailing in the well-kept villages. Some of us will surely ask, what a foreigner can do there except eat and sleep. It is well known in the world today and I had the opportunity to personally assure staying in Slovenia, an EU in 2006, in professional counseling organized by UNDP and visiting tourist sites in the villages where a number of attractive activities are available starting from walking, biking, horseback riding through meadows, fields, clearings, orchards, streams through the woods and so on. Then, hunting, fishing, beekeeping, and mowing, gathering hay, grinding grain, picking fruit, herbs, mushrooms, wild fruit, brandy, knitting, keeping domestic animals, preparing old food and food for winter. In the Zlatibor region you can go to one of the vain in Ljeskovo on 25th May each year, visiting different pose, wedding folklore performances, tour the old craftsmen of Novi Pazar, naive painters, and visit cultural and historical monuments and so on. So the most important is that all residents understand what the rural truism can bring. Those dealing with coastal tourism in Montenegro should be fighting for the development of rural tourism, for wealth of the offer is often the deciding factor when one should decide where to rest.

The state must provide the necessary funds for lending to rural households, under very favorable conditions and infrastructure to regulate itself. Of course, it is necessary in financing the construction and decoration of the village to

include the international community, banks, funds and large companies that have a special interest in rural tourism development.

When it comes to tourism development in Europe, UNVTO leads to the following mega-trends:

- Potential conflicts between tourism development and socio environmental awareness generally more committed to the principles of sustainable development, which were now established by law and respected in almost all the target areas
- Specificity in response to globalization and the merging of cultures as well as the growing monotony of everyday life tourists respecting the authenticity of the originality that is, uniqueness of individual people who live in this area
- Electronic, information and distribution systems promote direct information, direct comparison and booking. The Internet facilitates transparency and forcing the competitiveness of price and services
- The use of large aircraft and low-cost carriers provide fast, comfortable and cheaper connection which creates conditions for increased spending in the destination itself
- Differentiating motivation and target groups all European markets are characterized by a strong trend towards individualization of the expectations of the relationship. This trend and join the new markets of EU member states from Eastern Europe. Heterogeneity request-result is the average living standards in general, experience with travel and globalization.

2. UNWTO DETERMINE DEVELOPMENT OPPORTUNITIES IN THE FOLLOWING OFFER SPHERES

- 2.1 In lifestyle products, combined with targeted creating of image and brand of individual segment deals: destinations as diverse products under one brand
- 2.2 With quality products in all areas of services connected with the tourism industry. Emphasizing quality, is the result of competition around the world in the struggle for legal tender strong clients, and is a precondition for the creation of brand
- 2.3 Tourism based on nature in combination with sport activities
- 2.4 In cultural tourism: to the tourists with academic interests new target groups are connected which in their holidays include cultural aspects

2.5 The highest growth rates were realized in offerings that offer a wellness and fitness facilities, hiking, walking and cycling, as well as the holidays , "al-inclusive"

The tourist demand can be observed two major trends: a complex coupling motives and activities, as well as diversification of the target group.

- ✓ The complex coupling of motives and actions: the central motive is followed by the following motives: pleasure, social, health, movement, expansion of horizons, and in particular, the orientation towards the experience. The holiday activities at the same time are always activated more motifs which change during the day.
- ✓ Diversification of target groups: background social and demographic groups have proved to be too rough classification of the tourism organizations. So that the groups differ in life style and motive and are divided into smaller subgroups. Furthermore, older people (over 65) are divided into active and classical seniors. In the group with significant specific preference also share a clear trend: As cyclists become "drivers tour", "mountain bikers", "pleasure", "fitness", "sports", "drivers", "runners" and "family cyclists".

If Hotel Resort wants to have priory position, its tourist product must have components that are considered on uniqueness and stability, where the stress is on:

- ❖ Visual and mock integration of surrounding landscape
- ❖ Arranging of parks, comfortable interior and exterior
- ❖ Harmonization of objects with environment (matching with nature)
- ❖ Qualitative service (human resource) as the most important factors of competition, where service is more than professional, and it is time for the guests and their individual preferences

Net inflow of foreign investment in Montenegro in the year of 2009 amounted to 910.9 million euros which is 65.1% more than in the year 2008. The structure of FDI has been improved and significantly accepted investment companies and banks, and reduced investment in real estate.

FDI inflows in 2010 according to data CBMN amounted to 556.1 million euros. The biggest influx was achieved from investments in domestic companies and banks 240.6 million euros, which is 63.7% less than the same period in 2009.

The main reasons that might decrease the inflow of FDI are reflected in the following:

- Political stability in the country
- Legal regulation

- Monopolization
- Quality of recourse
- Qualified employees
- Various benefits through taxes
- Quality of road infrastructure
- FDI
- Acceptance in the countries which are in transition
- Structure of equity capital in transition countries
- Financial risks
- The level of transparency of procedures
- Achieved level of legislative reforms to create a general business conditions both domestic and foreign investors, along with the actual level of fiscal, regulatory and financial incentives to attract FDI
- The level of basic operational costs (costs of labor, energy and land)
- Implementation gap
- Education reform in accordance with the needs of developing FDI

Effects of FDI:

- New employment
- Developing of the underdeveloped areas in Montenegro, Sjenica, Zlatibor region
- Increase of GDP
- Delegation of the purchasing power of people
- Better communication
- Decrease of wider economy
- Greater inflow of funds into the state budget and budgets of local communities
- Falling interest rates
- Corruption- lack of transparency of institutions and procedures, insufficiently protected property rights of investors
- Inflexibility of the labor market which should increase through the speed Prequalification
- Decrease of the number for encouraging international trade and free access to new markets in the EU countries in the region

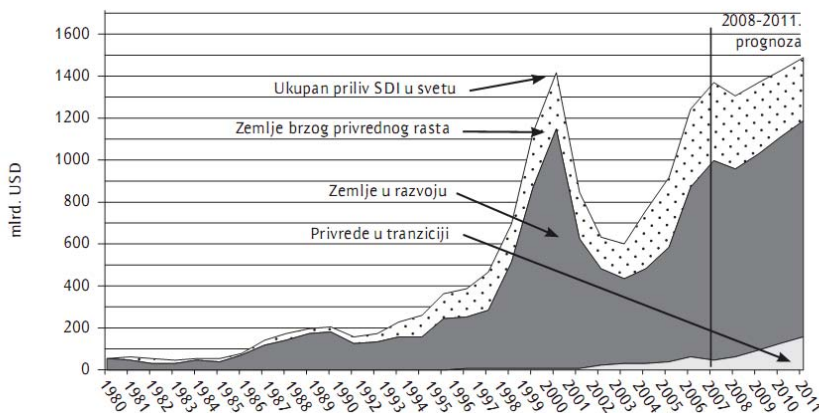
FDI affects the balance billing, generate revenue for the state budget, affecting the income of local budgets and supporting the development of investment activities. It should be noted that tourism in almost all transition countries was one of the most attractive areas for foreign direct investment especially in the period 2008, 2009 year, which is showed in the figure 1 and 2 for Montenegro and Serbia.

In the period from the year 2001 to the year 2008, influx of FDI in Montenegro was 2.98 billion of euros what can be seen in the Figure 1, the biggest influx was in the year 2007- 524.9 million of euros, as opposite to Serbia whose FDI was 4.387 billions of dollars where 3.5 billions was invested in Belgrade, its 80% of all FDI in Serbia, what can be seen in Figure1.

Figure 1. FDI in the world, Serbien and Montenegro for period from 2001 to 2010

	2001	2010	2010 (+,-)
Svijet	400 milijardi \$	1.833 milijarde \$	(+0,7 %) / 2009
Srbija	165 miliona \$	13 milijardi €	(-62 %) / 2009
Crna Gora	-	4,7 milijardi €	(-47 %) / 2009

Figure 2. FDI for period from 1980 to 2011



Regions in Serbia have nature, cultural and historical potential that can be defined by the specific tourist offers.

These potentials are not exploited fully, because the part of it is defined by differences in temporal conditions (nature, cultural and historical heritage) and partly created conditions especially expressed in developing projections of Montenegro and Serbia in Zlatibor region, in which municipalities Sjenica, Novi Pazar, Tutin Nova Varos are included.

North eastern part of Montenegro and north of Montenegro is reflected in the availability, poor infrastructure equipment, facilities inherited from the nineties, who can not meet the requirements of modern consumers, poor organization of sports facilities, lack of working capital, the idea of spatial plans local

governments, projects, lack of integration relations in local governments and local governments with ministries in one and in another country, poor implementation of the adopted strategy of development of underdeveloped areas in Serbia and Montenegro, which previously should be eliminated as barriers or classes of the cause of sustainability it will be discussed below.

3. WHAT SHOULD BE DONE?

For economic policy makers is very important to create an appropriate investment climate conducive to attracting foreign direct investments, particularly in the development of small and medium enterprises in the tourism sector, but we should previously do the following :

- Define the market position of Serbia and Montenegro as a macro destinations (a lack of strategic positioning)
- Unsatisfactory and outdated structure of accommodation facilities (facilities for over three decades old)
- Unsatisfactory access to many parts of Serbia and Montenegro (non-existent and inadequate infrastructure), the rich natural and anthropogenic tourist values
- All developing countries, which includes Serbia and Montenegro and countries in transition, are considered a significant source of foreign investment for economic development especially for small and medium enterprises in the tourism sector in which there are previously unidentified problems that slow down growth and development of SMEs. Therefore, you should pre-define some issues, make their selection and determine the priorities in their solution, with the aim of eliminating so-called barriers to successful operation of the entire economy.
- Is it possible to decrease taxes on personal incomes of individuals from the current 12% to 9%?
- Is it possible to abolish certain fees to the price of gas?
- Is it possible to abolish certain fees for the use of construction land?
- Is it possible to lower taxes on wages of employees in enterprises (SMEs)?
- Is it possible to adjust prices of tourist services with the existing quality of services provided in relation to competitors in neighboring countries?
- Is it possible to reconcile the needs of the tourism sector with the existing credit terms with banks, because of the high interest rates and time to repay a loan, including a grace period?
- Is it possible to reduce the share of shadow economy in the overall business of both countries and if we know that the percentage of shadow economy in Western European countries ranges between 7% and 11%?

- Is it possible to raise the general level of cleanliness to a higher level especially in places where we want to develop different types of tourism (rural, eco-tourism, health, religious, mountain, etc.)?
- Is it possible to unify the signs?
- Is it possible to improve or better use of available human resource?
- Is it possible to make a new look of resorts on walking paths in town countryside, mountain?
- Is it possible to make better marks of mountain paths for different types of tourism or different activities of tourists?
- To make preconditions for training and licensing of mountain guides.
- To make promo material (maps, e-maps etc.)
- Do we have a well-equipped mountain rescue service?
- Is it possible to improve the promotional campaign on electronic media in the region?
- Do we do enough presentation of tourist offer in the region?
- Do we do enough and to what extent the presentation of tourist offers in the international market?
- Whether and to what extent execute the presentation of tourist offer in international trade fairs?
- Do we have the means and facilities to organize study groups, journalists and tour operators to promote tourism in Serbia and Montenegro?
- Did we organize e-marketing in tourism?
- Do we have the means and conditions to make promo educative activities in domestic trade?
- Do we follow and to what extent, articles in international newspapers about our tourist industry?
- The extent of cooperate with strategic partners in our countries for the development of different types of tourism, and with: the ministries, our suppliers, service users and local and international tourism organizations and all other subjects related to the development and use of available tourism potential.
- Did we ever think about the degree of alignment between the projected and installed manufacturing and service facilities with the potential market and sales potential and consumer demand in a region where we want to develop certain types of tourism?
- Do we follow the law that regulates the problem of noise in the tourist areas?
- Are we at the meetings of local parliaments carried out an analysis of results achieved National Tourism Organization, although the amount of taxes we pay, or the work of local tourism organizations or the analysis of actual costs achieved without significant financial impact in the interest of those who pay tax, to the citizens?
- Lack of quality staff, particularly those trained to develop complementary forms of tourism

- Unfavorable age and educational structure in rural areas (in terms of dealing with tourism activity)
- Short season in summer
- Large fluctuations in the number of people living in coastal towns during the summer season and beyond, which negatively affects the quality of life of residents in rural areas and the local population of the region that we consider
- Under-developed vertical integration of primary agriculture and processing industry, since the total government support to agricultural development to participate in the GDP from about 0.65%
- Have we carried out a list and determine the number of households that could be involved in tourism, or that have or meet certain criteria to deal with some kind of tourism?

Many of the ideas are meaningless, many realized only at some future time when technology reaches a certain level or when the idea to create a working capital-cash, and yet it may happen that there are too many good ideas that can be turned into opportunities for market.

In order to realize the idea that the new product-services successfully commercialized, it is necessary to harmonize the product with the environment, company resources, opportunities, managers and other strategic factors in the development of SMEs in the region of the less developed regions of Serbia and Montenegro, and reflect the following factors:

- Market requirements,
- Business plan (corporate plan, marketing plan),
- Product requirements

Some of the basic criteria for the selection of ideas are:

- a) Market size,
- b) Rate of market growth,
- c) Competition,
- d) Market knowledge,
- e) Knowledge of technology,
- f) Integration with existing production and utility,
- g) Incorporation able company,
- h) The potential for patent or elimination of barriers against the competition,
- i) Creating a product-service in-house (new ideas, better quality, pricing, distribution, etc.)

It is estimated that the tourism sector in Serbia and the related activities formed 2.5% of gross national product and 5-6% of total employment, and participation

of SMEs in total GVA of Serbia, moving 57.4% and 42.6% of large enterprises. In Montenegro, tourism participates in the creation of 20% of GDP and total employment ranges from 9%.

4. ANALYSIS OF THE UNDERDEVELOPED AREAS

In preparing this paper as the basis for the analysis of underdeveloped areas of the territory of Serbia and Montenegro, were used the regional development strategy of Serbia for the period from 2007 to 2012. (Official Gazette No. 21/07), Spatial Development Strategy of the Republic of Serbia in 2009. until 2020 (BG 2009) and strategy development of tourism in Serbia since 2005. year 2015. year (BG2006). And national strategies for sustainable development of Montenegro (PG 2007), the strategy of tourism development in Montenegro until 2020 (PG 2008).

The strategy of regional development from 2007 to 2012, according to the basic indicators of development in Serbia, 37 municipalities were classified into the category of undeveloped, but they were divided into two types: economic undeveloped areas with special needs and the criteria NI per capita allocated to 29 municipalities of which: Tutin and Novi Pazar, on top of undeveloped received, indicators, although in these 29 municipalities lived 9.2% of the total population of Serbia.

As for the northern part of Montenegro the above, especially the municipalities of Rozaje, Berane, Plav, Bijelo Polje, Pljevlja and Andrijevica data show the following: 96% of accommodation facilities are located in the southern region Montenegro, only 4% in the north Montenegro the above, although the revenue generated Tourism in Montenegro 20% and the total number.

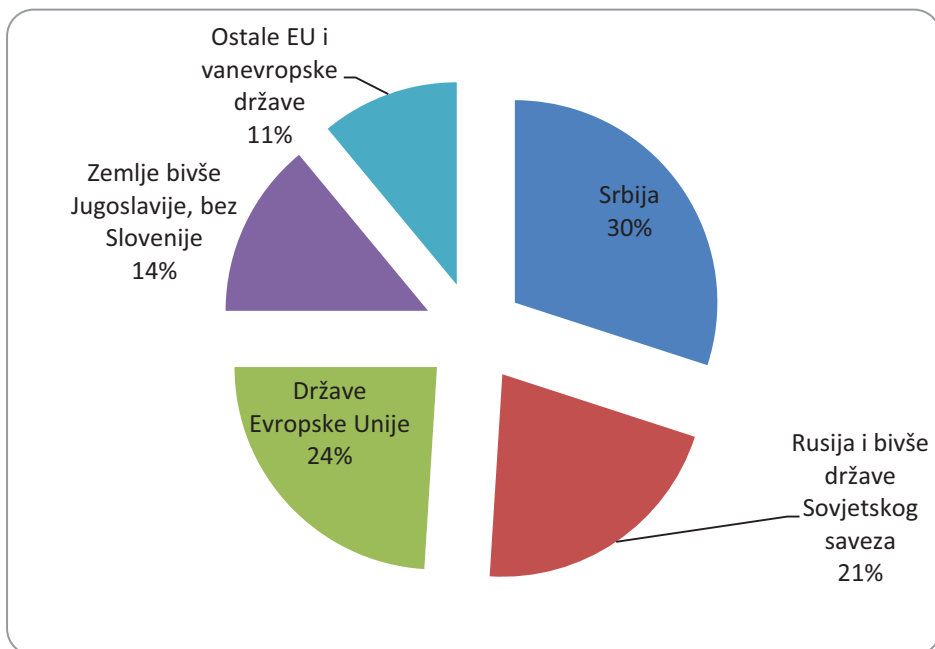
Tourism, in 2010, contributed 5% of world gross domestic product and 7% of the total number of jobs is exactly in this branch of economy.

Previous three years, not only in Serbia and Montenegro, but globally, were marked by the global economic crisis. Economies in transition countries are particularly hard hit problems brought by the crisis, which is subject to our country.

After a period of encouraging growth of about 5.5% in Serbia and Montenegro 8%, our economy was put into a recession, whose effects come to full expression in 2009. and 2010. year. There was a significant slowdown in economic activity, reducing total employment and reducing the inflow of foreign direct investment.

SMEs in these conditions was faced with falling demand, renders the demand too much commitment, reduced credit-worthiness and current liquidity problems, resulting in their much weaker business performance in Serbia and Montenegro.

The structure of the most numerous guests from Serbia 30%, Russia and the



former Soviet Union countries have an interest of 21%, 24% countries of the European Union and countries of former Yugoslavia without Slovenia 14% and 11% share of other European and non-European countries, which It can be seen from the graph No.3.

Figure 3. Visit of tourist in Montenegro in the year 2010

In the other projections of tourism development in rural areas of Serbia and Montenegro, are needed more investment in infrastructure, training of personnel, identification of households that can be engaged in the development of tourism, favorable loans, better promotion of these areas and cultural and historic monuments with the construction of accommodation facilities.

On this occasion I want to give a remark that could have repercussions in partial scientific and analytical circles, respecting other opinions and concerns on and refers to the measures the Government of Serbia and Montenegro in taking certain measures to improve the overall economic environment in both countries through the growth of GDP per capita. And this is:

Theoretical discussions at scientific meetings, without representative of argumentation research and valid conclusions, the results of which can be implemented in practice, in order to make profits, the theoretical demagoguery, without tangible effects.

Doc. dr Safet Kalac

CONCLUSION

Foreign investors are required to all countries and most countries in transition to record a chronic shortage of own capital for SME development, management skills, modern technology, and channels of distribution of finished products. As an alternative to the arrival of foreign direct investments are loans and commercial loans and international financial institutions, IMF, European Bank for Reconstruction and Development, the World Bank and various other funds.

Since foreign investment is expected output growth, wage growth of employees in SMEs, higher employment, more exports higher tax revenues, technical and managerial skills, the weakening power of domestic monopolies and increase competition among SMEs in the process of growth and development of these enterprises. However, we should not forget that there are some risks, such as growth balance of payments deficit (in the initial phase of activation) until the trigger export channels which then reduce the deficit and begin to generate a surplus.

From foreign direct investment can be achieved by mutual benefit and for foreign investors to Serbia and Montenegro in the form of growth and development of the entire economy. Considering that the SME is involved in the creation of GDP 64% in Montenegro, and in Western Europe and up to 96%.

SMEs in these conditions was faced with falling demand, renders the demand, too many clients, the lower credit rating and problems with the current liquidity which resulted in their much weaker business performance in Serbia and Montenegro.

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International University of Novi Pazar. UDC 640.4(497.11)

**THE IMPORTANCE AND DEVELOPMENT OF SMALL
AND MEDIUM HOTELS IN SERBIA**

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Abstract

The importance of small and medium hotels in the tourism industry reflects itself in their significant impact on the development of tourist destinations, higher level of employment, preservation of local culture, use local resources, etc. The small size of the hotels allows their owners/managers to develop specific personal relationships with clients/tourist. What they lack in standardization and quality control is made up for through flexibility, satisfying needs of narrower target groups, integrated services, etc. The paper points out some new tendencies in tourism related to greater accumulation of capital. Thus, particular attention is paid to analysis of strategic advantages and disadvantages of small and medium hotels in tourist industry in Serbia, business environment impact on their operation, testing the possibilities of their greater competitiveness and profitability, as well as their role in promoting integral local hotels developments.

Key words: *hotel, growth, development, small, medium, tourism, local destinations;*

1. INTRODUCTION

In each of the tourist economy of small and medium hotels are one of the leading forces of its further development. Small and medium hotels stimulate private ownership and entrepreneurial skills, have a higher degree of flexibility and can quickly adapt to change and seasonal variation on the tourist market. In addition, the growth and development of these hotels are expected to increase employment, create diversified economic activity and contribute to increase the

competitiveness of Serbian tourism. The process of globalization, which is very much felt winds Serbia, a condition is a significant change in tourism, such as, for example:

- Increase the potential demand for a number of tourist destinations;
- Strengthening competition between destinations;
- The struggle for the survival of small and medium-sized hotel in the market, you win more international hotel chains;
- Increase the need for additional capital;
- Problems in the implementation of quality standards, etc..

Verily, globalization and international hotel chains determine the market value of the new system must adjust to small and medium hotels in order to achieve maximum profit and to meet the needs of tourists.

However, do not miss the sight of small and medium hotels (especially the small city hotels) missing in the offer of Serbia. In addition, these existing behind the tourist market due to delayed transformation and privatization. These hotels have to invent ourselves permanent development policy and to manage to change the market in order to improve its competitive position. This means that you must leave the old way of thinking, to overcome resistance to change, to be out entrepreneurship and innovation. Small and medium hotels have to actively create their future and to generate future trends with standardization, information technology, proactive marketing, permanent training of managers and employees, the introduction of the latest information technologies, etc.. Then, you should have in mind several paradoxes that characterize modern business environment, which have implications for the effective operations of small and medium-sized hotel.

2. THE PARADOXES OF THE MODERN WORLD AND THE IMPACT ON SMALL BUSINESS HOTEL

Work of managers in small and medium-sized hotels is becoming more complicated and complex. Growing importance of the need to adapt their foreign environment occur because the gap between planning decisions and their implementation. It is therefore necessary either to find new tools and analytical tools to the gap reduced and even eliminated. Application of strategic management has become a necessity for small and medium hotels. Its essence is in the strategic thinking and searching for alternatives to formulate the best business decisions (before all the goals and strategies) to achieve organizational goals, taking into account the state of external factors and internal environment in which the organization is located. So, should bear in mind the following paradoxes the modern world:

- Intelligence paradox

- In terms of today's intelligence is not viewed only on the individual, but primarily on the organizational level, it becomes part of intangible assets (assets) of successful hotel, which efficiently and effectively use knowledge, technology, processes, etc..;
- Paradox of intelligence consists in the fact that it is a specific form of property that depends on the people and their abilities, can not be easily transferred to the other, can not be inherit or store, sometimes hidden and undiscovered;
 - Paradox of work
- The work of running the world, is one of the most important levers of human development;
- Paradox is that people work to create certain material goods that they make it easy life, and that more must create more work and more work left them with less free time to enjoy life, or in what you produce;
 - Productivity paradox
- Striving to increase productivity and reduce the number of employees creates pressure to increase unemployment and the need for the creation of small and medium-sized hotel, which is, however, faced with relatively low productivity;
 - Paradox of time
- Striving to increase efficiency should reduce the time of performing many operations, so that people would be more available to more time, however, more and more people found to have less free time;
 - Paradox of wealth
- Consists, in fact, more of the paradox that is reflected in the social layering in both the limits of national economy (the rich become richer, the poor poorer all), and in the global world;
 - Paradox organization
- Directly associated with growth and development of the global hotel organizations;
- Increase in size, number of employees, managers and the level of tasks that must lead to changes in management systems;
- Paradox is that many of the issues and problems that globalization imposes, often know the right answers, so strategic thinking (management) gets more and more important;
 - Paradox of aging
- Represents a set of several paradoxes associated with extending the life of rivers, and raising levels of health care, pension plans, a large number of divorces, the extension of working life, and so on., are just some of the phenomena;
 - Paradox of righteousness
- The dilemma that has always existed and probably always will be, a paradox is that, although the legal systems have evolved over time, is still a gap between the justice and righteousness.

What is important to accept the strategic approach to management of the organization in the hotel is best manifested if the management of small and medium-sized hotel is in the form of paradoxes in what happens in Serbia.

The right question that from the aspect of management of small and medium-sized hotels can set is whether the paradoxes relevant to the acceptance of the concept of strategic management in the hotel?

(1) intelligence

- Today more than ever growing need for knowledge and learning, comes to the development of a new scientific discipline "of management knowledge" (Knowledge Management), because the need for innovation and knowledge development of lifelong learning are imperative;

- All the more present the concept of "learning organization" (Learning Organization), and it is necessary to come to a quick change of mental attitude and a new relationship to knowledge and learning;

- At all levels needs to affirm the concept of lifelong learning (life-long learning), strategic management can serve as one of the tools that guide action hotel organization in this direction;

(2) work and productivity

- The hotel industry, there are two dimensions: the presence of mass tourists in great hotels and meeting the specific, smaller target groups of tourists;

- Both dimensions require strategic approach based on understanding the needs of tourists, offers analysis of competition, new scientific and technological achievements, standards, etc., which is again in the main strategic ways of managing hotels;

(3) time

- People, in general, lost a lot of free time;

(4) organization

- Includes the resolution of many issues, such as: new approaches to organizational design, the division of work, remuneration systems and motivating , increase productivity, new systems of work, business processes, creating learning organization, new management techniques, etc.;

- Application of the concept of strategic management in small and medium-sized hotel is convenient because based on the contingency approach, and the formulation of decisions depending on the specific situation that is different from hotel to hotel;

(5) paradox of aging

- Extends the life expectancy in the world and comes to the growth of living standards of older people, which means potential customers of small and medium-sized enterprises in Serbia.

All forward stated unequivocally indicates that the growth and development of small and medium-sized hotels in Serbia requires a new approach to management, whether it is a small family hotel in the middle or hotel with multiple owners. Due dynamism of change, growing competition and the paradox is expressed as an imperative is imposed understanding and acceptance

of strategic management to ensure survival and then growth and development of small and medium-sized hotel with all the tourist market turbulence.

3. MANAGEMENT OF SMALL AND MEDIUM-SIZED HOTELS

Small and medium hotels all over the world contribute to the increase in hotel supply and, in the far instances, contribute to economic growth, increase employment of local population, the development of tourist destinations and complementary activities.

Small and medium hotels, using the local network of contacts and information can provide integrated services in compliance with the demands of providing clients with a unique experience for each individual. For example, can be combined health and sports services and eating and accommodation, and offer healthy food in combination with an active holiday. Thus, growth and development of small and medium-sized hotels can return, development of new products and at the local or regional level as well as self employment and entrepreneurship⁵⁶.

For example, in the European Union about 93% of accommodation and food sector are classified as small hotels, which employ fewer workers, and 9, and employ a total of about 80% of all workers in the hotel management, while large hotels, with over 250 employees, with participation by 20% employment in the total number of employees of hotel workers in the European Union⁵⁷. On the other hand, in Serbia, small and medium hotels, according to employment in the tourism and hospitality industry participating with about 90% in the previous ten year old period.

Small and medium hotels, moreover, as well as all other companies, not just the tourist economy through various stages: creation, growth, maturity and decline. Therefore, it is important for Serbia to create entrepreneurial environment to make this so small business can be as developed as in all market economies. This means that innovation starts and ends with the realization of profit and satisfaction of guests.

Further, it means that the personal characteristics of the entrepreneur-founders and owners play a very important role in the success of small and medium-sized hotel in the tourist market in Serbia. Skills and abilities of the need to improve the phase of the phase, a major obstacle to growth may be the inability of entrepreneurs to the right way, efficiently and effectively, delegated tasks and functions of employees.

When it should have in mind the experiences of other economies, where the hotel is observed that, often, small and medium hotels are rising too quickly to be able to manage the owner, who tries to control all processes instead to focus

⁵⁶ Radosavljević Gordana, 2007, Rast i razvoj malih i srednjih preduzeća u turizmu „Hotel link“, Beograd, No. 9-10, page.105-109.

⁵⁷ European Commission – Enterprise and Industry, Brissel, 2006.

on the adequate application of the principles of strategic management⁵⁸. In addition, many entrepreneurs in the hotel business copying your life (make enough profit for the life in your way) and are not motivated by rational growth and profitability criteria.

Prerequisites for the growth of small and medium-sized hotels are implementing some innovative ideas together with the achieved level of knowledge for the purpose of realization of a business enterprise. On the other hand many changes in the environment represent a challenge for managers in hotel management and for entrepreneurs. For example, to include: increased competition, legal regulations, tax system and the like.

That requires from the managers in hospitality management clearly defining the business goals and growth strategy. Then, you should bear in mind that the collection of capital requires an adequate business plan, which is represented in long-term orientation of hotel, with two key aspects (financial and market).

4. ENVIRONMENT IMPACT ON GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM-SIZED HOTEL

Environment, especially if unpredictably in every activity has a great impact on the business of small and medium enterprises. Functioning and structure of integrated tourism continuously changing market and competition events. When it is allocated two key aspects⁵⁹:

- the number and quality of entrepreneurs who create new business in tourism, or developing existing,
- the existence and development of competitive forces that create the competitiveness of all regions.

Factors from the environment to which all companies in tourism, including small and medium hotels, can not influence, are related to the unpredictable development of the market, both in Serbia and in the surrounding countries⁶⁰. This is related to the accelerated technological development, changes in competitive positions in the old and new tourist destinations, the total development of serbian economy, the development of branches that are associated with tourism, the growth requirements of our guests, the necessity of business matching and the like⁶¹. Bearing in mind the small and medium hotels to join the restructuring and reorganization of integral business process.

⁵⁸ Kirby, D., 2003, *Entrepreneurship*, McGraw Hill, London, page.23.

⁵⁹ Buhalis, D., Costa, C., 2006, *Tourism Management, Dynamics*, Elsevier, Ltd., page.121.

⁶⁰ These factors, for example: the overall economic situation, the general price level, using rest, changes in consumer preferences;

⁶¹ Weiremair, K., *The Growth of Tourism enterpris*, *Tourism review*, 56 (3/4)., page.17-25.

Adaptation of small and medium-sized hotels to new market conditions or changes in business environment can be effective if the new market values are adopted, which means the following⁶²:

- affirmation of a new generation of managers who tend to create the future on the basis of innovation and new business philosophy;
- implementation of information technologies that enable a new communication with tourists and contribute to more efficient business and making business decisions;
- standardization and implementation of TQM with the aim of maximum satisfaction preferences of tourists;
- privatization and restructuring, which is a prerequisite for the transition to a market economy and open opportunities for investments in this area;
- changes in the new organizational structure tailored to the requirements of enterprise and speed of reaction to market changes.

Therefore, the growth and development of small hotels in Serbia may affect a number of advantages they offer in the market growth and the internal and external constraints. Generally, strategic business objectives of small and medium-sized hotels to focus on three key segments: the increase in the level of competitiveness, growth and development, the achievement of higher rates of profitability.

5. INSTEAD OF A CONCLUSION

Entrepreneurial skills of small and medium-sized hotel in Serbia will depend on the continuous market research to determine customer segmentation, conceptualization of management services, development of new hotel products and services and adequate bone / benefit analysis. Problems to be solved in the small and medium-sized hotels are:

- inefficient management,
- insufficient compliance with the requirements of demand,
- inadequate quality control,
- inadequate definition of competitive strategy,
- failed investment,
- lack of development of hotel products and services.

It is believed that in the future, all companies in tourism, especially in hospitality management have shorter life cycles. On the other hand, the higher will be the need for a greater level of cooperation or strategic alliances in hospitality management. Therefore, the success of small and medium-sized hotel in the future, depends on the alignment of business with the changes in the environment and restructuring of internal management processes and activities.

⁶² Stipanović, C., 2006, Značaj reinženjeringa u razvojnoj strategiji hotelsko-turističkih preduzeća, Tourism and Hospitality Management, Vol. 12, No.1, Opatija, Wien, Thessaloniki, page.151-152. (Citirano prema: Radosavljević, G., navedeni rad, str.108.).

Strategic advantages of small and medium hotels refer to the motivisnost of the personal and family reasons for success in business, the use of the market niche for growth, the large hotels are often ignored.

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**TOURIST ATTRACTION AND TOURISM PRODUCT OF
ROZAJE**

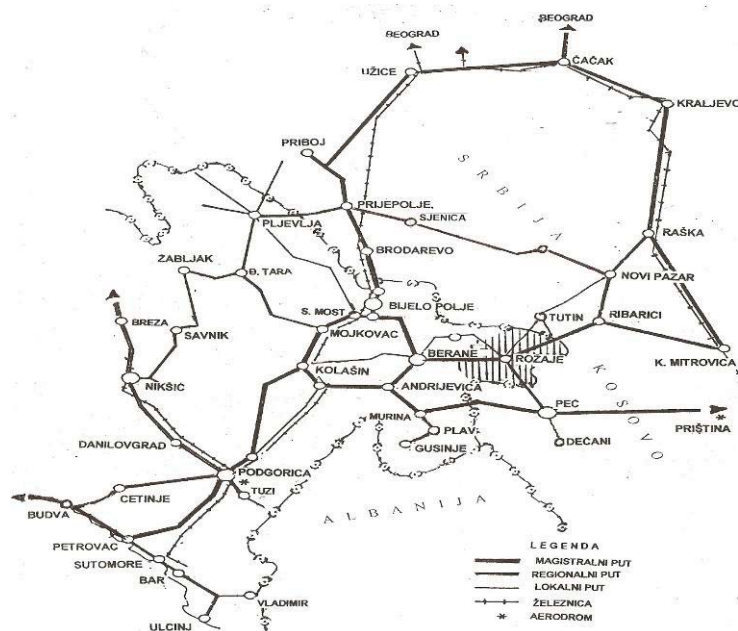
Ibro Skenderovic⁶³

Apstrakt: This paper examines the tourism potential of Rozaje and possibilities of its valorization at economic development of the municipality, through which it will be possible to examine the touristic offer and the tourism product of this municipality.

Tourism, wood processing industry and agriculture are the key sectors of Rozaje's economy. Thanks to a very good tourist and geographical location and attractive qualities of terrain, climate, water resources and biogeographic resources Rozaje municipality has very favorable geographical conditions for tourism and tourism product. Due to the underdevelopment of the community and tourism infrastructure, insufficient investment in the material base of tourism, and because ownership transformation and privatization of the domain of tourism has not yet produced the expected results, available resources are insufficiently tourist valorized, confirms a minor extent in the tourist industry and tourism products. Successful valorization of tourism potential should be expected through the implementation of development plans Rozaje, in which tourism will be positioned as one of the priorities and key objectives of its economic development.

Key words: Rozaje municipality, tourist supply and production, economic development, evaluation, potentials

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Map 1. Traffic-geographical position of Municipality Rozaje, (By M.Knežević, 2009)

Strategies for sustainable tourism development are based on conservation, rational and controlled use of long-term natural resources. Therefore, the selective planning of this development to the level of ecological capacity of the environment makes Rozaje's priority. At the same ecological capacity means the ability of an area that suffers from external influences and thereby preserve its natural identity and authenticity.

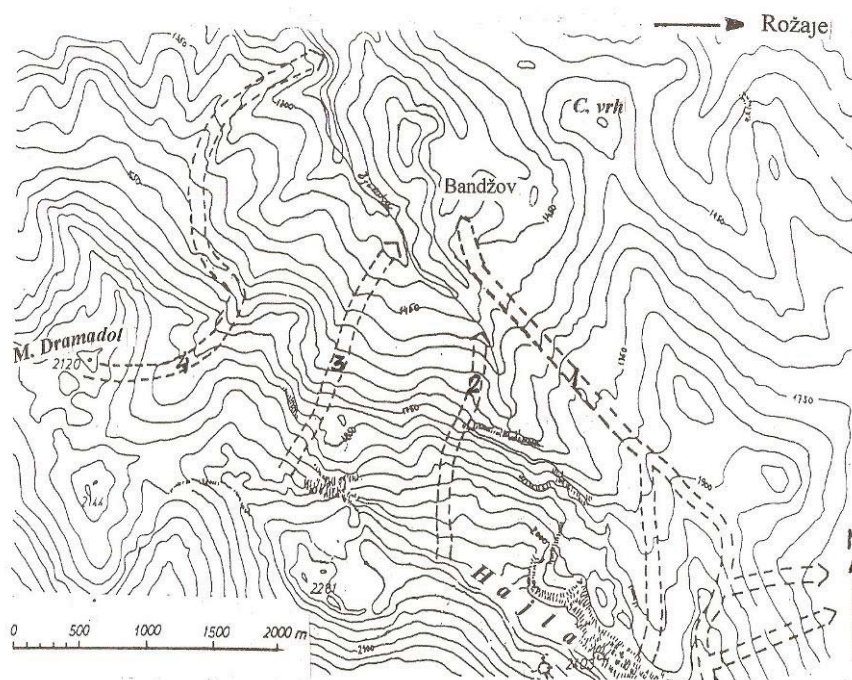
SKI POTENTIALS

The mountains of northern group of Prokletije predominantly belongs to the northern slopes of Rozaje -Hajle, Smiljevica, Stedim, Rusolija, Sienova and others have the sum total of potential denivelation slopes of about 17,000 feet (Investment program "Skrivena", 1969). However, the OECD study, prepared by the renowned French experts for winter-sports tourism, Iten R. Rey M, 1969. year, the sum of denivelation is much lower, because they give information only to Hajla, which has 3780 feet on sloped ski runs, or 3.64% of total mass denivelation Prokletije. The same study shows that Durmitor has 3360 feet on sloped. According to the program "Skrivena" a part of the northern Prokletije group defines three potential ski mountain zones with the following denivelation:

- Zone Skrivene (Smiljevica), about 3.500 m,
- Zone Hajla-Štedim, about 8.000 m
- Zone Belega, about 5.000 m.

These zones are touching each other so they can be merged into a single ski system, whose size was about 4,000 ha, with the distance between some locations from 2 to 10 km. As part of the ski complex, the absolute heights of 1200-1400 m, there are very favorable morphological and snow conditions for the development of Nordic combinations of skiing and recreation, as well as for the construction of adequate tourism infrastructure. The highest quality space for the formation of winter-sports center is located in the mountain complex: Hajla-Stedim-Rusolija, the absolute heights of 1200-2400 m.

The average slope of the topographic surface in the area ranges from 13° (Ahmica) to 16° (Hajla) and 20° . Ski resorts in of Hajla in Rožaje descend from the main ridge and the hollows on the north side over the wide pastures into the Ibar River. Its length through pasture is up to 2 km, but cutting through the noise can increase the Length and up to 5 km. The main trail (1) descends from Hajla towards the village Bandžov. It starts at 2300 m above sea level and ends at 1450 m above sea level and has denivelation of 850 feet, lengths of 4.5 km (Knezevic M, 2002). Exposure tightening the north. The route of the trail goes across the lawn, except in the lower part above the village Banz, where it breaks through the woods a distance of 600 m. The larger part of the track slope is $33-40^{\circ}$, $40-50^{\circ}$ above Bandžov. there are two glacial moraines in Bandžov, which are very suitable for the construction of ski hill.



Map 2. Potential ski trails at Rožaje part of Hajla (By M. Knežević, 2002)

The map shows and numerically marks four slopes that descend from the ridge on the north side of Hajla. There are three lanes down to the river Bjeluha. They are much steeper and shorter. Among them, the longest is down from the top of Dermandol (2,120m) and ends with the composition of the river Bjeluha and Moraca, at 1,200 m. The route of the trail is 3.5km long and has the denivelation of 900 m (Knežavić M., 2002)

Tab. 1. Pottential ski slopes in Rozaje's side of Hajla

Trail No.	Length in meters	Difference in height	Average inclination	Exposition
1.	4.500	850	18,89	NNV
2.	3.500	900	38.89	NNE
3.	1.900	700	36.84	N
4.	1.700	550	32.35	N

Track marked with numbers 2 and 3 are suitable for slalom, and the track under no. 4 for the giant slalom and downhill.

In studies of conditions for skiing the criterion that the latitude of northern Montenegro minimum height with low snow cover is at 1,100 feet, on the northern, northwestern and northeastern exposure, and at 1,400 m above sea level on the south ,southeast and southwestis accepted. From the standpoint of the duration of snow cover, the condition for the existence of winter-sports center is that there is a snow cover of at least 10-15 cm from 15 XII to 15.IV, i.e. for four months. Potential ski resorts with ski. slopes in the complex Haile-Stedim-Rusolija meet these requirements, which would justify investments for their formation. Trails.marked with numbers 2 and 3 are suitable for slalom, and the track under no. 4 for the giant slalom and downhill. In investigating the conditions the criterion that at a north latitude of Montenegro is accepted the minimum height above the snow cover is low at 1,100 feet, on the northern, northwestern and northeastern exposure, and at 1,400 m above sea level on the south, southe ast and southwest Tourist areas on the stretch-Smiljevica Džakovica-Skrivena-Kocino has a well-equipped infrastructure (access roads, ski lifts). R. Nikčević has in this area, including part of Berane, designed 21 alpine slopes with ski, whose height difference is very small. Biggest denivelation of 420 m has a path Rozajski vrh –Žarski katuni.

MOUNTAIN TERRAINS

Hiking is one of the oldest and most developed forms of tourism trends in Rozaje municipality. Of all the mountains in this area the most attractive for hikers is the highest mountain – Hajla. Hajla access is possible from several directions: from Rozaje, from Pec over Volujak, Glodanskih stanova and Štedim (for 6-7 hour walk) from God, through Dermandol (for 5-6 h). There are three possible ways from Rozaje. Most commonly used path leads to the village Bandzov, until where an off-road vehicle runs (8 km). The path

initially runs along the valley of the Ibar River, the village Bandžov, where there is a mountain lodge, following the way: Brahim Beach (1,810 m)-Zuti kamen (Rupa) (2,075 m) peak-Vranovačka Hajla(2282)-the highest peak of Hajla (2403 m). Climbing from Bandzov to the highest peak lasts for 4 hours. Another trail leads to Rozaje-Pec road to the village of Donji Bukelj, where it turns and runs along the river valley Bukeljske through conifer forest, and reaching out to the site. - A small mountain, where the source Studenac is located, and from there go up to the ridge of Hajla and reaches to the highest peak .The third path goes from the valley of Ibarac in Rozaje. The first and second paths are marked.

ACCOMMODATION FACILITIES

Tourist accommodation offerings in Rozaje are at the stage of developing, and therefore are still inadequate and incomplete. Accommodation facilities are limited, and as such are poorly used, which is the main reason for low content of tourist stay. In public ownership, since the time of the joint state Yugoslavia in the area two hotels were built: Hotel "B" category "Rozaje" and hotel high "B" category "Turjak. Both have been privatized in the process of ownership transformation. Thanks to its position on the Adriatic road, these hotels provide transit services to tourists, but also provide the conditions for patient treatment.

Hotel Rozaje is in the function of urban tourism. Number of beds in accommodation facilities slowly increased. In 1970. There were a total of 25 beds, in 1974. 89 beds, in 1976. 128, in 1979. 154, in 1982. 212, in 2006. 233 beds.

Accommodation capacity at Municipality Rozaje

The name of facility	category	Rooms and number of beds				Total beds
		Single room	Double room	Shared room	Apartments	
Hotel "Turjak"	**	Not in function because of reconstruction				
Hotel "Rožaje"	*	8	8	13	2	58
Motel "Bogaje"	*	1	2	-	2	14
Motel "Duga"		-	7	-	-	14
Hotel "Grand"		2	16	2	-	40
Rest".Milenijum"		1	5	3	-	20
Villa "Zeleni raj"		1	-	4	2	15
One night stay. "Ramović"		1	6	-	-	13
Aldi		-	15	-	-	30
Gradina Company		-	2	2	-	10
Total		15	56	27	6	234

The Data source : *Touristic organization of Rozaje and author's cognition*

Upon completion of the first phase of reconstruction, when it disposed of 140 beds, hotel Turjak has grown into a two-star category. It is located at 1160 m above the sea level . it is located near the main road in a natural environment which gives the principal characteristics of pastures and forests. Nearby ski resorts are equipped with ski lifts for skiers and recreationists of lower categories, while the higher categories of skiers can use the slopes at the site Smiljevica Lokve, where the ski lifts. Thanks to the additional facilities and equipment, the hotel provides the conditions for summer, winter, transit, stationary, excursions and other forms of tourism. In the vicinity there are mineral water springs in Djuranovica luke and the village KalceHotel Turjak also offers ski runs, gym, 'divan' room, bowling alley and football playground. Apartments "Mlenijum", "Gradina" and "Zeleni Raj" as well as home-made rooms provide supplemented accommodation facilities.

TOURIST TRAFFIC

Tourist traffic is registered only in the public sector, ie. Hotels Turjak and Rozaje. the analysis shows that since 1985. until 2007. there was a drastic reduction in revenue. This fall is the 11,814 visitors (2,102 foreign) and 38,092 nights (3,702 foreign) in 1985. to 1,501 (815 foreign) visitors and 2707 (1,550 foreign) in 2007.

Small share of foreign tourists in the tourist traffic is the result of lack of attractive tourist products and inadequate conditions for welcoming tourist.

Tab. 2. Touristic market in Rozaje municipality

Year	Gests		Overnight stay	
	total	foreigners	total	foreigners
2003.	2.182	390	3.767	453
2004.	2.469	1.012	6.016	1.422
2005.	2.151	673	5.145	1.083
2006.	688	188	1.239	928
2007.	1.501	815	2.707	1.550

The table shows that the tourist traffic in recent years is on a very small scale. During the existence of joint state with Serbia and other former republics, the tourist traffic was significantly higher in both the number of guests and in the number of nights. In 1985. largest share in the domestic tourist traffic then had the tourists from Serbia (45%), followed by Montenegro (24%) and Macedonia (14%), and with foreign tourists Germans participated with 26%, French with 17% and Italians with 14%. Tourist is seasonal, because a large number of tourists stay here mostly in summer.



Recorded by: Ibro Skenderović - Hotel "Rozaje"

FORMS OF TOURISM

Given the diversity of tourism resources, the area can be developed, in addition to transit, excursion, conference, etc.. all forms of summer and winter mountain tourism: hiking, hunting, environmental, ethnological, cultural, recreational, health spa, winter-sports and others.

Transit tourism has three forms: travel, business and excursion. Tourism offer of Rozaje does not complete the requirements of transit tourism, and those tourists who pass through this region are not sufficiently motivated for a stopover and stay in local motels and hotels. In addition to incomplete and inadequate accommodation facilities, transit tourism adversely affects: a lack of space with equipment for campers and other motorcycle tourists, lack of parking space, an insufficient number of car service and car parts stores, and their poor equipment, poor involvement of local industry and trade in offering transit tourism and others. Through developing private entrepreneurship more favorable conditions for development of transit and other forms of tourism will be created. Motels "Grand" and "Antika" were built as a result of free market. Motels "Bogaje" and "Duga" have been built earlier. All of these motels are located adjacent to or near the main road. Besides these motels, "Milenijum", "Gradina" and "Zeleni Raj" are also built along this road. Research in 1977 revealed that transit tourists are mostly attracted to Rozaje because: the convenience of home and stopover (27.6%), natural beauty, air and climate (18.4% and other reasons (27.7%) (Knezevic M. 1995). Of the total number of cars in the peak

season (July-August), 76% of their vehicles with the then home, and 24% of the foreign registration. The structure of local motorized tourists was mostly from Serbia, about 70%, and Macedonia, about 20%. Of domestic tourists interviewed said that most of them (65.5%) travels through Rozaje in going to the Adriatic Sea and other places in Montenegro (12.2%), and others to travel to Greece, Bulgaria and Turkey or Kosovo and Metohija and other former republics from foreign tourists, in addition to staying in Yugoslavia, most of them went to other neighboring countries. If the survey was to be repeated, it is undisputed that the results would be similar to the research back then, except that tourists from Serbia and other former republics in the now independent Montenegro would not be considered domestic but foreign. Commercial transit is conditioned by economic development, population growth, urbanization and motorized level of the population. The corresponding demand for this transit is formed in the Northern and central parts of Montenegro. (centers of municipalities and Republican center, and commercial centers), as in the Novi Pazar area and southeastern Serbia. This transit is important for the off-season tourist traffic, but even in summer time 6% of visitors travel for business purposes (M. Knezevic 1995). Excursion transit in Rozaje mostly occurs at the beginning or end of the school year. It occurs as a result of the movement and shorter retention of various flat organized or ordered tours, mostly of school and student. Excursions are often targeted through Rozaje towards the continental part of Serbia, Macedonia and other neighboring countries in the southern part and vice versa. The existing tourism offer Rozaje is not attractive enough in terms of motivation, retention and short stay trips and general transit tourists, so the economic effects of transit tourism are poor. For the development of hunting tourism are favorable natural conditions (forest and grass complexes as wildlife habitat rich in herbaceous food, various natural shelter, wealth, running water, etc.), but this type of tourism for a number of limiting factors (lack of Hunting Guard Service, expressed poaching, harassment of wildlife due to exploitation of forests, numerous villages, herding, etc.). is not developed. According to data from hunting organizations Rozaje, which counts 71 members, in the hunting area of Hajla (area 34,434 ha) there are: 53 deer, mountain goats 15, 13 bears, 55 wild boars 57 grouse. Hunting Area consists of 23 feedlots, 11 Salina and 5 check. Data refer to 2006 year). Ecotourism is a promising form of tourism in Rozaje, because that tourism has very favorable natural conditions, which are at the present stage of development under-utilized. This selective form of tourism is most closely related to natural resources. It is based on direct contact with tourists from the original or slightly different nature.

Target groups of eco-tourists are few, often include up to 25 people, or to individuals. The importance of this form of tourism for Rozaje is of great importance because it seeks the engagement of local people and local entrepreneurship in the tourism business, while creating conditions for employment, the revival of cottage industry and agriculture. Abundant forms of

tourism in this region, in addition to transit, hiking and environmental, should be mentioned farm, fishing, residential (weekend tourism), science and excursion tourism.

Other potential forms of tourism are winter-sports, health and recreation, hunting, convention, and other forms of sports manifestations. Rozaje's tourist offer in the current phase may account for the following target groups of tourists: - those looking for untouched nature and the contact with it (the holiday tourists, picnickers, hikers, nature lovers and others.) - the tourists who are looking for special programs, sports and recreation, adrenalin and other extreme sports, adventure and - the tourists who visit the community meetings and events (music festivals, ethnic-market, cultural heritage, scientific conferences, etc.)

TOURIST ZONES, CENTERS AND SITES

To determine the tourist zones, centers and sites in the municipality of Rozaje, three general criteria are being used:

- tourist value of natural resources, environmental, landscape and environmental values of the space, - economic justification of investments from the standpoint of security market-oriented tourism demand to Rozaje and tourism business and liquidity - the possibility of forming a complete tourist offer.

Starting from the above criteria, in this region can distinguish two primary zone of the tourist offer in which tourism is the primary function in development:

1. Zone Smiljevica-Džakovica-Turjak
2. Zone Haile-Stedim-Rusolija.

There is the possibility of forming three zones of secondary tourism where tourism will be one of non-core development functions. Besides these, there are areas for weekend-tourism, urban tourism zone and zone Rozaje transit tourism.

First primary zone includes the mountainous area in southwestern part of the municipality, where the mountains Smiljevica, Džakovica and Turjak rise. With construction of hotels Turjak, lifts in the Ponds, access roads and ski lifts in this area have already made initial steps in forming the supply of accommodation and tourist infrastructure.

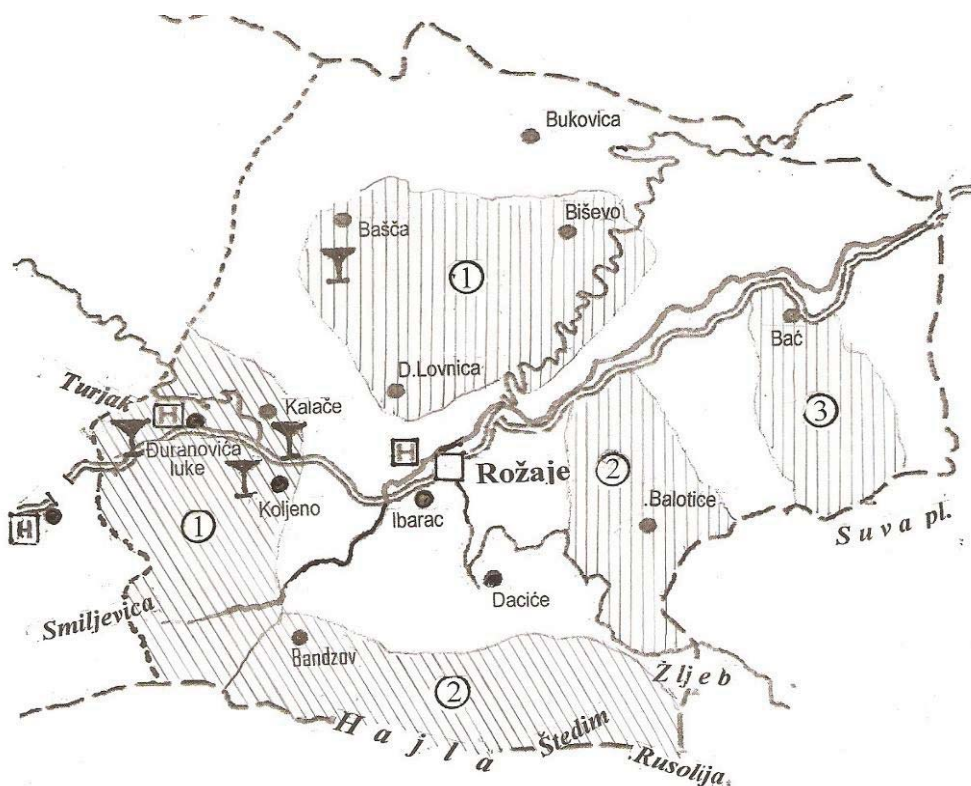
The mentioned mountains, which are of medium height, from the standpoint of capacity denivelation potential ski terrain and from the standpoint of the duration of snow cover, there are no conditions for the formation of winter-sports center of broader importance. Except Lokve sites belonging to the municipality of Berane, where there is a lift, other ski resorts are appropriate for skiers of lower and middle categories, and here can form a tourist resort for winter and summer season at the regional level. The advantage of this zone is positioned on the main road and near Rozaje and Berane. Tourist offer of this zone should be

enriched by involving a number of summer pastures and village livestock, mineral sources in Djuranovica Luke and village Kalace, the organization of hunting and harvesting of wild fruits and herbs in the mountains.

Zone 2 area of high mountain Hajla, Ahmica, Stedim and Rusolija covers the southern part of t Rozaje, along the borders with Kosovo and Metohija. In this area it is possible to form the tourist offer with the richest content in winter and summer tourism in the municipality. In the future, the construction of accommodation facilities in Bandzov, technical regulation of the resort at Hajla and other mountains and build the appropriate tourism infrastructure, this will form a polyvalent high mountain tourist center of national and international significance.

Program of integral development of Montenegrin Prokletije in this area is planned phase construction of a tourist center with 2,500 beds. At a later stage of development provides the tourist potential of activating Stedim and Rusolija

Secondary tourist areas are: 1 Biševo-Basco-D.Lovnica, 2 Balotic-Besnik and 3Bac-Beleg. The main attractive elements relevant for the formation of tourists in the first zone of the picturesque rural areas, mineral springs and the church in Basca archaeological sites in Bijela Crkva, the remains of old churches. Zone Balotic-Besnik out on the Adriatic highway reaches the border with Kosovo and Metohija. In this area there is a unique natural phenomenon - the only karst field in the Prokletija - Giljevo field above the village Balotice. Hydrographic wealth consists of numerous sources, springs and streams Gospodjicin vrh , Luke and Crnokrpe and interesting ethnological elements.



Map 3. Touristic zones of Rožaje Municipality (By M. Knezevic, 2009)

Important for the tourist offer of the hunting-ground Bjeluha, rich in wildlife (deer, wild boar, brown bear, etc.). Of anthropogenic values attract the most attention remains of the old tower, preserved wooden folk architecture and rural landscape.

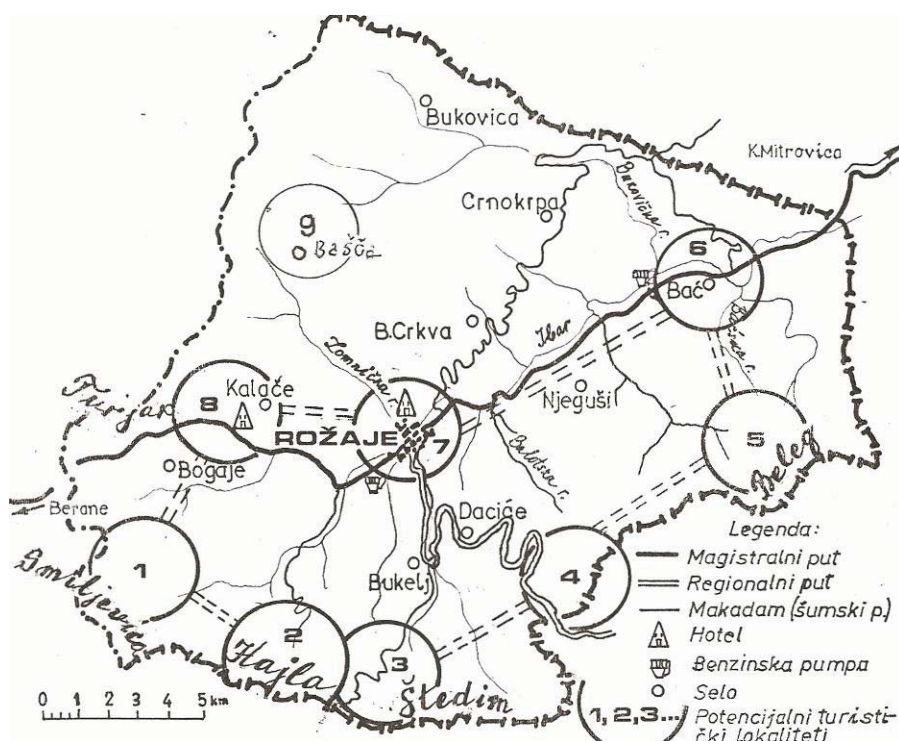
Bac-Beleg zone extends from the main road up the mountain Beleg (1804 m), which extends along the border with Kosovo and Metohija. This zone has similar resources for the establishment of tourism as the previous zone. In the village Dračnovac the customs is located.

Earlier program development of tourism facilities by 1980. year (Bureau of Economics, Belgrade, 1977) in

Rožaje municipality was allocated eight of tourism locations: Djuranovica Luke, Džakovica-Kocino, Spring Ibar,

Hajla (Bandzov), Stedim, Kula, Beleg, Bac and Rožaje. Localities Djuranovica Luke and Džakovica-Kocino are a part of the first primary zone, a source of the Ibar, Bandzov, Stedim and Kula in another part of the primary zone. In the secondary zones are Beleg, Bac and Basca, we've added a ninth site. With the highest potential for the formation

of a complex tourism at the present stage of development have Djuranovica Luke, Džakovica-Kočinio and Bandzov-Haile. The site includes the eponymous Djuranovica Luke valley with the hotel "Turjak, mineral springs, ski slopes, and access roads. Ski resorts are low denivelation and small slope (10-15 °). At a distance of 1 km Hotel, Kocino in the ski resort ski lift is mounted on the bower of land 1,100 feet, vertical drop 205 mi capacity 1,500 skiers per hour. Has a northern exposure, and is designed for skiers of medium and higher categories ... The substrate is a meadow. Locality Džakovica-Kocino is for the development of winter sports tourism, but here are quite limited conditions for the formation of a winter-sports center. Path level differences are small and range from 350 to 500 m, and the terrain slopes exceed 15 - 45°. Locality Bandzov-Haile for the foreseeable future is to evolve into a major tourist center in the municipality of Rožaje.



Map 4. Potential touristic localities of Rožaje Municipality

CONCLUSION

Travel and tourism product offer in the current period and the entire tourism industry Rozaje not developed in line with available natural and human resources. New features are characterized by short climbs, long stagnation and backward movement. For such developments as a result are taken, the minimal current investments in the development of material base of tourism, especially in the construction of reception facilities and infrastructure. It contributed to other factors, such neglect development of mountain tourism and unequal development among regions of Montenegro. Small volume of tourist supply and tourism product, indicates a low level of valorization of existing capacity.

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**NATURAL BEAUTIES AS A BASE FOR DEVELOPMENT
OF THE TOURISM IN ROZAJE**

Esko Kalac, PhD
Rozaje

Abstract

Rozaje with its surround has special rarity and natural beauties, which present solid base for progress of tourism. This sentence refer to such as relief (mountains, cliques, cuts) as on hydrography (river springs, waterfalls), as on varied herbal and animal world (great number of endemic and relict herbal sorts).

An recited natural beauties of this region, which must be putted on function of touristyc valory. It presuppose progress of alternative tourism on the base of contemporary uphold progress. With progress of this kind of tourism, which remains respect of ecological standards, ecosystems, respectively, nature will stay saved of excessive influence of anthropogenic factor that is not case in forting of massive tourism, when life milieu suffer great effects of great number of visitors with various cultural and life customs. Therefore, for this countryside of Montenegro we recommend for progress ecotourism, which is based on progress of village tourism, and conditions that are marked with the highest mark.

Key words: natural beauties, mountains, rivers, ecosystem, tourism.

1. GEOGRAPHICAL POSITION OF THE MUNICIPALITY OF ROZAJE

Territory of the municipality of Rozaje is located on the far south-east of Montenegro. In old literature dates about this area could be found under name of **Upper Ibar**. And this synonym for Rozaje and its surround, which covers upper flow of the River Ibar is appropriate. About it are talking and older citizens of Rozaje, claiming that this name was used in folks language is less used nowadays. The municipality of Rozaje is situated between 42° 45' 10" and 42° 58' 50 " of northern latitude and between 20° 1' 45' and 20° 21' 40'' of eastern longitude.

Diagonal lenght of teritory by direction SW-NE is 27 km, and diagonal direction NW-SE is 26 km. The lenght of the border is 160 km without depressions and hills (Martinovic-Markisic 2002). Within this natural and

administrativ borders Rozaje and its surrounding covers the area of 432 km² or 43.200ha. On this area in recent years existed 32 individual villages, now there are 44 villages with a lot of small villages and summer pasture. From the topografic point of view, Rozaje as administrativ centr is situated in the central part of territory, less on the left than on the right banks of the river Ibar.

2. TRAFFIC CONNECTION

Through the Ibar valley runs continental part of the Adriatic highway which connects Montenegro with Serbia. It is the Ibar's highway which is in function since 1971. Since then Rozaje is connected with Kosovska Mitrovica by the highway. It is 84 km away from Rozaje. During building highway were built infrastructural objects between two towns (petrol stations, bus stations, feasting objects).

In 1971 building of this road was continued in opposite direction toward Berane (Ivangrad at that time) and toward the capital of Montenegro Podgorica (Titograd at that time). Due to this traffic connections Rozaje become important traffic connection between Serbia and Montenegro. By building of this road toward Podgorica and its connecting with Adriatic highway Rozaje has got the shortest and the fastest connection with the seaside.

Building of mentioned traffic connections represented bigining of economical, technicaly-technological, social and cultural development for Rozaje. Since than Rozaje has improved all fields which was based on good geographical position of Rozaje as connection between two continental parts of Serbia and Montenegro. Even more Rozaje as mountain place was linked with developed part of the seaside and further with Dubrovnik.

Connecting with Serbia was more important when the road branched in Ribarice and with left part connected Rozaje with Novi Pazar and Raska. It represented linking with central Serbia and Belgrade as administrative centar and capital of former Yougoslavia.

Traffic connection of Rozaje and Metohija was building and opening of regional highway **Rozaje-Kula-Pec** over the Kula ridge (1781 m above the sea). This road as well as part of the Ibar's highway toward Kosovska Mitrovica represents connections with Macedonija, Greece and the Agean sea.

So, it is easy to conclude that building of roads was important for development and flourishing of all kinds. On this way, from small town Rozaje becomes important place on the map of Serbia and Montenegro. Especially good results are achieved on the area of transit tourism which are based on the traveling of tourists from Macedonija and Serbia toward Montenegro seaside and back.

However, actual plans for road infrastructure in Montenegro are not promising for Rozaje, because the project of freeway **Bar-Boljare** does not

concern territory of Rozaje which has to use momentum transit infrastructure with necessity of its revitalization on the territory of Montenegro.

“ The area Gornji Ibar posses natural beauties and rarities which are same as the Alps, some of them are even better...” This is part of professor Zivorad Martinovic description of Rozaje area in book”Nature of Rozaje”.

3. NATURAL BEAUTIES

The most important touristic resources of Rozaje are mountains, amongst them the most important place belongs to Hajla.

For that reason, special emphasize in this work, will be on this mount which is called the beauty of the Prokletije.

3.1. Mountains as the biggest touristic value of Rozaje

Hajlia(2.403 m above the sea)

Hajla belongs to mountain range The Prokletije which is one of the most impressive parts of The Dinars arch. This mountain range covers border areas of Montenegro Serbia and Kosovo with total area of 2.184 km² and length of 70 km.

The last tops of this range which are natural border between Kosovo and Montenegro, make mountain massive Hajla (2.403 m above the sea).

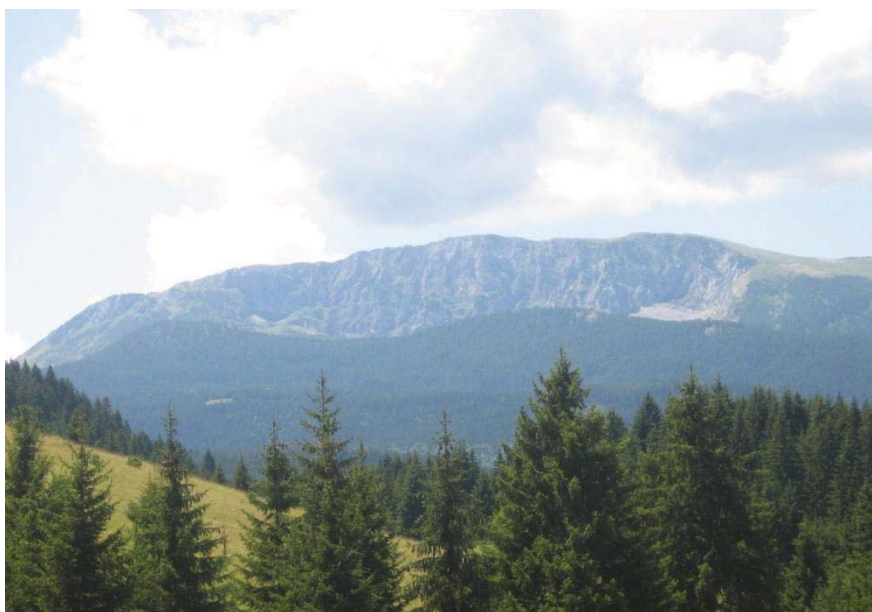


Photo 1. Mount Hajla (2.403 m above the sea).- northern slops – foto E. Kalač

Huge natural potencial of The Prokletije especialy Hajla is represented through the great variety of endemic,rare,healing,aromatic,seasoning and honey plants.

Acording to GREEN HOME The Prokletije is suitable place for growth and development of 225 endemic plants species and subspecies which grow on 1.800 m above the sea.For this reason The Prokletije and Hajla are centar of fitoendzims of Europe.

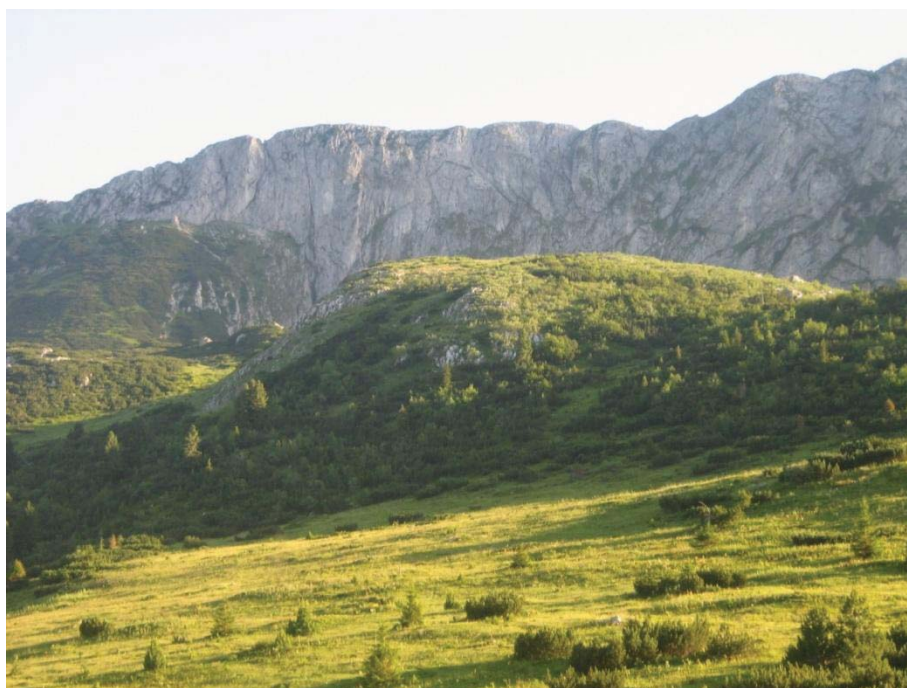


Photo 2. Pean curve (*Pinus mugo* Tura) at the base of Hajla- photo E. Kalac

Forests of Hajla are natural habitat for mushrooms, lichens ferns and flowers, so Hajla was visited by famous world's and our mycologists, lichenologists, ecologists and other scientists.

On the area of Hajla there are different forest ecosystems. There are also different climatic and microclimatic conditions that brings to richness of plant world.

According to Hadzic and Vukojevic(2008) there are more than 150 variety of mushrooms which have economical and ecological importance. Great number of them is eatable, second are conditionally eatable, the third are poisonous, the fourth are deadly poisonous, so this is very important for visitors of mountain.

Hajla is also habitat for a lot of animal species, because its ambiental conditions are giving shelter for them. It is especially rich variety of insects, birds and small and big mammals what make this region the richest on Balkan.

During summer of 2008 we were researching etymologically fauna of this region. From the middle of May to the end of October on different areas :woods, clearing and meadow we found 260 different kinds of insects, group of butterflies has 45 different kinds and many of them are protected by law. Contrasting this dates with dates from Bulgarian mount Vitose which was pronounced for national park, we will find that Hajla is, by this parameters, in front of Vitose.

From the world of amphibian we found 6 law protected species, among them little gurgle (*Mesotriton vulgaris*).

From reptiles we found 9 kinds, 5 of them were lizards.

The habitats on Hajla are real paradise for birds. Ornithologist Andrei Visy (2007) said that he found 161 kind of birds, some of them are here permanently, other are nest builder, third are winter and fourth are transital.

Due to this variety of hornito fauna, Hajla has got status of internationally important area as bird's habitat. (IBA)

Mountain Hajla is famous for long time as good haunting area for big and small venison. Hajla and its surrounding belong to economic haunting area.

This is at the same time gentle and wild mountain. Its northern slopes always were challenge for domestic and foreign alpinists. It seems that laws of nature are stronger here than anywhere. By each step to the highest point you can feel fall of the temperature and lower level of oxygen in atmosphere.

On the base of Hajla are spreaded high mountain meadows with a lot of springs of crystally clear drinkable water.

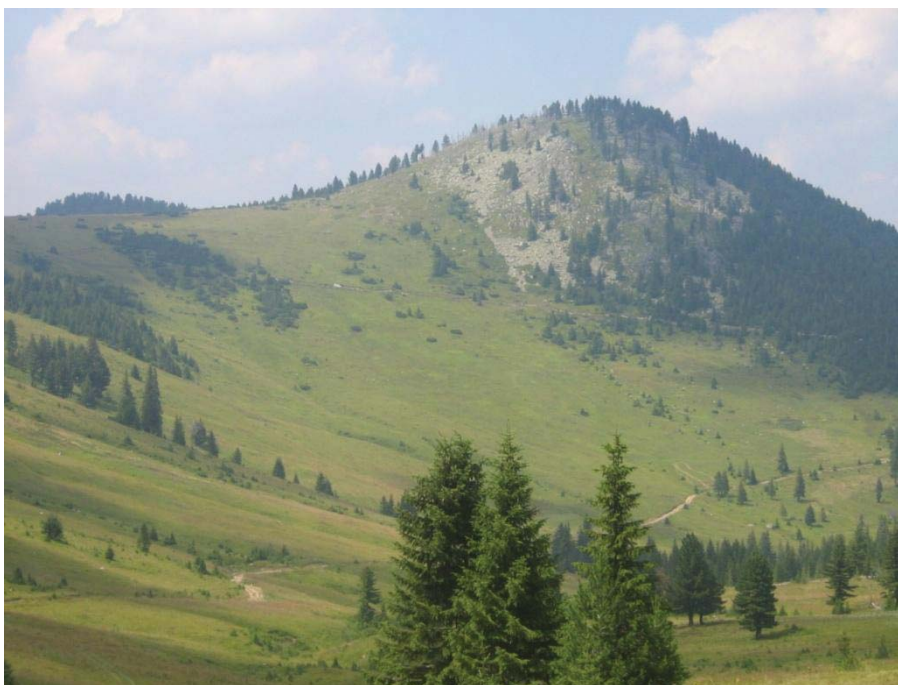


Photo 3. High mountain meadow on the base of Hajla, view from Mala gora, the top is Brahimbreg- Photo E. Kalač

Location of this meadows is suitable for ski stages, and total ambient could be completed by building eco wooden beams which would have different content.

Creating this kind of sport-recreative village we would make conditions for development of alternative not massive tourism which is more and more important.

On this way ecosystems of Hajla would be preserved and profit from alternative tourism would improve GDP of Rozaje and northern Montenegro.

From Rozaje you could use two directions to reach Hajla. One is beside the Ibar and other is beside the Bukelj river. Passing by any of this you will make close contact with nature, completed with beautiful landscapes and murmur of the Ibar or the Bukelj river

The road beside the Ibar is renovated, for that reason it is more used because one can come by vehicle to Bandov, village on the base of Hajla. Well, you can reach the village Bandzov following the road that turns right from the highway Berane-Rozaje, from Dimiskin most. This road goes to the Ibar spring and right before it turns to the Bandzov village at the 7th km of the road. This village is situated on 1.450 m above the sea. at earlier time it was village with 4 year primary school but now it is just summer pasture used by two brotherhoods LJaić and Nikč. As remains of permanent living in village there are a hundred year old stone tower and old but fixed graveyard. The village has a lot of water

springs, with wooden well and wooden trough with moss. Silence in the village is disturbed just by dogs' barking and sometimes noise of children whose families are on summer pasture.

The whole route of road from Rozaje to Bandov is real attraction for walking and bicycle riding with mild gradient before the village. The most attractive walking is in autumn when forest fruits are ripe (blueberries, blackberries, raspberries) and when there are a lot of mushrooms. Old people said: "you will not overeat here but also you will not be hungry."

From village to Hajla you can use two marked paths. Left toward Dermandol and right toward Brahimbrijeg. If your goal is 2.403 m above the sea it is same which one will you use. With your first steps toward mountain you will meet Pean curve and Alps' juniper tree which grow on area from Mal agora to Dermandol. When you reach Dermandol you will have excellent view to Ahmica and Hajla on the right. On the north side of Brahimbrijeg grows Molika (*Pinus peuce*, L). this conifer is tertiary relict of Balkan. On other side grow Pean curve and Alps' juniper tree together with blueberry and bear's blueberries.

When you came to Hajla, if the day is sunny you can see Kopaonik, Komovi and Maja Karanfil and inhabited places seem like football stadiums.

If you come back down the east slope you will meet ridge Mala Gora, from here you can continue walking toward Ahmica and Štedim.

Meadows are right place for having a rest and camping with a lot of gentian and hellebore which are dominated.

Ahmica

If you look at this mountain from Brahimbrijeg it looks like real pyramid. Its western slope is almost clean with mainly limestone sharp edges. At some places on the terraces you can see some Pean curve and Alps' juniper tree. The northern side of Ahmica is partly overgrown and easier for passing.

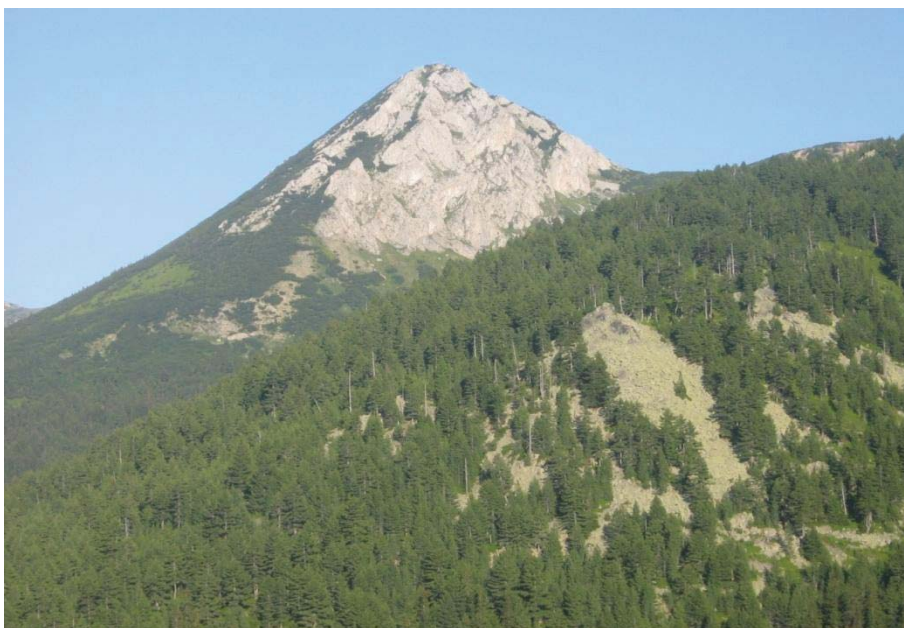


Photo 4 mountain Ahmica

On the base of northern slope of Ahmica is situated beautiful village Kaludjerski Laz



Photo 5 Kaludjerski Laz-Village on the base of Ahmica

The village is interesting from many aspects: botanical, hydrological, geomorphologic, geologic, archeological, culturological and anthropological.

On the photo is Laz's cliff above the village. This is natural habitat of Munika (*Pinus heledreichii* L), endemic kind of Pean on Balkan.

Western side of Laz's cliff is almost vertical and it is natural runway for paragliders, so this sport is at beginning stage here.

Through village flows The Laz's river which is because of its cleanes and waterfalls reach with salmon kind of fish. On upper part of river there is a village mill which is still in function. At one part of village there is graveyard with some graves which are so old that even villagers don't know which period they are from.

And this village, same as Bandov lives just during summer and for that reason it is summer pasture, despite beautiful ambiantal conditions. Beside ambiantal conditions, materil conditions for living in village are also improved.

Kaludjerski laz is 7 km away from Rozaje. The main part of that distance is part of highway Rozaje-Kula-Peć. When you came to big bending,near primary school "Dacice" turn on right and by 3 kilometer long village road through picturesque gorge of the Laz's river you reach village.

During centuries here lived inhabitants which are Albanian by nationality. This highlanders are originally Malisors. They are very hospitable people and like to have guests which they feast with honey and milk products. Somebody said: People are same as the nature is.

Objective opinion is that Kaludjerski Laz deserves much better touristic presentation and valorization than it is done.

3.2 Rivers and natural lakes in function of tourism in Rozaje Rivers

The **Ibar** as central river in Rozaje has about 15 affluents which are rich with natural beauty. At some of them it is more expressed at spring and at some at lower flow.

Natural beauties are the nicest at the spring of The Ibar and The Plunce's river and for that reason they are shown here.

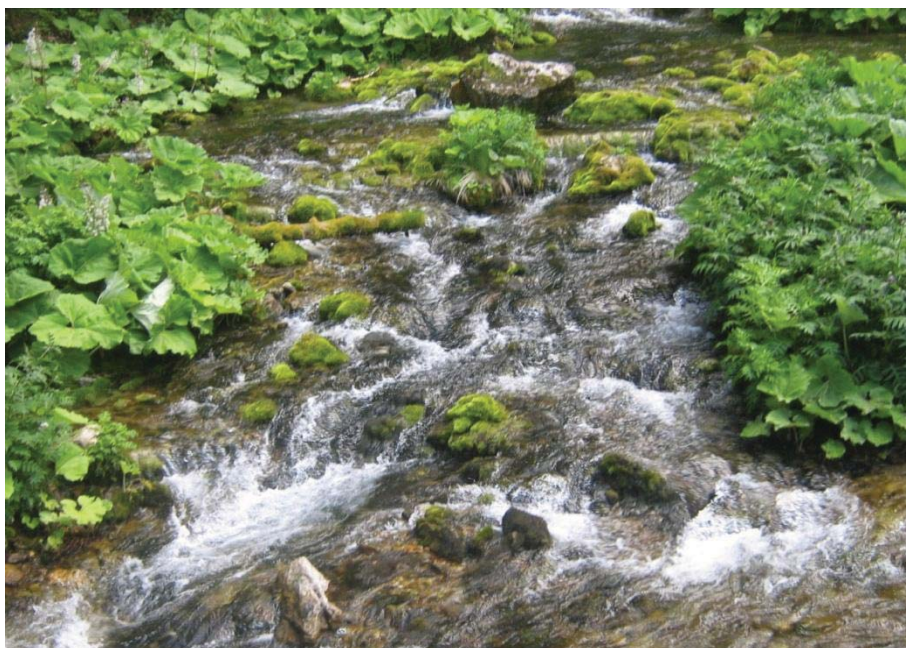


Photo 6. Spring of the Ibar, left part- photo E. Kalač

The spring of the Ibar is on the 8th km from Rozaje in the northern direction, on 1.190 m above the sea.

It fits into natural ambient, so it is part of environment which differs just by sound.

Less limestone widening and rich vegetation give to it special visual effect related to the rest of flow. The spring is made of two parts: right, which is stronger and left less strong because it is collected for town waterworks. Otherwise, the spring is main pick-nick area, especially in summer period. So, who visits Rozaje and do not visit The Ibar's spring, it is same as he did not visit Rozaje.

By natural ambient, real wild beauty and everything worth for tourism in Rozaje and its surrounding especially important are **the spring and gorge of the river Plunčanska.**

This is the shortest affluent of the Ibar. However, morphogenesis of this locality makes it very attractive for visitors even if it is long just 5 km.

To the spring of this river tourist can come only on foot through gorge, or by south side of Veliki vrh, above Šabovski summer pasture. For full enjoyment we recommend going through gorge, when visitors can see only sky because gorge is on some places high 400 m, so gorge is wide only 2 meters at some places. Spring and gorge of this river until Mali most represents real example of unspoilt nature. In spite of being close to Rozaje, this nature is unknown to many citizens of Rozaje. This work has goal to promote travel values of this locality which deserves important place in travel offer of Rozaje.

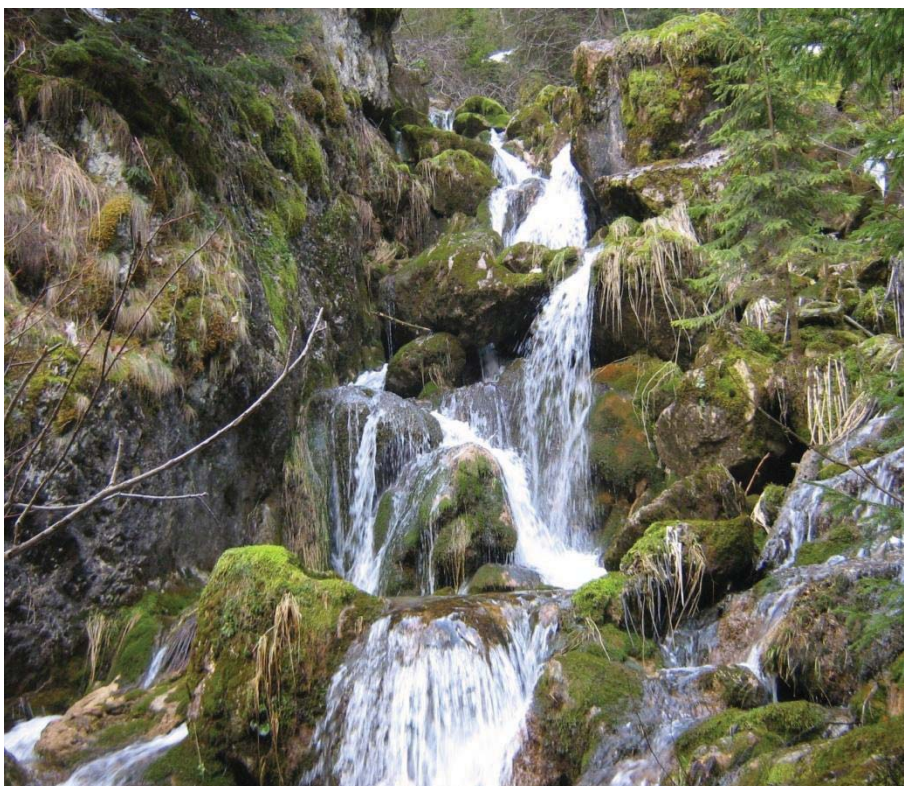


Photo 7. waterfall near the spring of the Pluncanska river- E. Kalač

By its beauty, depth of gorge, difference of biodiversity, important place in hidrography of Gornji Ibar belongs to the Bukovicka river. This is left affluent of the Ibar with large basin area spreaded from Gradina and Musina jama on the northwest, Sohe and Gospodjin vrh to Greben and Vuća on the north of region.

The middle flow of the river flows through meadows and pastures of Bukovica, and 2 km away of Razdolje the Bukovička river flows into picturesque gorge deep more than 200 m.

On the left side of the Ibar the most important natural pearl is lake Ruišta. This small lake is situated on the north base of Gospodjin vrh. Mountain and lake belong to area ov Biševo village. Water level in the lake vary, in summer period it has characteristics of swamp with high vegetation especially Shrubbery(**Equisetum**).



Photo 8. Lake Ruišta, the pearl of left Ibar's coast. Photo-E. Kalač

It is easy to come to the lake by any vehicle. There is asphalt village road to the Mukovići, part of village. From there 2 more km by village road and you are on the lake. This location is ideal for camping, especially during summer.

3.3. Natural landscape as touristic attraction of Rozaje

The region of Gornji Ibar is the most woodland area in Montenegro. Forests cover 62%.

In forest complex the most important place belongs to conifers -48% mainly fir and Spruce; the main part of deciduous forest is beech. Big difference in relief, climate and height causes variety of vegetation, especially woods. This variety offers gorgeous landscape of this area. In that contest "art of nature" is the most efficient during spring and summer. Visiting Rozaje's areas visitor can not stay indifferent toward smell of blossom, wild fruit as are: wild pea, cherry, Savage, Cherry plum, hawthorn ect.



Photo 9. Spring landscape of forest fruit-S. Luke, Photo:E.Kalač

CONCLUSION

Rozaje and its area have plenty of natural beauties, which have not been valorized on right way but in the future it have to be valorized on preservable way. They could valorized through development of alternative tourism, by adequate presentation of natural potential of this area to wider public. Small and middle travel agencies have great chances in future because there is natural base, only thing missing is marketing of travel services which have to get its place.

Today when living is fast great number of rich tourists look for peaceful place for rest and recreation. One of that kind places on the map of Montenegro and Balkan is Rozaje's area, which have natural precondition to satisfy wishes of this kind of tourists. If it is added hospitality of Rozaje's people, domestic food and accommodation capacity than, with right we could say that Rozaje and its surrounds deserve better treatment on the travel map of Montenegro.

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**THE IMPORTANCE OF KNOWING ENGLISH FOR DEVELOPMENT OF
TOURISM IN THE NORTH OF MONTENEGRO**

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ABSTRACT: The paper deals with conditions for tourism development and the reason of not so rapid progress of this important industry. An important reason of bad assessment of the achieved level of tourism development, with inadequate material base is, also, the lack of skilled and qualified personnel and lack of knowledge of foreign languages, especially English, as well. Concerning the fact that social awareness of the needs and real opportunities for development of tourism and its economic effects is not on the high level, our goal is to show the chances to overcome the existing situation in the future.

KEY WORDS: *English language, tourism, northern Montenegro, staff*

INTRODUCTION

Tourism is a multidisciplinary science where the need for communication and learning about different societies, their historical and contemporary cultural achievements, is evident and always present in everyday life. So, the knowledge of the foreign languages is an essential element in the process of communication, without which there can't be serious cooperation, on business or private level, especially in the tourism market.

Northern region of Montenegro, for its abundance of natural and anthropogenic tourist values is one of the most important areas of southeastern Europe. However, its role in national and international tourism has almost unnoticed role. Although the region occupies about 60% of the complete area of Montenegro, its share in the total number of beds in Montenegro is only 2%.

The overall number of domestic tourist nights was 3%, and foreign tourist nights were only 1% (Kasalica, 1988.)

For its exotic natural resources and numerous other features this region has for a long time attracted many tourists. But, having the weak material base and weak human resources in tourism as well, unfortunately region of northern Montenegro records low tourist traffic.

To achieve greater development of tourism and gastronomic industry in this region, the competency of staff in tourism, especially the knowing of foreign language, should find its proper place.

Knowledge of English is, of course, inevitable in any future plans in this region.

TOURISM - CULTURAL NEEDS OF TODAY

If we take into account that tourism as a set of relations and phenomena related to movement and consumption in order to meet cultural and recreational needs, then it is important to determine what the requirements of modern tourists are. Among the tourist cultural needs, for individuals or groups, we distinguish the following:

- "need for a linguistic expression and communication;
- need for knowledge, learning and expanding horizons;
- aesthetic needs in everyday life, traveling and new experiences;
- artistic needs;
- the need for socializing and learning about different cultures and civilizations;
- creative needs;
- the need for the promotion of own ideas and influence others to accept them or not;
- the need to expand environmental awareness "(I. Zorica, 2009).

All these requirements suggest the need for language skills in the tourism sector as an important mean of communication in business and social connections and the development of intercultural communication. The tourist business services at the high level begin and end up with communication. Rapid changes that have

occurred in recent decades, mostly are present in tourist needs and expectations. According to data new forms of tourism have expanded to about 150 and the motives for tourist movement to about 10 000, clearly shows the necessity of the new professions and specialties, and we must rapidly begin to adapt the request of the tourism market (M. Pasinović, 2004).. Only with special and good knowledge of the English language that can be achieved. This concerns both-employees and customers, as well as the very development of tourism and tourist services in general.

Unique potentials of northern Montenegro then would be one of the main attractions for tourists.

TOURISM POTENTIALS OF THE NORTHERN MONTENEGRO

Thematic base of the north part of Montenegro is rich and diverse. As we analyzed the spatial potential in whole, we can determine the values and place and role of this region in the sphere of domestic and international tourism trends. So we can be sure that with better financial base, and better qualifications of employees in tourism in this region, we can expect greater involvement of Montenegro and surrounding areas in tourism.

The area of northern Montenegro is heterogeneous in relief, because it is the product of various geological formations in the history. It is remarkably raised and naturally integrated into the Dinaric mountain range, making, in a certain way, with its mountains, canyons and valleys very distinct geomorphological value.

Mountains between rivers Lim, Ibar, Piva, Tara and Čehotina with their height, the vastness and diversity of landscape give an amazing impression.

River Lim, Moraca, Piva, Tara and small rivers have made in this region attractive valleys, canyons and gorges, which also has great touristic potential.

Spreading in the conflict zone of continental and air masses, extreme altitude and various reliefs, the area of northern Montenegro has great climatic diversity. Here, climate and weather have a positive impact on tourism trends and the significant potentials in its total tourist valorization. This applies especially to the development of summer and winter tourism.

Hydro potential of the region consists of numerous facilities such as major waterways, natural and artificial lakes, wells, springs and mineral water. That's

why northern Montenegro is involved in Group of hydrological richest regions and makes the potential which is of great importance for tourism development.

River Tara, Crno, Biogradsko and Plav Lake have only modest tourism reputation, and many other hydrographic facilities are waiting for their chance.

The most complex and attractive hydrographic object in tourism is Tara river. Its upper course receives several vivid and clear tributaries. In the valley extension of Kolasin and Mojkovac, the valley partially loses its beauty because of the degrading influence of man. However, its downstream canyon is composed of contrast, dynamics and dramatic forms. Tara Canyon at an average depth of 900m, a number of tributaries and strong springs makes not only the largest but also most attractive canyon in Europe. That is why UNESCO program "Man and Biosphere" has included this canyon in the environmental world biosphere reserve (DM Kićović, DT Kićović, 2004)

Ornaments of the mountains in the northern Montenegro are thirty colorful mountain lakes. That are scattered mainly from 1000 to 2000 masl by the mountains with significant glaciations in past and is surrounded, mostly, with dense forests whose colors are reflected on its glassy surface of the water, leaving an indelible impression with tourists. Northern Montenegro has about 40 mineral and thermal springs. More than half of them are in the area of Bijelo Polje municipality.

The significant natural potentials of northern Montenegro is the wildlife with very rich and diverse flora and fauna and pronounced horizontal and vertical zoned space.

The thematic basis of tourism development in the north of Montenegro are, of course, and anthropogenic tourist values that have grown and are formed at the crossroads of important roads and at the scene of important historical events in many years, centuries and millennia. That is why, many of the cultures in these areas have left testimonies of its existence, from cave Odmuť in Piva to village Beran debris and Kremeštice near Berane, and then from the Iron Age burial mounds in Gotovuša near Pljevlja and Lusci near Berane. These man-made assets observed through cultural and historic sites and ethnographic heritage and archaeological sites, rural and urban areas and modern artistic achievement contributing to the content richer and tourist facilities in this region.

In a series of cultural and historical monuments of northern Montenegro, the largest tourist values are: Monastery Moraca, Piva, Nikoljac, St. Trojice of Pljevlja, Đurđevi stupovi. By relevance for tourism development, is not lag behind even the remains of medieval monasteries and churches as well as cultural and historical monuments of Islamic architecture, including a special place: Husein-Pasha Mosque in Pljevlja, Old Imperial, Redzepagica and Ferović Mosque at Plav Mosque Kucanska and mosques Sultan Murat II in Rozaje.

REQUIRED ACTIVITIES FOR DEVELOPMENT OF TOURISM

Tourism is now the relevant economic sector in many developed countries, and it is expected that in due course to be on the north of Montenegro. Based on the tourist value of the aforementioned, the key role in developing tourism and attracting tourists are the tourism infrastructure that puts the tourism product in function of the tourists. It is a necessary condition for the formation of quality tourism products and meet demanding standards, as well as formed products, of which depends on meeting the need of tourists, and a final affirmation of the tourist product on the market.

Region north of Montenegro has no level to which would be recognizable tourist infrastructure, which means that still there is no awareness of its importance in the value chain of tourism products. It also has advanced further in solving the problem of accommodation and increasing in some restaurants. What the tourist are interested today is the national cuisine in the north of Montenegro, but, unfortunately, instead of national dishes, as a brand to offer, the classic products, that are present throughout Montenegro and the surrounding are offered.

Human resource as a common factor in all organizations is the complete source of contributions through their personal abilities and skills. Activities that managers need to ensure the success of tourism organizations have to fit the strategy of the organization. When it comes to tourism and the tourist industry so far the main problem was lack of knowledge of foreign languages.

Tourist services, otherwise, the common name for all types of services that are or will become available to foreign and domestic tourists and is easily recognized and necessity of to being presented in a foreign language. These services provide travel and tourist agencies, and gastronomic companies.

In the tourism organizations of local governments is required to establish management capable of implementing modern marketing in foreign languages, especially English. Intermediary services are held between services - demand (tourist resort - residential place). In tourist areas connecting different service agencies, in addition to accommodation and food services, information offices, guide services, etc.

THE IMPORTANCE OF KNOWING ENGLISH IN TOURISM DEVELOPMENT IN MUNICIPALITIES IN THE NORTH OF MONTENEGRO

The way of English language starts with expanding of the British Empire by its far-reaching influence which allows its transmitting to all over of the world in many British colonies. After the Second World War, English is definitely becoming the lingua franca of the modern world. Hutchinson and Waters (Hutchinson and Waters) state the following: End of World War II marked the beginning of enormous and unprecedented expansion of scientific, technical and

economic activities at the international level. This expansion of the world becomes united and driven by two forces - technology and industry - which, by their relentless progress very quickly created a need for the international language. Due to many reasons, particularly because of the economic power of the United States in the postwar period, that role went to English (Hutchinson and Waters 2000).

English language, accompanied by economic power and cultural and technological exports from the United States, in the first place, followed by Great Britain, gradually became the dominant language of international communication and correspondence. As Jackie Walters (Walters) observes:

At the forefront of technical progress and scientific research, anglophone of the North America naturally created terms for new developing of products. Its language is so evolved in the rhythm of changes in society and its aspirations, later inspiring the rest of the world. Neologisms have appeared with the economic expansion contributing to the cultural impact (Walters 2002).

At the end of the twentieth century digital revolution finally solidifies the position of English as a global language, establishing its primacy in relation to other world languages with a large number of native speakers such as Chinese, Hindi, French or Spanish, so today we have a situation where English is considered the international language in all areas of business, economics, science, technology, and even sports. English has become the first choice when it comes to technical sciences such as mechanical engineering, electrical engineering and computer science, civil engineering, architecture, transportation and others. It is impossible to imagine a scientific conference in any field without knowing the English language.

Given the importance of English language as a global is not surprising that the knowledge of foreign languages, first the English, is precondition for the development of all sectors, primarily tourism. Because of its underdevelopment, this area is scarce human resources, and particularly those which are properly prepared for high-quality communication in English. It should be have in mind that the existing staff during the summer tourist season, and because of greater employment opportunities and income, gravitating towards the south of Montenegro, where tourism is, particularly in coastal regions, most important economic sector.

Regarding the foreign investment, it is generally known that the influx of southern Montenegro significant. Last year there was a dramatic influx of capital from the former USSR. This is not the case in the north of Montenegro, except in the municipality of Kolasin because of the attractive ski resort in Bjelasica.

Currently actual project is, the investment of foreign capital in order to reactivate the airport in Berane. This project would contribute, to a large extent,

the development of tourism for the entire northern area. The question is, if one takes into account internal survey conducted in this municipality, where the 536 local government staff only 134 know English, of which only 30 of them being actively used, how it will implement a quality service in all spheres economic development and even tourism.

On an even less favorable situation we encounter in the municipality Andrijevića, where out of the 28 local government employees only three of them speak English language.

In the foreseeable future, construction of the highway Belgrade-Bar, that by the project should pass through the above mentioned municipality. Construction of the highway consists of series related content, in large measure tourism. Inevitably raises the question of how to meet the travel requirements with only three employees who use the English language (Municipality Andrijevića). Internal survey showed that in the Municipality of Plav is worrying situation, where the 120 employees only four of them use English. We should point out the disadvantage of this situation in this municipality, since it has a very attractive tourist values (Plav Lake, Izvori, and Savino oko Grlja river with a waterfall), which represent the natural phenomena.

It is encouraging that in Plav initiated procedure for establishment of the Faculty of mountain tourism, in whose curriculum is provided the study of English, German, Russian and French. This gives the hope that, if it comes to life, provide better conditions for tourism development, at least for knowledge of foreign languages. In the context of the above should be mentioned that in the municipality of Bijelo Polje is similar situation because of the 560 employees, 60 passive and 20 actively speaks English. The situation is similar when it comes to these matters, in other municipalities in northern Montenegro.

In addition to the so far exposed are giving the example of Municipality Rozaje. Hotel Rozaje "is privatized during the nineties. The new owner for the reconstruction of this building has invested EUR 2,000,000.00. The facility is categorized with four stars and is among the elite of tourism facilities of Montenegro. The owner should certainly take into account that it is necessary for good functioning of the hotel a highly professional staff that can meet all the requirements of the customer. Accordingly, it is not surprising that the representative building, unfortunately, is in front of the closure. By comparison, the Hotel Splendid of Becici employed there, among others, and native speakers of English language.

Because of this situation it is necessary to draw attention to the relevant authorities at local and state level that it is necessary that personnel in the tourism industry know:

- Resources – potentials
- infrastructure,
- English or another foreign language,

This would effectively raise the level of tourism in northern Montenegro.

CONCLUSION

Language serves as the communication between different cultures, and the communication is always the beginning and ending of tourist services.

For the future development of tourism in northern Montenegro, it is necessary to take into account assessments of experts in the field of tourism. In their view, inter alia, training of personnel in our country lags behind what is being happening on this issue in developed countries.

Present system of education in our country was not flexible since irrationality of terms of program content was present. New forms of tourism require extended "range of occupations, and improving education of qualified staff, which in the first place would involve language skills. Improving education of personnel will increase productivity in the tourism industry.

These statements and ratings can also be the conclusion of our thinking about these issues.

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**THE ROLE OF SMES IN BRANDING TOURIST
DESTINATION**

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Abstract

The tourism is increasingly seen as an appropriate vehicle to aid economic growth for developing countries. In order to position tourist destinations, branding tourist destination has become one of the very powerful tools in tourism marketing. There has been a general agreement among academics and practitioners that places can be branded in the same way as consumer goods and services. Although master-plans and strategies developed by the local and state authorities are guidelines in developing tourist destination, small and medium enterprises have a very important role in implementing those strategies. Hence, in this paper we bring a review of the past literature about SME's role in branding tourist destination.

Keywords: SME, tourism, branding tourist destination, tourism development

1. INTRODUCTION

Although small firms in tourism have featured on the agendas of policy-makers for several decades, academic interest over the same period has fluctuated. Certainly the flurry of activity that occurred during the early 1990s became a steady flow of somewhat fragmented output rather than the ambitious and coherent programme of research that was anticipated at the time. The paper traces progress in this field by reviewing inter-, multi- and disciplinary studies that contribute to current understanding of small firms in tourism and how this understanding articulates with wider debates within tourism studies. In so doing, it challenges some conventional wisdom and provides an agenda for future research.

2. IMPORTANCE OF TOURISM IN MODERN ECONOMY

There is a paucity of academic research in this field [1] in an industry with daily revenue of over US\$ 2 billion [2]. This is a growing industry with less than 12 percent of the world population flying internationally [3,4]. In 2006, Travel and Tourism contributed 10.3 percent to world GDP, had 12 percent of global investments and 8 percent of all jobs [4,5]. Competition is fierce with 194 nations clamoring for a share of the tourist's heart, mind and wallet. This indicates a need for a more strategic approach to branding as brand position leads to greater economic value [6,7], growth and welfare. A study by Fan [8] found that brand owners outperformed their competitors in terms of profits by a ratio of 50:1. A strong international marketing strategy improves financial and brand performance through identification and achievement of specific brand values [9,10].

Existing strategy frameworks cannot linearly be applied to the destination context [11,12] due to its multidisciplinary foundation and terminology interpretations [13]. The unique characteristics of destinations mentioned below which differentiate it from corporate, product and service brands are some reasons why they need another brand strategy development approach:

- (1) Tourism is dependent on macro-environmental factors like politics, terrorism, disease outbreaks, weather/natural conditions and currency fluctuations.
- (2) Geographical constraints affects accessibility, weather, access to resources, defines infrastructure requirements and people characteristics.
- (3) Inherited names and past history like heritage, culture and perception of locations (like country of origin) evolve over time and cannot be easily changed [14].
- (4) Stakeholders are diverse and influential. Destinations are run by governing bodies which are politically motivated, have funding constraints and answerable to their stakeholders [15,12,1]. Media is becoming a powerful influence.
- (5) The diversity of target customers, the complex decision making process and the multiple choice sets make destination marketing harder [16,17].
- (6) Destinations are service dependent. Services account for over 65 per cent of global GDP and are people dependent, employing 40 per cent of the global workforce [18]. Destination success also depends on infrastructure, technology and communications [19]. Investments required are huge and need to keep global standards in mind.

(7) Feedback and control issues [1]. Destination marketing organizations do not have top-down implementation control [1]. Perception of destinations is influenced by publicity and promotion [20] which can be distorted by global market events and other destination images. Since destination brands are complex and are constantly changing [21,22] they must be managed.

3. THE SME CONTRIBUTION TO NATIONAL ECONOMY

The arguments advanced in favor of targeting SMEs in general [23] are ability to create new jobs at a time when major corporations are downsizing; improvements to industrial relations and working environment; diversified and flexible industrial base; stimulating competition, leading to an energetic enterprise culture; and ability to stimulate innovation.

However, the significance of new firms in job generation, innovation and economic change is widely accepted [24] and tourism SMEs are assigned an important role by the EU as an aid to regional convergence [25]. They are labor using and frequently multi-tasking, thus allowing for flexibility in meeting the needs of their customers.

On the other hand, Shaw and Williams [26], in their study of Cornwall, noted that many were family enterprises and that there were sufficient instances of those with little market stability, low levels of capital investment, weak management skills and resistance to advice or change, as to cause barriers to successful tourism development. The solution to difficulties of this kind that tends to be adopted by government agencies in the field is to identify good practices that can be held up as exemplars. Action is then taken to try and upgrade standards through "benchmarking", sharing best practice, providing financial support, and investing in the skills of the labor force.

4. DEFINITIONS AND TYPES OF SME IN TOURISM

One of the early debates in the literature was about establishing agreed definitions of 'small enterprises' and 'small and medium sized enterprises' (SMEs) in tourism. Some of the contributions were abstract and sought to interrogate the conceptual value of identifying these firms as separate analytical categories [27]. Most were empirical (and often survey based) and tried to specify the distinguishing characteristics of tourism SMEs and their owners [28]. Although there had been some highly influential publications previously [29] the novelty of small firms research in tourism during the late 1990s is captured by suggestion that it was almost terra incognita. There has been progress since then but it has been sporadic and uneven.

Perhaps stimulated by a major public investment in small business research [30], several British academics examined the qualitative differences between small, medium and large scale tourism enterprises [31,32] and made the case for recognising their distinctiveness. Many of the distinctions between large and small firms that had been identified for all sectors were then applied to tourism by [28]: the uncertainty faced by small enterprises and how they responded to it; their contrasting approaches to innovation; the need for a managerial structure if enterprises grew (though most do not); and the availability of capital. Some distinctive - but not unique - factors that impact on tourism enterprises were also considered as part of a case for the separate study of small firms in this sector. Others had already noticed that 'size (however operationalised) does influence the internal and external relations of an economic unit, but other factors such as economic sector, are likely to be just as crucial in determining whatever it is that is being investigated [33, p.530]. There have been occasional attempts at creating grounded definitions of small firms in tourism and hospitality but, in practice, most academic researchers defer to official definitions, where distinctions are usually made according to the number of people employed. Unfortunately, there is no international agreement on size bands (definitions vary significantly between, for example, Africa, Australia, Europe and the United States) so comparative work remains problematic. Perhaps the failure to identify a rigorous conceptual distinction between small firms in tourism and similar businesses elsewhere accounts for the limited take up of acronyms such as SMTEs (small and medium sized tourism enterprises) [34], SMHO (small and medium hospitality organisations) [35] and SHEs (small hospitality enterprises) [36].

5. SMALL BUSINESS MANAGEMENT AND DEVELOPMENT AND POLICIES TO SUPPORT DEVELOPMENT

The question of business success in tourism is problematised by [37]. Focusing on the contrasting approaches of the economics and management literatures, they concentrate their attention on minimum cost and productivity measures in SME hotels. Their research produced a set of apparent relationships (for example, between training and costs/ productivity) but falls short of offering an integrated explanation of performance (or growth). Indeed, it is somewhat curious that almost no attention has been given to applying theories of small business growth to tourism businesses. A rare exception is [38] who provide a systematic and fascinating account of factors influencing the growth of small and very small minority ethnic restaurants and cafes in London. Using multiple regression analysis, they highlight the importance to growth of fluency in English, formal recruitment methods and employment of co-ethnic workers. They demonstrate how an interplay of these factors conflate to provide low costs

and competitive advantage. Future research that examines growth for other types of tourism businesses should be given more prominence.

Research by [39] observed a commercial squeezing out of smaller firms by new high yielding budget hotel chains (e.g. Holiday Inn Express, Premier Inn and Travelodge). Properties being converted back to domestic use or sold for multiple occupancy was one short-term consequence of the commercial strategies of rapidly expanding hotel chains that swept the tourism environment in late 1990s and new millennium.

Commercial responses from smaller enterprises, such as creating niche products, including boutique or more specialist higher value products, illustrates the natural change in urban environments with an all-year round tourism market. This development was also accounted for by the rise in the residential property market compared with the value of hotel properties. In more constrained seasonal operating environments, the competitive appeal is reduced and so smaller firms have a greater potential to survive, especially where the business model is based on diversification or cross-subsidisation with summer profits. Innovation along with the related aspects of knowledge acquisition and absorption are increasingly significant aspects of study in tourism. Such topics are of particular importance to research on small businesses given their numbers and role in local tourism economies. Surprisingly, however, innovation and knowledge management issues remain areas of relative neglect in the study of small firms.

One of the central tenets of public policy responses to address issues of competitiveness among small firms in many developed countries has been the re-emphasis on minimum quality standards and a perception that the twin pillars of competitiveness e quality and productivity [40] - need to be tackled alongside the improving capabilities of ICTs (Information and Communication Technologies) to raise both dimensions. ICTs have also provided a new forum, via the introduction of Web 2.0 technologies and social networking, to make quality issues more public and transparent. Newmedia such as TripAdvisor, Booking.com have placed service experiences and their rating firmly in the public domain [41]. For small firms, this can be both an enabling technology - by showcasing customer satisfaction - and conversely, it can be a negative and highly unpredictable experience for the less quality led business. Technology and ratings schemes such as this may eventually displace the current grading schemes operated by public sector tourism organisations.

6. SUSTAINABILITY

The final area of research that has attracted relatively limited attention in the literature is the cultural dimensions of sustainability, particularly the role of

ethnicity and its role in tourism development. Smith [42] has highlighted the importance of culture as a catalyst for tourism development, but few studies have focused on SMEs and moved the research agenda on beyond generic debates over projects for harnessing the cultural dimensions to create a viable tourism-based strategy that unifies the local culture which is subsequently used for business development. As Ashworth and Page [43] argue, in urban areas this has given rise to local expressions of culture to differentiate geographical areas as part of the process of 'globalisation'. For example, [44] survey of the perceptions of small businesses of culture-led regeneration in Brick Lane, East London, is one example of a study that examines the micro issues underlying the creation of an ethnic landscape based on small businesses. It is interesting because it records the £11.4 million of state investment in urban regeneration and the creation of a tourist bubble based on 51 new restaurants and cafes that form the largest cluster of Asian restaurants in the UK. The collaboration of the SMEs, combined with state re-imaging, has assisted in showing how SMEs can be the hub of tourism redevelopment strategies.

7. THE SME ROLE IN BRANDING TOURIST DESTINATION

One of the most conspicuous developments in tourism policy internationally over the past two decades has been the growth of interest in small businesses. They have been seen by policy-makers as the economic lifeblood of the sector and, simultaneously but paradoxically, as the laggards that prevent innovation and growth. These and other ambiguities stimulated academic enquiry that sought to reveal how small businesses 'worked' and how they articulated with the economies of destinations. Research has, however, extended beyond the boundaries of economic geography. Although most intellectual effort has been, and remains, located predominantly within the business and management literature, some of the more significant contributions to understanding small firms in tourism have drawn on sociology, social anthropology and, to an extent, politics and policy studies.

The limited engagement by tourism academics in research relating to small firms is surprising because reference to such enterprises is common in the tourism literature. Claims have been made that they somehow typify the sector and can be vital to job creation [45], to destination competitiveness, to economic development, including destination development to sustainable tourism to sustaining particular lifestyles [46] and can create significant social benefits. Moreover, small firms in tourism have, over the years, also been the object of local, regional and national policy interventions in many parts of the world [47]. Yet, they remain under-theorised and under-researched.

Under-theorised in that there have been too few (or inadequate) attempts at explaining how important features of these organisations might be understood

(for example, their genesis, growth or their articulation with the wider socio-economic environment that they inhabit) rather than describing their characteristics or behaviours (critical though this is when researchers are turning their attention to a topic for the first time). The shortfall in research is important as it often results in presumptions being made about small firms in particular settings which are misplaced.

The limited vitality of academic debate about small firms and their role in tourism has also resulted in some overly general conventional wisdoms being perpetuated. Several of these will become evident during the discussion that follows. By way of illustration, the sector is routinely described as being characterised by small and medium sized enterprises (SMEs). Such a description is, of course, broadly accurate but is hardly illuminating. This is because it fails to recognise the disproportionate importance of large firms in terms of the number of people employed in the sector [48], ignores debates about whether employment creation is likely to emerge from smaller or larger businesses and, more importantly, by not deconstructing 'tourism', it does not analyse similarities and differences between sub-sectors or between tourism and other sectors of the economy. As [49], in a thoughtful comparative analysis points out, 'the findings of this research refute the notion that tourism is different in this regard from other sectors of the economy. on an industryby- industry basis, tourism is less dominated by SMEs than agriculture, forestry, fishing, and hunting; construction; real estate, and rental and leasing services; and professional, scientific, and technical services'. Smith uses Gini indicies to showvariation between subsectors. An interesting comparison not made by is with retailing, which - in the UK at least - has seen a sharp fall in the number of small shops over recent decades. Seeking to understand structural changes within the sector is also vital.

Perhaps one of the fundamental weaknesses of the existing literature is the absence of any major paradigm shift or the way in which researchers 'see' small firms in tourism. There has been a tendency to consistently conceive businesses narrowly and almost exclusively in isolation of their wider social contexts. Much of the research has also missed important changes to the policy landscape. For example, the connection between small firms in tourism and the rise of the cultural and creative industries in which tourism, leisure and hospitality is often now situated in policy terms. The result is a focus on enterprises per se rather than wider debates, such as the rise of an experience economy [50] in tourism studies. This line of argument is advanced by Ashwoth & Page [43] in relation to urban tourism but it can equally be applied to small business research. Arguably, a consequence of these limited insights is a minimal academic involvement in new debates dominating international bodies such as the Organisation for Economic Co-operation and Development (OECD) in relation to the tourism competitiveness-sustainability agenda, on issues of productivity

in the small and medium sized enterprise (SME) sector and the recent emergence of debates associated with partnership working to address issues of collaboration and destination development in relation to small businesses [51].

It is important in a review such as this to recognise the potential value of those studies that are not obviously categorised as small business research. For example, studies on adventure tourism in various parts of the world have focused predominantly on the SME sector that dominate the business structure of this nascent and expanding activity. Whilst these studies have been concerned with operational issues as part of a different research agenda, their results have a considerable salience with, in this case, issues reported on lifestyle and motivations for working as owner-operators in scenic locations, pursuing professional interests as a basis for earning a living.

Moreover, they show that tourism is only one part of a wider market for their businesses which serves to highlight the limitations of overly simple market classifications sometimes found in the literature. It is arguably more pertinent to draw on wider developments in social science to offer alternative theorising [52].

Destinations like corporations are subject to increasing market complexity (globalization, internal and external government policies, foreign exchange fluctuations and natural environment) and increasing marketing costs. Hence corporate branding strategies can be extrapolated to the destination context [53]. Destination brands are also similar to product and services. They have both tangible and intangible components, are mostly service dependent, and can be positioned through the use of slogans.

8. CONCLUSION

Small businesses form an important part of the tourism system internationally yet remain relatively under-researched. Indeed, in spite of the extensive list of publications reviewed for this paper, there has been something of a collective side-stepping of small business research in tourism. The trickle of interest that began to grow some twenty years ago did not turn into the torrent that many had expected. For a variety of reasons - some to do with access, some to do with perceptions about what the locus of interest in tourism research should be - small firms have failed to capture the collective imaginations of tourism scholars to the extent that other avenues of investigation have. This means that our understanding of such organisations within tourism is partial. Some things are clear e motivations vary, these motivations are susceptible to appropriate categorisation, certain business practices are more likely to yield reward than others and that networks play important and multifarious roles in the lives of

owner-managers. It also suggests that the impact of research on small firms in tourism has been marginal to mainstream studies of small businesses.

Critically, however, the limits of existing research on small firms have consequences to some degree for almost all of the major research problems in tourism studies. How can sustainable tourism be understood and addressed without appreciating the role of small enterprises? How can public policy initiatives to enhance quality, to create jobs, to regenerate destinations do so without understanding the dynamics of smaller enterprises that are endemic in tourism? How can the social and cultural role of tourism be understood without examining one of the key locations of exchange in many parts of the (tourism) world? How can tourism be understood without incorporating the informal economic relations that constitute so many of the transactions between tourists and small businesses in developed as well as developing economies?

At the moment, the danger is that assumptions are made about small businesses that appear not to be borne out by the evidence. An interesting illustration is the manner in which many local authorities do not differentiate between SMEs and other businesses when looking at their absorptive capacity during an event to benefit from its hosting. When the desired benefits are not reported by the SME sector, policy-makers are often unable to explain why they have failed to operate in the same manner as much larger businesses that are networked, promote their products globally and view events as a key strategy to extend the season or to provide a short-term boost to their business. Therefore, it is not just the academic neglect and limited understanding of the SME which has academic interest: the actual tourism sector and its ability to benefit from visitors is also a major issue for academics working with policy-makers. Therefore, the purpose of this paper to challenge many of the assumptions about SMEs and their characterisation and existence in the broad field of tourism has numerous contributions to make to a better understanding of this phenomenon as well as highlighting the research tasks ahead. For example, to assume SMEs are characterised by homogeneity, formality, make significant contributions to local economies or to destination development are all open to question, perhaps on a case-by-case basis. Such questioning is only likely to achieve a deeper understanding of the relationships that exist between SMEs, tourism, destinations and the customers they serve (both tourist and nontourist).

This paper has also drawn attention to many of the potential avenues of research that remain open to critical enquiry. Little is understood, for example, about why some small businesses in the sector that seek growth, achieve their aspirations while others do not. There are partial insights from studies that have been undertaken broadly in management research, including innovation and knowledge transfer, but much remains to be done. Researching the strategies, strategic alliances and the effective utilisation of ICT, for example, will enable a

clearer understanding of how businesses might be supported by the public sector. Similarly, greater understanding of how skills and knowledge on a range of matters might be developed would be equally welcome. Research on these enterprises must recognise spatial and sectoral variation; small tour operators in Australia and restaurants in India may belong to 'tourism' but factors explaining their role, development and behaviour will be marked by difference more than similarity.

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**MODELS OF THE SERBIAN TOURISM GROWTH –
private and public sector**

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Abstract: The Republic of Serbia is today at the historic crossroads of intensive adjustment to European integration. There is manifested a remarkable increase of competitive capacity of institutions, enterprises and individuals.

In this context, Serbia must, alone or with international investment to define the construction of competing models of growth in all areas and in tourism. Our tourist attractions had not been yet valorized in the right way, because tourism was never a priority theme of development policy in Serbia.

Because of the closeness of the tourism market, we are very slow in process of restructuring and privatization. There are not any significant investments from home and abroad in tourism, and therefore no new forms of tourism.

So far in Serbia is particularly represented the following travel products: city vacation, cruises, business tourism, health tourism, tourism in the mountains and lakes, events, rural tourism and special interests.

Key words: tourism, growth, models, privatization, investment.

INTRODUCTION

Travel policy is going to be the starting point of the tourist thought processes. Focused on tourism development at all levels and gives longtime development perspective.

Serbia has now begun to realize that tourism creates competitiveness and the level of private enterprise, not just at the national level.

In this sense, Serbia needs to support the construction of the competitiveness of private enterprises various infrastructure investments, because in the world today is not about coach competitive states, but the states with more or less competitive tourist destinations and products.

To develop a competitive tourism benefits can achieve only with the mutual interaction and partnership between private and public sectors. That partnership must be based on mutual interests and maximum transparency. Just by creating a

transparent and stimulating condition within the Serbian government, tourism enterprises can most contribute to this complex process, whether it is domestic or foreign entrepreneurs, and whether it is infrastructure, the regulations or the process of stimulation.

This is particularly important, because in the past twenty years, tourism has both positive and in negative sense developed into an important factor in the context of overall development. In the framework of EU, tourism represents one of the largest economic sector, with 9% of employees and 9% share in consumption. In addition, it presents one of the five export categories in 83% of all world countries and a major source of foreign exchange earnings in almost 38% of countries. According to that, tourism has a major role in the economy of many countries as a source of employment and a way to fight poverty. According to the forecasts of the World Tourism Organization (WTO) the number of tourist arrivals in Europe is going to be double by 2020, amounting to 720 million.

TOURISM IN THE FUNCTION OF THE INTENSIFICATION OF ECONOMIC DEVELOPMENT

Start of initiative tourist movement is tying to a certain degree of development of the economy of a country, and the ultimate economic effect of these trends noticeable in the underdeveloped areas. The most important thing to point out the emissive region is very strong effect of initial organization. Tourist tradition and tourist culture of the population, dependent the most on development and the achieved results of tourism organizations, whose main task is to create favorable conditions for the inclusion of the majority of population in tourist movements and direct participation in the formation of tourism. As their pandas seem receptive tourism, organizations of non-economic and general social activities that make a country's tourism offer. Tourist activity is taking as a social phenomenon from the point samples, objectives, forms and their non-economic consequences, but also as an economic phenomenon from the perspective of the ways and means to achieve social trends, current business processes in the tourism industry and their consequences. Economic and non-economic functions of tourism are its dual nature, but both sides of tourism can never placed in an adversarial relationship positives and negatives. The contents of non-economic functions seem to satisfy tourist needs of the people, turning tourism, motifs that arise from them, and stand in the tourist spending, as its initiators, rectifiers, and regulators. In a direct proportion to the transformation of tourism fangled phenomenon to its dynamic growth, increasing the number of economic functions. Its main characteristics are economic activation of human resources, conversion effects, economic growth in developed areas, and the intensification of economic development nondevelopemnt areas, harmonization of goods and cash flows and the balancing market, inductive effects, the stabilization of the balance of payments and improve the international economic exchange.

Tourism in practice proved to be an effective instrument of development, particularly if it is economically underdeveloped areas of the country. This activity is considering being the driving force behind the process of performing economically underdeveloped areas on the threshold of economic development, but apart from this and such a direct effect on tourism impact on solving other economic problems, and to mitigate or overcome rises to the level of conscious action targets companies in the economic sphere of life.

In the most cases in under-developed areas is a large concentrations of tourist and recreational facilities, and tourist materials are diverse and they are more general tourist value and importance, and so these areas become the ultimate goal of tourism trends.

Developed motion broadcast increasingly tourist "waves" that when "sprinkle" underdeveloped areas, automatically trigger the process of their intensive development. In this way, the observed positive effects of tourism: the construction of economic infrastructure and superstructure, the development of a tangle of economic activities, development of a network of non-economic activities of tourism.

GROWTH MODELS OF OTHER COUNTRIES

Serbia is a relatively new tourist country, which is trying to find its place in a much diversified tourist market. Taking into account all global processes and trends for their chance they form primarily in the experience of other countries that have also gone through the transition process.

Serbia can learn from the examples of countries with similar initial state looking at the infrastructure and human resources, product structure, the structure of housing, access roads and air. Each of these countries is on its way, different models, trying to establish as soon as possible competing standards in the tourism industry.

Primarily to study the ways in which the competing countries solve the following three issues:

- 1) How to deal with the inherited structure of capacity, or to carry out the privatization process;
- 2) What growth model applied to invest?
- 3) What is the role of government in this model of growth?

Bulgaria and the Czech Republic thanks to its attractions for established, applied a lot of liberal model of transition and opened the door to foreign capital. Implement the liberal tax and land policies and effective procedure in the realization of the transaction. The government had a direct role in the privatization transactions.

The result of this model is the rapid revitalization of tourism, primarily due to entry of big players in the structure of the hotel. The direct role of the state reflected precisely in support of entry of foreign players through privatization

and incentives to attract new investment. Negative aspect of this model is the inability to influence the planning of sustainable development because of the strong influence of "stakeholders".

In Slovenia, we have a typical example of a protectionist way of managing tourism potential. A state tourism facility is guiding into the hands of the mixed joint-stock companies (state and private capital funds), when it is tourism remained in the hands of local owners. Relying only on domestic capital, there was a slower pace of rehabilitation of the tourism sector, but in the end, all the tourist potential remains almost entirely in the private / public domestic ownership.

In Hungary, we have a mixed time of entering international capital and management, but parallel it paved the way for the authorities and relevant international expertise in the hospitality and tourism industry. Directly under the leadership of the state formed a national hotel company "Danube's" and "Hugest hotels. They now perform in Hungary as domestic players and control nearly half of hotel capacity. In this way, the role of foreign capital makes room for rapid growth in domestic hotel industry, and domestic entrepreneurship in tourism.

Along with the development of the tourism industry, the state is gradually abandoning its initial role of the main shareholders leaving the company entrepreneurs. Using this model, is sufficient on one side of the national interest by creating a strong and internationally competitive domestic entrepreneurs, on the other hand, the possible influence of foreign capital especially in sectors where large investments were needed.

Using the above examples, in the process of privatization of the remaining tourism, Serbia should follow the example of Hungary. Priority would be attracting strong international investors, but also the development of several local investors, which are important for future tourism development.

However, an obstacle to this concept of development is that Serbia does not have enough attractive inherited resources to attract international investors. Serbia has yet to develop its strategy of building a tourist product. It does not have role models in the environment. However, the examples of Greece, Egypt and Turkey, which are the direct intervention of the state have found their way onto the tourist map, may serve to Serbia to find your model of development.

In the absence of markets and the development of local entrepreneurs and small interest of major international investors, it is not possible to expect rapid positive changes in short and medium term. At that time, Serbia would have to gain the trust of the international tourist clientele.

EXAMPLES OF INVESTMENTS IN HOTEL INDUSTRY IN SERBIA

To any country started the process of transformation of tourism resources, first, has to deal with issues of accommodation facilities. Based on primary research, it found that the average age of hotels in Serbia is 42

years, and the last updated somewhat 13 years ago. In recent years, there are many investments in the hotel industry, so in 2010 we have the following situation:

Table 1. Hotel capacities in Serbia in 2010

Serial No.	Total	Number of objects	Number of suites	Number of rooms	Number of beds
1.	Hotels	205	846	12.930	21.794
2.	Garn Hotels	43	133	905	1.533
3.	Apartments	1	12	0	32
	total	249	1008	14.349	24.186
5.	Motels	11	14	295	523
6.	Resorts	1	0	58	116
7.	Apartment complexes	3	466	3	1.329
8.	Pensions	1	0	16	18
	Total	265	1.488	14.721	26.172

Source: Ministry of Economy and Regional Development, Republic of Serbia, 2011

The total number of objects in 2010 was 265, and the total number of beds in these facilities is 26,172.

If we analyze Table 2 We, see that Serbia invested in the hotel industry, mostly in hotels. Number of hotels has increased by 54%.in 2010 compared to 2009.

Table 2. Comparative review of hotels in 2009e 2010th

Object types	2009	2010	2010/2009
-hotels	204	207	1%
	27	43	59%
	11	16	45%
Total number of accommodation units	14.558	15.357	5,5%
Total number of beds	23.613	24.186	2,4%

Source: Ministry of Economy and Regional Development, 2011

Table 3 shows the categories of hotels in the structure of hotels. Analyzing is, we see that a very small number of high-class hotels with 4-5 *. Their lack is particularly evident in the larger cities in Serbia (Belgrade, Novi Sad, Nis). With it, a lack of hotel there is an evident lack of professional management. However,

the lack of hotels does not bind only to new cities, but also for new destinations, such as that region.

Table 3 The percentage share of certain categories of hotels in the architecture of the hotel capacity in 2009 and 2010.

Category	2009	2010	No. of hotels
5*	2,9	3,6	9
4*	14,9	18	45
3*	33	35,2	88
2*	37,6	33,2	83
1*	11,6	9,6	24

Source: Ministry of Economy and Regional Development, 2011

looking on the table that highlighted the Ministry of Economy and Regional Development, one can conclude that Serbia is a great need for privatization and reconstruction of existing hotel facilities. In addition to hotels, must be thinking about big projects such as golf courses and clubs, Water Park, spa centers, convention centers and others.

When investing in the hotel industry of Serbia, has a primary role:

Serbia-location at the intersection of major road corridors in Europe and Asia;

- Attractions several existing hotels that need to be reconstructed to the highest standards;
- In Belgrade, there are several possible locations for families with opportunities to build new hotels;
- Further, attract foreign investors to keep pace with the implementation of reforms in Serbia and stabilization operations,
- Weak presence of large hotel chains in Belgrade, Serbia;
State-wide support community investments in infrastructure projects in tourism;
- High revenues of new and renovated facilities;
- Removal of administrative barriers;
- Implementation of international hotel standards of infrastructure and management;
- Increasing interest in the City Break products.

Rely in these advantages, in Serbia has announced the following investments in the hotel industry in Serbia:

KBM-PLUS Company builds ethno village, "St. Simeon" on Kopaonik. Investment worth 25 million €, A plan was that the first phase is completed for the winter season 2010/2011.

WEG-Company is finalizing work on the construction of an exclusive hotel and apartment complex WEG-City in Brzeća. Company WEG in its ownership has three hotels: Hotel Balkan, Balkan Hotel and Hotel Balkan Highway

Company "Hemel" from Jagodina invest about 14 million € under construction hotel and tourist complex, 120 apartments and a hotel with a 5 * on Zlatibor. Apartments sold and completed by the end of 2010.

MK Group is planned that by the end of 2012 and invest about € 12 million in renovation of the tourist complex on Kopaonik, in the reconstruction of hotel "Grand" to annex "Konaci-Sunny peaks, then it should be categorized as a 4 *.

However, in the process of privatization, there has in some cases up to the termination of the privatization of the eel. Example we have a code:

Hotel Splendid Belgrade

- Srebrnac Kopaonik;
- HTP Fontana Vrnjacka spa;
- Hotel Zelenkada Zlatibor.

Some hotels in the state has decided not to sell, but to remain in state ownership. These were:

- HTP Podrinje Koviljaca Spa;
- Gamzigrad;
- HTP Lepterijski ;
- HTP Bukovička Spa ".

In the process of restructuring of hotels in Serbia, there were instances when the government had to act in a manner that has temporarily revoked the hotel facilities that were privatized:

- Hotel "Prezident" Palic;
- Hotel "suffers" Subotica;
- Hotel Putnik Novi Sad.

The restructuring process in the tourism and hospitality industry of Serbia is a very complex job. In addition to the advantages of investing in hotels, the state is aware of certain deficiencies and is an impediment to further investment. Lack of these we must specify the following, with the task of overcoming their speed:

- Poor training of personnel employed in hotels;
- Obsolete way of selling, pricing policy and maintain relationships with clients;
- Lack of room sizes in accordance with international standards
- Low-productivity and over-staffed in many hotels;
- Low-income and occupancy of the old and undecorated hotels;
- Lack of parking in urban centers;
- Disorder in the privatization of existing hotels;
- Increased competition from other cities in the region.

POSIBILE MODELS OF PRIVATIZATION SPA RESORTIN SERBIA

Serbia still does not know how they will be privatized Serbian spas. Ministry of Health plays a major role in the privatization process, but they have not advertised, nor the privatization agency. Privatization of spa system is a bit complicate privatization of hotels. The level of health, medical spas in Serbia at a high level, and that the level of hotel services under each level.

Most of the spa facilities functioning as a hospital, so that they cannot use as tourist facilities, although they are up to 80% of capacity sold in the market.

In the first sequence Serbian spas series of organizational changes in order to separate the hospital services of catering. Ministry of Health is expecting to submit a list of its facilities that are required to remain in the network health institutions.

There are opinions that the spa should privatize because it is only to secure the model of tourism growth. Our spas can compare with Dula and Karlovy Vary, as they made at the same time, a difference in their equipment and organization are enormous. At these spas older people come to the recovery or rest, while the youth are there for recreation and amusement, because they have a wide variety of tourist any content.

On the other hand, we have the Association of Spa and Resort who oppose privatization national treasures, such as thermals springs and mud. Solution, which is announcing in the nationalization of natural treasures, but that it also, is available to all.

RURAL DEVELOPMENT POLICY

In a model of growth and development of rural tourism and ecotourism, we should start from the following premises:

- Serbia is now undergoing the final phase of transition. Looking at the global and tourism is experiencing great changes in which Serbia a chance, because of its tourist potential for economic growth has not been used,
- Its advantages Serbia must turn into a competitive,
- The products must rise in a recognizable level.

Rural development policies and ecotourism should rely on small and medium business, which means to help local investors, and thereby create a small number of entrepreneurs in the business of agency Initiative. The goal in these types of tourism is certainly raising the attractiveness of the destination in order to obtain better value for money ratio, or the efforts. Established a safe level of attractiveness is directly determined by the level of loyalty, and recommendations to visit the destination. Here it is very important to establish partnerships to achieve the current level of

attractiveness. Without this partnership in establishing the value chain, are essential for the conversion value in money attraction reviews, and even get their loyalty and recommendation.

The aim of the rural and ecotourism is to raise productivity with resources (labor, physical and financial capital, land), in an innovative way. It will achieve through small and medium businesses because it will be so easier to maintain competitiveness.

However, no public-private cooperation, and cooperation between the state with the holders of small and medium businesses, it is not possible to raise the value of capital resources, profitability, investment and productivity, especially human resources. The former quality and intensity of cooperation between public and private sectors in this segment of tourism is very low and this cooperation must take priority.

Today, many entrepreneurs, and representatives of the public sector, are not well understand the concept of competitiveness in tourism and the work to be dispatched to animate the existing advantages.

Both old and new entrepreneurs are mainly concentrated on finance, while public authorities are focused on law enforcement, permits, and physical plans. Marketing is usually understand as an obligation of printing brochures or visit some of the fairs.

Based on the experiences of other countries can be concluded that the national and public level, can act more efficiently in the interest of the competitiveness of entrepreneurs, but it is the case at the regional or local level.

Remains the conclusion that the development of tourism in general and especially for rural and ecotourism, in addition to local entrepreneurs who invest in small and medium businesses, there is a need for tourism development agency, that would be a strategic imperative in launching and monitoring of development programs.

INVESTMENT PLAN IN TOURISM OF SERBIA

No matter what kind of tourism is concerned, the plan of investment that Serbia should implement would consist of:

- Raising the quality of existing tourism facilities in the narrow and broad sense. Birds that are not only the above mentioned hotel facilities in major cities, but also to a large number of complementary facilities that are owned by states (the spa and accommodation facilities of other tourist attractions that are underused due to neglect).
- Privatization process should certainly continue and it would have a priority over Greenfield investments.
- The focus is on creating new tourism products specifically directed by small and medium enterprises (new accommodation offer with the opening of the golf course, etc.).

- Through a series of incentives, the state for its part is trying to encourage investment in tourism:

In addition, financial incentives and facilities through direct investment in capital infrastructure,

- Awarding grants under certain conditions, such as job creation,
- Relief in the form of government guarantee for the repayment of commercial loans,
- Fiscal incentives as a reduction in income tax, property tax relief, lower contributions and benefits in the first year,
- Reduction of customs duties on imported equipment,
- Subsidies for domestic equipment purchased.

THE OPTIMAL MODEL OF TOURISM DESTINATION MENAGEMENT

So that the entire tourist offer converge in economic growth, it is necessary to find the optimal model for managing tourist destination, which would be applicable to all types of destinations.

Tourist level routes, due to the number and dispersion of tasks and functions required, first, good coordination within the public sector, then the cross-sector collaboration and partnership with stakeholders from the public and private sectors. Many creators of partial tourist products must be aware of the interdependence of the objectives, as well as the fact that their relationship depends on active partnerships achieve the general objectives set for the integrated tourism product, one that as final, the tourists choose a given destination. These different objectives must be reconciled at the destination in a manner that will set a unique goal for an integrated tourist product, which will strive to achieve the entire carriers offer.

According to the Business Council World Tourism Organization (WTOBC), current trend in most developed tourist regions in the world is directed towards the semi-public but independent tourism organizations including partnership businesses and public authorities-regional or local.

Over the past decade, the roles and responsibilities of governments, as public sector and entrepreneurs, have significantly changed the situation in which the state had a crucial responsibility for the development of tourism and its promotion in the world, according to the equal treatment of the business, and the progressive realization and non-engagement sector. The trend of decentralization and operated promotion of tourism, focused on a partnership of public and private sectors, has reinforced the need for new, more flexible and multi-disciplinary approach to the management of tourist destinations. Although national policies encourage tourism competitiveness, effective partnerships with the participation of key stakeholders, enhance destination competitiveness and sustainability.

Construction on the promotion of tourist destinations is the most important activity of DMO (Destination Management Organization). For this purpose, after making a marketing plan, the DMO may use different promotional items such as personal selling, direct marketing, advertising, sales promotion and public relations. Other joint activities include participation in organizing business exhibitions, shows and events, visit dating services Call Centre and tourist information points.

Advertising is one of the most important means of promotion, use of different media: print, radio, TV, internet, advertising specialist magazines and journals.

While at the national and provincial levels have tourism organizations that are exclusively an organization for the promotion and marketing, as long at the local level there are formal DMO also marketing, but the scope of work they perform, are becoming increasingly DMO. Solutions in the future, should find in public-private partnerships, according to the most successful models of DMO in the world.

CONCLUSION

From previous exposure to it can conclude that the model of tourism growth stems from the synergistic action of the state and the private sector. This partnership must base on mutual interests and maximum transparency. From experience, we can see that competitiveness and good results achieved in most newly privatized enterprises and, because it is the owners are the most interest for it. Through cooperation and partnership between public and private sectors, can only be achieved goals.

Where the private sector is strong, the government helps in turn stimulating and transparent means. In cases, where neither the public nor the private sector, does not have power for the development plan, the state with the specialized agencies, direct investing in capital projects or herself acting as an entrepreneur, in the interest of rapid tourism growth.

Today's global shift in tourism is certainly an unstoppable trend of entering the tourist map. Tourists are increasingly turning to new destinations and new experiences, and with good management can Serbia to fight for his position precisely on these grounds.

Of eleven tourism products based on experience, Serbia can offer ten. Tourism "sun and sea" is not unique to Serbia because of its geographical position, but is supported by the observation that in recent years demand for this type of tourism has decreased by more than 50%.

Your chance to see Serbian tourism products related to the use of nature and ecotourism, health tourism, rural, cultural, business and conference tourism and tourism based on special interests.

When choosing the model of tourism growth of Serbia, it should be noted that tourism has positive influence on many sectors of the economy, because in addition to tourist demand, including consumption and buying different kinds of

goods and services in the domain of other industries. In addition, tourism provides funding for infrastructure and other projects that directly contribute to accelerating economic development. Tourism is today in many sectors with the greatest opportunities for growth and the most realistic opportunity to create the conditions for open new jobs and enable faster economic growth.

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TOURISM INVESTMENT POLICY OF NOVI PAZAR

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Abstract: In this paper, the author deals with the challenges that the tourism investment policy of Novi Pazar faces, its absence and its limitations, mistakes in the past and recommendations for the future which should be the basis of investment policy in tourism. The author also treats the material basis for tourism development and individual analysis of the existing capacities. He speaks of Novi Pazar and its tourist product as a platform that must be woven like a carpet with a clear base and with a clear plan, with defined dynamics and with proper support in the future. The author advocates a territorial approach as a priority in relation to the project approach. The author examines the causes and consequences of the economic investment collapse in Novi Pazar.

Key words: tourism, tourism policy, investment policy, investment in tourism, foreign direct investment, tourism potential, tourism product, tourism development strategy, hotel...

INTRODUCTION

Development of an economy, region, city and very businesses depends on their ability to provide funds that will be invested in certain businesses, facilities, infrastructure, equipment or working capital with purpose of tourism development.

The fact is that there is a functional connection between investment and accumulation, but what sets them apart is that the basic question of investments is their economic effect, while the main question of accumulation is the existence of a strategy to increase the material basis of economy. Therefore, the investments in tourism of Novi Pazar and surrounding area are extremely important for its future development.

DEFINITION OF INVESTMENT

By defining this term we come in a position to distinguish two concepts or terms, so that we have investments that are viewed as the investment process on one side, and investments as a demonstration of the investment process. This very complex process requires a systematic approach and it is extremely important to develop a concept of investment that will bring the expected effects in tourism and justify previous funds invested in past for the future purpose, so that life quality in Novi Pazar would significantly improve. According to Safet Kurtovic "investments are the current disposal of financial obligations for the benefit of future activities that represent compensation or benefits for investors in terms of execution time of financial commitments of funds, the expected amount of inflation and unexpected payment changes in the future."

There is no general agreement on the definition of investment but its very meaning is the investment of capital in a new or already established business. In fact, investment is when you invest money now and hope for the financial effect to take place sometime in the projected future. The dynamics of invested funds depend on many factors, mostly on the type and character of investments and therefore investments in tourism require major investment and slow pace of gaining profit and a long period of exploitation. According to the same author, "by investment we mean all kinds of investments, including investments of companies in new facilities and equipment, then the investment in shares of bonds, commodities and other real property. According to Van Horn and Wachowicz, when a company invests money it causes current expenditure with the expectation of future benefit so that the future success of company depends on decisions currently made.

TYPES OF INVESTMENTS

Having in mind that in this paper we primarily want to discuss the investments in tourism, it is necessary to make classification of investments. Which criteria we will choose depends on the point of view from which we observe the investments.

If we are interested in the relationship between investment and the existing capacities, investments can be divided into those that provide simple and those that provide expanded reproduction.

According to the type of investment in assets, we distinguish investments in common assets and investments in working capital. And depending on the type of activities, they may be commercial, non-economic and infrastructural.

Investments in infrastructure projects are of great importance for tourism development, and we will discuss them separately in this paper.

It is important for us to have in mind the origin of funds and make clear that the classification of investments on domestic and investments from foreign sources is also important for tourism. However, in relation to this classification we must be particularly cautious because in the environment of globalization there are no clear boundaries between investment from domestic and foreign sources.

Another classification of investments is extremely important for tourism and it starts from the standpoints of those who can make investment decisions, and thus we distinguish individual investment, corporate investment, public investment and other similar investments. Based on the funds invested, it is possible to value the efficiency and effectiveness of investments. The scope and structure of investment depend on numerous factors that represent limitations at the same time. The scope and structure depend on the initial state of national economy so that the volume and structure of investments in developed countries is much wider in non-economic than economic sectors and there is a significant presence of renewable investments as in the case of Switzerland.

FOREIGN DIRECT INVESTMENT

Foreign investments are of great significance for economic growth and development of developing countries and countries in transition, including Serbia. Experience shows that foreign investments have played an important role in structural changes in production and export in countries which have used these funds. For countries that have limited access to the international capital market, investments are the shortest way to hire foreign funds. Major forms of foreign investments are: foreign direct investments, different forms of joint ventures, portfolio investments, investment of funds related to privatization, new investments and ownership acquisition of enterprises, as well as exchange of outer debt for a stake, and concessions.

We introduce foreign direct investments not to discuss them and elaborate their essence, but only to recognize their importance, as we will focus on the existence of conflicts between small investors' policies with free capital which they invest as free individuals without pre-defined legal forms, and owners of small and medium enterprises on one side and big investors from Serbia and abroad, on the other side.

At the same time, we fully accept the importance of foreign direct investments for economies of developing countries. Foreign direct investments are an important instrument to stimulate production, increase employment, develop infrastructure and eradicate poverty in addition to the numerous benefits that national economies achieve through major foreign investments.

Common fact for all foreign direct investments, the author has previously emphasized their importance, is that foreign direct investments expanded the interest of developed onto the developing countries, where large countries in order to fertilize and increase their own capital, almost unconsciously influence the balanced development worldwide, wiping out the borders in the same way that tourism gave a chance to developing countries, and even undeveloped countries to valorize their natural beauties, cultural heritage and in the last few decades significantly raise the quality of life on the coasts, large lakes, in major cities, in the vicinity of important natural and cultural heritage. The author is aware of the risks and consequences that the free capital has, which specifically enslaves money-hungry economies. Limitation of economic and any other sovereignty is a reality today and as such should be accepted.

TOURISM INVESTMENT POLICY IN SERBIA

The position of Serbia, its scope and structure of investments, especially in tourism are determined by initial state and the chosen development concept. Tourism investment policy as the sum of different economic and administrative decisions and measures should exist with the purpose of directing the funds into defining investment structure. The investment policy of the Serbian economy should be focused on tourism as a major industry and infrastructure projects that would make tourism easily accessible and which would make tourist centers and tourist sites clearly recognizable.

Tourism investment policy depends on the overall policy and the problems that Serbian economy faces. The global financial crisis serves as an excellent excuse for all economies in the region. Some governments, including the government of Serbia, used this as a means of defense against failure in order to avoid evaluation of financial effects of failed development concepts and particular problems that tourism in Serbia faces. Serbia hasn't had the courage to form a ministry of tourism but it treats this problem in various ministries that are not able to realize the significance and prospects of tourism in Serbia as a whole.

High concentration of investments in Belgrade has resulted in an unbalanced development. As a temporary consequence of this, we have depletion of Serbia's and overloading of Belgrade's funds. Depopulation of already ruined Serbia emerges as the lasting consequence of this allocation of funds. Movement of people from the inside to Belgrade results in overpopulation, huge concentration and too many investments. An additional risk is that the concept that has been developed over years could be threatened by population not able to integrate into the value system.

So there is no doubt that the interest of Belgrade, although it has been ignored, is development of tourist provinces of Serbia. In order to achieve this, it is

necessary to create a proper investment policy of high quality tourist services in a form of more attractive tourist products and make them at the same time permanently available for potential tourists, and make people's life in them meaningful. With adaptive concept of tourism development, high quality economic policies and calculated investment policy there would be a real chance for balanced development of Serbia.

Economic policy should create a framework in which investors will recognize the willingness of the government of Serbia to support investment projects that are undertaken here in Novi Pazar, the Pester plateau, on Golija and Zlatar and other locations across Serbia. This is why Belgrade should not take only Kopaonik for its alternative which furthermore risks becoming everything but a mountain center because of the very same mistake as in the case of Belgrade when it comes to urban centers. It is certainly possible to achieve this through a variety of subsidies and positive fiscal policies in order to promote new concepts for developing attractive regions such as Pester plateau along with fostering a new "territorial" rather than project approach to developing regions. The author does not exclude the possibility of application for project funds that are provided but rejects this concept to be dominant. The inner parts of Serbia, Novi Pazar and its surroundings are not project-oriented. For appropriate project performance there must be high quality investment programs. According to Mehmed Meta "investment programs serve as the investment background for making investment decisions," so where there are no investment programs, there are no investment backgrounds, and therefore no investment decisions based on them.

Investment policy based on the territorial approach would be an environment in which there would be a real chance to raise rates of foreign investments in tourism of Novi Pazar, the Pester plateau and other locations in Serbia outside Belgrade.

Tourism is, as a generally accepted formulation, a global phenomenon. He moves people and capital that accompanies it. Tourism policies of individual countries are quite different among themselves, but they are all tourist-oriented countries when it comes to attracting foreign tourists. Serbia is not only focused on the concept of attracting foreigners but it depends on foreign tourists because the locals have too low potential for capacities that have been built so far without the capacities to be further constructed in an environment of quality tourism investment policies.

What poses a serious problem for Serbian tourism is the lack of general consensus as in which objects mainly to invest. Should these be hotels with three or four stars or more or is it private accommodation with apartments or

concept for tourist towns, ethnic concept or we should go for a combination of investments by constructing all types of accommodation.

TOURIST INVESTMENT POLICY IN NOVI PAZAR

Novi Pazar faces a total lack of any investment policy including tourism one. Investments in Novi Pazar came to a standstill in the last decade and marginal investment activities are usually due to some private initiatives and extorted investments of those that privatized, mostly unsuccessfully, some public companies. As a consequence of the absence of any policy, Novi Pazar marks a plummeting drop in investment activities. The whole concept is reduced to survival and those that do not produce with losses take it for a success. Previous non-selective and unnatural concentration of investments in the textile industry, which built its whole strategy on the concept of low costs, suffered a breakdown. Anarchic investment in huge facilities, despite the existence of industrial zone, of small investors with a relatively large free capital in hundreds of non-standard and non-functional objects where they placed their production took place. Thus, they depleted free capital and fell into a debt crisis, which reached its peak at the time when “free banking foreign capital” entered Serbian market and that's unfortunately the only foreign capital that entered the market of Novi Pazar and the surrounding areas and not as investments but as “the greatest recorded loss”.

In such conditions, tourism of Novi Pazar could only wait. Many cultural and historical monuments were removed from all the serious tourist maps and virtually from every tourist guide.

Tourist potentials in the tourism industry, as means of support to tourism development, the tourist infrastructure are marginalized, devastated or damaged. Catering and Trade Company “Lipa” went through a difficult time waiting for privatization. Making investment decisions has died out because they could be made only in the continuity and there was no such continuity.

In the meantime several hotels of limited capacity have been built on inappropriate locations and it happened that these facilities changed their character and purpose due to changes on the market, shifting from trading to hotel facilities, which exposed investors to additional technical, organizational, functional and certainly additional financial problems.

Due to absence of overall investment policy there is a question whether Novi Pazar has free attractive locations for investments? Free capital requires free space, and unfortunately there is none in Novi Pazar. Instead of increasing available free space which would give more active life to the city and attract

investors, local authorities favored the concept of selling space during the past few years, so that today we have a kind of "investment ghetto" which is called Novi Pazar.

Catering and Tourist Company "Lipa" which previously had a role of tourist leader in Novi Pazar was privatized in the environment of complete lack of tourism concept.

The total tourist market was recomposed as well as all the requests of tourists, their habits, their perception of value, both tourist and common ones. Tourism then encountered Internet as a powerful global medium. Distant destinations have become accessible and pictures from all over the world now modify the image of any part of the world and give the new ones a chance.

Novi Pazar overslept this new distribution of tourist maps and this perception of the reality of post-war Balkan. It was deleted. Tourism investment policy hasn't been active and Novi Pazar except its agriculture (especially fruits and livestock) and tourism does not have another chance.

Is Novi Pazar able to identify its chance under conditions of concept absence and vision of real potentials and real chances is a question for which we must find an answer. In these circumstances where Novi Pazar is the largest city in the Balkans without a railway, a city that does not have a port, a city that does not have an active airport within a hundred kilometers, the city where the nearest highway is 150 kilometers away is a city that has no comparative advantage for large-scale investments, for general and global race. It is left with the resources that can sustain in such conditions. It remains with its background in farming and fruit growing and tourism potentials which are undisputed.

At the moment, it is possible to make this region available for tourists. There are many categories of tourists and tourism which may go on a hard journey to meet with the city that lies at the crossroads of civilizations.

It is not impossible to make small and medium investors invest.

The biggest problem for tourism investments in Novi Pazar and the surrounding area is lack of willingness for joint ventures. This obviously favors investors in the category of small companies which, although represent a significant energy of any economy and Novi Pazar itself, will not be able to make a step forward that will further allow greater concentration of capital investment and increase the interest of shareholders, nor consequently create conditions necessary for a serious entry of domestic capital that would be realistically easy to enhance with foreign capital, in this case the capital of people from abroad.

Here we come to the conclusion that even though "Lipa" was privatized and that the existing tourist agents were not fully accepted by local government and which freely compete on the market in the way that Tourism Organization is more like a political spot than place for creating overall tourism policy; Novi

Pazar in these settings is not in a position to take advantage of those exceptional opportunities that tourism gives.

Novi Pazar has no guests. It does not know who they can be. It does not know what requirements they may have. It does not know what the unknown guests need. It is not known who is to give answers to ignorance. Objective failure turns into a fictional success. Novi Pazar is not given a chance. Local organization advocates development of religious tourism through its spokesmen.

Business based on experience and intuition is outdated, "they are no longer good allies for investment decisions" , so assuming that anything that has passed is no longer current, that what is happening now will not be the same in future, that ignorance and lack of tourism investment policy will be replaced by knowledge and a clear-tourism policy, you have to make some recommendations that may be useful for future tourism investment policy makers:

- Novi Pazar must have a clear vision of what kind of tourism it wants to develop
- The selected type of tourism consequently defines types of additional tourist facilities, their size, location, contents, management and other
- Tourism policy must not be managed in parts but in a consistent and integrated manner
- Creators of tourism investment policy must have a clear plan and vision for tourism investments and make them publicly available for potential tourism investors
- The local government must form a Committee for tourism policy which will be composed of experts from Novi Pazar
- Highly educated personnel that will be able to respond to the demands of modern tourists must be trained

In order to implement these recommendations, it is necessary to use experience of other countries in creating investment policy and overall tourism policy. For example, Turkey adapts its diverse tourist offers to the requirements of all categories of tourists and thus we can say that at this time there is no other European country that has bigger tourism investments with purpose of meeting requirements of the most demanding tourists.

Turkey's experience shows that their concept of adapting tourist sites and diversification of tourist offer make tourists, in addition to historical and natural locations, choose proper tourist location based on the contents that these places offer. Thus, Bodrum has become a tourist Mecca of youth tourism, Marmaris tourist paradise for a family vacation concept, Kusadasi a place where combination of the monumental heritage and more entertainment tries to

reconcile the conflict of generations, Istanbul is seen as a clash with the past, Cappadocia as a play of nature, Pamukkale a nature's gift and so on.

Here in Serbia, however, we haven't managed to impose a concept that will create a completely clear notion of Serbia with a positive tourist image, but the burden of the past is still a problem in the perception of tourists in the region. Most places in Serbia, more precisely Novi Pazar hasn't revived its satisfaction in cherishing natural and cultural treasures.

AN ANALYSIS OF RECENT INVESTMENTS IN HOTEL FACILITIES IN NOVI PAZAR

The dominance of "Lipa" for many decades, a small number of hotels and inadequate quality of existing facilities and amounts of present investments in hotel facilities give the shortest description of "accommodation industry" in Novi Pazar. Hotel "Vrbak" built in the mid-seventies in the downtown divided the city and destroyed potential opportunity to build a road down the river that would go straight to the Adriatic highway. At the same time, non-functional facility was built with inadequate accommodation capacities, without proper additional contents, with emphasis on external appearance which more resembles a monument than a functional and viable concept. This led to the fact that potential tourists may have conflict with the natural environment because the construction of this city hotel on the zero location rules out the right of guests for peace in the immediate environment and made access to the hotel, according to the standards in tourism, impossible.

Hotel Taj was built as combination of a commercial building and hotel. It is dysfunctional, located in one-way street, with no parking and related contents. It owes its profitability to a long deterioration process of hotel "Vrbak" which is part of "Lipa".

Hotel Atlas is a paradigm for lack of proper investment tourism policy.

Hotel Oxa is a hotel that is located on the outskirts of town, it has a good location but it was built in different phases and it is oddly placed. It has no corresponding management and clear vision of the structure of incoming guests. Motel-oriented hotel on the main road has little chance for profitable business.

Other accommodation facilities have no significant role and will not be able to significantly influence the structure of incoming guests, as is the case with restaurants that have so far failed to impose themselves with acceptable quality of service.

INVESTMENT IN TOURISM PRODUCT OF NOVI PAZAR

With recognition of real tourism potential of Novi Pazar and the environment, we may meet the requirements for creating the tourist product of Novi Pazar. Who's able to create this tourist product? Tourist product is a carpet that its residents continually weave and where tourists leave their mark. These are certainly cultural and historical monuments from pre-Slavic period, period of Nemanjić dynasty and cultural legacy of the Ottoman era. On this carpet, there's room for Novi Pazar's mantije and kebab. This carpet is made of Novi Pazar's folklore and customs. There will be place for Novi Pazar's jeans and quality footwear. Tourism product will be completed only when this carpet is created and plan for weaving is set, through appropriate investment policy that will lead to sustainable investment activity. Then creators and implementers of tourism policy will know what's their role in weaving this common carpet. Tourism does not recognize the difference, it valorizes them. Tourism exists on the diversity as a quality rather than conflict. Tourism brings you those who are miles away. It is your job to find ways and develop skills that will satisfy your customers. It is your responsibility to create a good image of yourself that will be easily recognizable in an environment of complete marketing mess.

Through proper research we could calculate which of these resources are interesting and to what extent and then according to the structure, basis of such a research create a concept of tourism investment policy.

CONCLUSION

It is necessary to immediately define the strategy of tourism development as the backbone of development of Novi Pazar and surrounding area.

It is necessary to put all resources into the function of sustainable tourism development and everything that represents an obstacle to the development of tourism relocate or reduce to a negligible level.

It is necessary to prepare personnel for this international competition in tourism and agro management

It is necessary to link tourism organization with the tourism industry and universities.

It is necessary to introduce the concept of a hotel which will with its interior and exterior give away the impression of this place

It is necessary to bring all the elements that make up the tourism product of Novi Pazar and surrounding area onto the same level (the above mentioned carpet)

It is necessary to participate in international fairs with defined concepts which exclude improvisation

It is necessary to make a guide for large and small investors

It is urgent to map out tourism potentials and potential construction sites for tourism infrastructure

It is necessary to bring together potential investors and provide a clear vision of future expectations

It is necessary to raise awareness of potential investors for the purpose of enlarging the assets and creating tourism companies which will form the backbone of future tourism development of Novi Pazar

It is necessary to provide “Lipa” with proper personnel and clearly define its strategy as it has huge facilities important for development of tourism of Novi Pazar and the surrounding area.

It is necessary to develop a concept according to which owners of privatized assets do not behave as majority owners with tendency of taking over workers' shares, but creating an environment in which the success of one is success of all shareholders at the same time

It is necessary to have balanced development of tourism in cities and their surroundings.

It is necessary to create a team to support the investors at the local governments in Novi Pazar, Tutin and Sjenica.

It is necessary to form a team for the promotion of all potentially valorized values.

With the previously defined concepts and visions create the dynamics of promotion of universal and sustainable values that will bring tourists to Novi Pazar.

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VI Influence of SMEs on economic development

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**COMPETITIVE APPROACH IN HUMAN RESOURCE
MANAGEMENT**

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Abstract: The main goal of the human resources management is to achieve competition advantage by the strategic allocation of qualified personnel and its further development. Management of the human resources is oriented on two main tasks to provide needed number of employees in the required professional and qualification structure and in the dynamic agree with the strategic goals of the company to achieve the harmony of the employee manners with the strategic goals of the company. Effective fulfilling of these tasks requires many activities, which can we named as personal functions

Keywords: management, competitive, Assessment Centre and also Development Centre involve Assessment.

The main goal of the human resources management is to achieve competition advantage by the strategic allocation of qualified personnel and its further development. Management of the human resources is oriented on two main tasks:

- to provide needed number of employees in the required professional and qualification structure and in the dynamic agree with the strategic goals of the company
- to achieve the harmony of the employee manners with the strategic goals of the company

Effective fulfilling of these tasks requires many activities, which can we named as personal functions.

Performance management systems and processes are an evolving area within the more general context of human resources management. Developments in organizational structure and culture over the previous ten to fifteen years have

provoked a shift in emphasis away from traditional performance appraisal techniques towards a more profound use of performance management systems. Performance management systems are typically based on personal competencies that distinguish high average performance for successful managers. These personal competencies are derived from the values and core competencies of the organization. Increasingly, organizations that use core competency based systems are referred to as visionary or high performance organizations.

Core competencies are those capabilities that are critical to a business achieving competitive advantage. The starting point for analyzing core competencies is recognizing that competition between businesses is as much a race for competence mastery as it is for market position and market power. Senior management cannot focus on all activities of business and the competencies required to undertake them. So the goal is for management to focus attention on competencies that really effect competitive advantage.

Core competencies are not seen as being fixed. core competencies should change in response to changes in the company's environment. They are flexible and evolve over time. As business evolves and adapts to new circumstances and opportunities, so its core competencies will have to adapt and change.

One of the most important tasks of the human resources management is to identify the core competencies. Assessment/Development centres can become a solution of this problem.

Assessment centres are the means of helping an organisation to identify the potential development areas of its staff in relation to a particular job or role. Development Centres are Assessment Centres with key differences. An Assessment Centre should be used for selection purposes and a Development centre for personal development-leading to team and organisational development.

Reasons for the value of Assessment Development Centres

- They provide an objective and robust method of improving both the individuals and the organisations, awareness of skills, strengths and gaps.
- They provide a unique opportunity to objectively observe and measure how people Actually perform tasks, make decisions, relate to each other, and demonstrate self awareness.
- A well-designed customised assessment or Development Centre is an effective tool for measuring the key behaviours important to employees' present success and Future potential.

Assessment Centre and also Development Centre involve Assessment. It is in the end use of the information obtained where the difference lies as we can see in this table:

Assessment Centres	Development Centres
Have a pass/fail criteria	Do not have a pass/fail criteria
Are geared towards filling job vacancies or selection	Are geared towards developing the individual
Address an immediate organisational need	Address a longer term organisational need
Tend to be used with external and/or internal candidates	Tend to be used with internal candidates
May have fewer assessors and more participants	Can have a 1:1 ratio of assessor to participant
Involve line managers as assessors	May not involve line managers as assessors (possibly all external)
Place less emphasis on self-assessment	Place more emphasis on self assessment
Focus on what the individual can do now	Focus on the individual's potential
Are geared to meet the needs of the organisation	Are geared to meet needs of the individuals well as the organisation
Assign the role of judge to assessors	Assign the role of facilitator to assessors
May give no feedback to the individual	Always give detailed feedback to the individual
Retain ownership of outcome/feedback within the organisation	Pass to or share ownership of outcome/feedback with the individual
Hold very little pre-event briefing	Hold a detailed pre-event orientation briefing

To value Assessment or Development Centre Activities depends on which skills need to be assessed.

Assessment or Development Centres generally include:

INTERVIEWS

You are still likely to encounter either one –to-one or panel interviews at assessment centres. These are likely to probe any doubtful areas that may have emerged at a first interview, so it is worth reflecting back and thinking about how to handle them. This interview could be with someone from the department to which you are applying.

IN-TRAY EXERCISE

In this type of business simulation exercise you are given a heaped in-tray full of company memos, telephone and fax messages, reports and correspondence, together with information about the structure of the organisation and your place within it. You are expected to take decisions on each item.

ROLE PLAY

Imagine, for example, that you are in the office on the phone to a dissatisfied and angry client, suddenly fire alarm goes off... In this task individuals will be assigned roles, each taking turns at being the key employee. The scenario which will be played out will usually be related to either a typical day on the job or a particularly stressful, awkward situation which must be tamed with quick thinking.

BUSINESS CASE STUDY

- customised so to be relevant to the client company. In this kind of exercise you are given a set of papers relating to a particular situation and asked to make recommendation in a brief report. You are tested on your ability to analyse information, to think clearly and logically, to exercise your judgement and express yourself on paper.

GIVING PRESENTATION

Presentation exercise are common as part of the test centres. Few people enjoy public speaking but it is a discipline, which should be practised and is very useful. If you can successfully address a room of delegates your confidence cannot fail to impress. It is often useful to make very brief notes, which you can refer to during the talk and you should be provided with sufficient preparation time.

PSYCHOMETRIC/APTITUDE TESTS

These are timed tests, taken under examination conditions, designed to measure your intellectual capability for thinking and reasoning, particularly your logical/analytical reasoning ability.

GROUP ACTIVITIES

Group exercises are set to test the candidates teamwork ability and see who come out as the leaders and who are the followers. Groups will be provided with a brief, which they must complete within a defined time limit.

The tasks may encourage competitiveness or co-operation. The opportunity to complete with other candidates will help some candidates to perform better.

The number of participants would vary in size from 8 to 16.

The number of facilitators would be as many as a 1:1 ratio with the participants, depending on client requirements.

The outputs of the Assessment and Development Centres take the form of:

- notes written by facilitators against the competencies agreed
- rating of each competency 1-6, where 1-limited evidence of competence demonstrated and 6 – mastery of the competence
- the results of the psychometric tests
- organisational and team norms and comparative ratings (optional but very useful once a critical mass of employees have gone through the Centre)

The outputs will assess the performance of participant against pre-determined criteria that have been identified as being important in the organisation:

- interpersonal skills
- team working skills
- communication skills – both written and oral
- leaderships skills
- time management skills
- listening skills
- motivation and enthusiasm
- data analysis skills
- decision making skills
- influencing skills
- creativity
- integrity
- initiative

In last years we can see activities of Assessment Centres also in Slovakia. Employers have found, that they can't always rely upon one method of testing to differentiate between applicants. As a result many now combine a variety of assessment tools – for example, group interviews, psychometric tests, impromptu presentations, role-plays and panel interviews.

Collectively, these make up what are known as Assessment Centres and they will probably rapidly gaining popularity for the recruitment of managers and other senior personnel.

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**INTERNATIONAL SCIENTIFIC CONFERENCE
“SMALL AND MEDIUM ENTERPRISES - POSSIBILITIES AND
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**DEVELOPMENT OF SMALL AND MEDIUM
ENTERPRISES IN THE SR**

Dagmar Hrašková⁶⁴

Abstract: The development of small and medium enterprises is the one of the priorities of economical development of the Slovak republic economy. The most important factor in its development is creating an appropriate business environment, which requires the simplification and clarification of legislation, reducing administrative, tax and social security burdens, strengthen the support infrastructure and improve access to capital. A favorable business environment is a prerequisite for long-term competitiveness and growth of every market economy. In this environment, the State encourages and protects private property and economics competition, which creates clear and stable rules for it, ensure compliance by all market participants and minimizing administrative burdens and requirements towards to entrepreneurs.

The Government of SR approved the strategy of the National Strategic Reference Framework for years 2007-2013, which represents the basic material sets the direction and support innovative development of industry, tourism and other selected services using the regions' growth potential of focusing on the fulfillment of global objective in the program period 2007 - 2013, which is to "The significantly increase competitiveness and performance of regions and the Slovak economy and employment until 2013 while respecting sustainable development".

Key words: small and medium enterprises, competitiveness, transparency, efficiency and effectiveness, equal opportunities

RESULTS OF ANALYSIS OF CURRENT SITUATION IN SLOVAKIA

At key indicators assessed levels of competitiveness and performance of industry, market services and tourism in Slovakia has been in recent years reached a favorable development, but in many areas is situation below the level of developed EU countries. Slovakia is lagging behind industry in particular the level of technology, production facilities, innovation and productivity, we have lower rate of added value, higher is material and energy cost ratio of industrial production and differences is the performance of industry and services

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in the regions. Development of competitiveness in industry and production quality parameters are related to the technological level and production structure. There is a lack of manufacturing base, modernization and implementation of innovative, raw materials and less energy intensive and environmentally friendly technologies, including IKT. To ensure the logistic of industry development is under-built technical infrastructure. Only gradually strengthens industries and production with high level technology and high value-added. The slow is shift from material-intensive products to less demanding and to departments using modern technologies. Development of entrepreneurship and competitiveness of industry weakens insufficient support of transferring modern high-tech technologies.

Especially small and medium-sized enterprises lag behind the techniques and technologies for the developed EU countries. Slovakia lags behind the EU-15 in exports of high-tech products. Lack innovation activity of MSP is mainly due to lack of capital, reduced access to industry information and services, and insufficient opportunities for staff training. An important factor in the development of MSP is to create an appropriate business environment, in particular the simplification and clarification of legislation, reducing administrative and tax burden, strengthening the support infrastructure and improving access to capital.

In the field of innovation are the biggest differences between SR and EU countries. Barrier to entry business to international markets is low level of accreditation and certification with international validity and acceptance, lack of national certification marks with the wide international acceptance, the lack of rules on standards and quality policy.

In the economy's energy intensity has SR positive development, but when compared EU average is still high. Reducing energy intensity of economy and mainly industry is dependent on support by replacing the obsolete manufacturing processes using progressive technologies with minimum energy performance. In sufficiently volume is not exploited the potential of renewable energy, particularly biomass and support projects in this area would contribute to reducing energy dependency on imports and also to the resulting reduction of the negative impacts of energy production on the environment. In tourism, there are only few resorts in Slovakia used all year round with full-services included, low competitiveness in quality and structure of services, including ancillary services. Insufficiently are apply systems of quality management, insufficient is coordination and joint action of state authorities, municipalities and special interest tourism associations and the private sector.

MSP DEVELOPMENT SUPPORT FROM EU STRUCTURAL FUNDS

To achieve development of economic growth in Slovakia are for 2007-2013 proposed strategic arrangements in the form of providing non-repayable funds from the operational programs, focusing on various sectors of national economy. One of these programs is OP Competitiveness and Economic Growth (OP CaEG), whose priorities are focused on the following areas:

1. Innovation and growth competitiveness
2. Energy
3. Tourism
4. Technical Assistance

Recipients of a non-reimbursable funds support are natural or legal persons authorized to do business under the Commercial Code or the Trade Act, registered in Slovakia, operating in individual sectors Economy of the Slovak Republic, they intend to implement various types of eligible projects under this Operational Programme.

1 / INNOVATION AND GROWTH COMPETITIVENESS

This priority axis is the basis of the OP for industry, innovation, and other selected services. Fulfill its goal requires a focusing on supporting activities to ensure sustainable growth, increase competitiveness, growth of added value and employment in industry and services. Strategy and design of the priority axis "Innovation and Growth Competitiveness OP for the programming period 2007-2013 builds on the existing development and prediction of the Slovak economy in the years 2005-2015 and is based on the results of the analysis, the identified disparities and development factors and take into account the principle of thematic and territorial interventions . Disparities in the allocation and performance of industry are particular related to sectoral structure of industry within each region, but with unbalanced capital equipment and the regional structure forwarding of foreign direct investment. The strategy aims to increase competitiveness and ensure sustainable growth sectors included in the OP KaHR, such as manufacturing, innovation and selected services (MSP, environment, trade and consumer protection).

Different regions don't fully exploit their innovation and research and development potential, which could become one of the main pillars of their development. Another reason of lower interest on business innovation in practice is the lack of necessary information and services, as well as lack of adequate infrastructure. Interventions will be therefore aimed at building material and logistical infrastructure for innovative business activities, as well as the provision of appropriate services. Supported will be activities aimed at developing cooperation between companies with research and development organizations and universities through networking and to research and development support in enterprises, especially MSP, to increase their innovative activity.

For increasing innovation and innovative processes to production activities need to focus on:

- improve the business environment (prepare new instruments for promoting innovation, fiscal measures to encourage business investment in research and innovation)
- improve transport and information infrastructure, including upgrading infrastructure R & D and innovation
- support for the transfer of new technologies with the introduction of new knowledge in the corporate sector, increase control of the quality in research and development,
- Encouraging research and development centers and implementation of a functional network between research, academia on the one hand and business on the other, and their cooperation at international level (integration of research facilities and capabilities in R & D and innovation centers).

2 / ENERGY

The aim of this priority programs axis is improving energy efficiency in production, transmission and energy consumption, reducing energy consumption in industrial production and consumption of primary energy sources. Measures in the energy sector are designed to use advanced technologies and equipment for the purpose of more efficient use of primary energy sources to minimize the impact on the environment, reducing energy consumption and use of renewable resources, using advanced technology for efficient energy supply and equipment with higher energy use efficiency. The aim is also to support the public sector in building and upgrading of public lighting in towns and villages and raise awareness of the potential energy savings and increased use of renewable energy sources.

In reducing the energy intensity is considered to supporting projects aimed at energy savings:

- replacing obsolete technologies with high raw material and energy intensity in industry for new technologies with lower energy and material resources, environmentally friendly,
- reconstruction and modernization of existing sources based on fossil fuels,
- introducing measurement and management with the aim of reducing energy consumption
- reconstruction of existing energy-intensive technologies to replace less energy-intensive,
- modernization of public lighting in cities and villages, which is very outdated and very expensive for energy.

3 / TOURISM

The aim of this priority axis is' **growth performance and competitiveness of tourism** "and is focused on the use of natural, cultural and yet built development of sustainable tourism, to give priority to finance the building of comprehensive travel services available all year round, coupled with the sale of local services through new higher added value (exploitation of mineral and geothermal springs, natural and cultural attractions of Slovakia for the development of summer and winter tourism with comprehensive services for clients, defining the so-called. excursions, always associated with the sale of Slovak products, for example. glass porcelain, embroidery, wine tasting, presentation of folk arts and crafts related to the sale, etc.) **to ensure innovation, sustainability and promote employment in the regions.** Moreover, it aims to support the promotion of Slovak tourism at home and abroad, and in particular the completion of the Single National Tourism Information System (NUTIS).

In tourism is preparing a project of an innovative business. This project aims is to create a VÚC centers to develop innovative forms of business throughout the programming period 2007 - 2013, ensuring continuous development and implementation of projects in tourism.

In an effort to ensure regional development and utilization of the natural and cultural heritage, but the use of existing built facilities and activities for tourism development is necessary for self-governing regions and municipalities in cooperation with associations of tourism and business-focused subjects will have attention on diversifying assortment and primarily residential and cognitive tours.

4 / TECHNICAL ASSISTANCE

In general it can be stated that technical assistance is intended to cover the operating costs associated with implementation of the OP KaHR. Priority axis - Technical assistance is aimed at ensuring the quality of all processes affecting the implementation of structural funds and providing necessary support to the main actors in this implementation. Concerning the **strengthening of quality management, coordination, implementation, awareness, monitoring and evaluation of assistance**, undertaken within the Ministry of Economy of the Slovak Republic in the years 2007-2013.

Currently, the performance of Slovakia's economy is reaching its potential level. SR competitiveness is mainly based on the advantage of relatively low cost work. In the structure of industry and services is relatively high share of sectors with low added value, high raw material demand, low utilization and knowledge, innovation and IKT. For the next period is to maintain high economic growth and its conversion into a higher quality of life depends on the development potential of economic growth based on knowledge, quality and

affordable infrastructure for free, educated and creative people. Innovation in the industry and services as a means of development potential concentrated in innovative economic activities that use resources and create sustainable competitive goods and services to domestic and foreign markets.

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**ROLE AND IMPORTANCE OF SMALL AND MEDIUM-
SIZED ENTERPRISES IN MEAT AND DAIRY INDUSTRY
OF MONTENEGRO**

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Abstract

Economic development in most of European countries is based on small and medium-sized enterprises. The best way to illustrate its role is through example from EU where out of 20 million enterprises even 99% are small and medium-sized enterprises. Small and medium-sized enterprises represent main source of employment in EU since it provides 2/3 of job positions in the entire private sector. Main relevance of this sector in Montenegro is resembled by the increase of employment, export activities and reduction of risks in regional development. Moreover, it is to emphasize that small and medium-sized enterprises are of local character and they contribute to development of local communities. It presents more human working environment than large enterprises.

The objective of this paper is to indicate the importance of developing the processing sector in Montenegro. Thereby, the accent is placed on the sectors of meat and dairy industries. In addition, the paper indicates the advantages and disadvantages of small and medium-sized enterprises in the above mentioned sectors in comparison to large systems which were predominant in nineties of the last century.

Key words: small and medium-sized enterprises, meat and dairy industries

INTRODUCTION

Development of entrepreneurship in agro-business has great potentials in primary production, as well as in food industry. Entrepreneurship, as the free initiative, is a base for survival of family farms in contemporary economic conditions. As in developed countries, it is necessary that all institutions of the system operate towards creating a business and entrepreneurship conditions and

environment. The opinion that prevails in the scientific and professional public of Montenegro is that agricultural sector has great potentials for future development. Montenegro relies its economic development to the great extent also on agriculture, with total share in GDP of 7.6% in 2008. The collapse of previous large companies caused that the current development of agriculture is focused on small and medium-sized business. Main subjects in agriculture are family farms and the dominant farms in its structure are the farms with average size of around 2 ha [4]. More than 96% of arable land and livestock fund are ownership of family farms. Regarding the structure of primary agricultural production on farms, the dominant sector is livestock production (60 -65%), and milk and meat production as part of it. Share of plant production is significantly lower (35-40%), with accent on vegetable production and symbolic cereal production. Within the agro-industry the dominant ones are small enterprises with less than 15 employees (70% of total number of registered companies), while only 4 companies have more than 250 employees. In the past few years, the production in certain number of companies has been significantly improved by introduction of HACCP standard. Vertical integration between primary agriculture and processing industry is at the relatively low level and the level of self-dependence for majority of producers is low. It is evident that farms lack specialization, have low productivity and the emphasized price non-competitiveness in comparison to other surrounding countries and EU members.

MATERIAL AND WORK METHOD

When drafting the paper, the data from the Statistical Yearbook of the Republic Statistical Office – Monstat were used for certain years. The method of description was used and obtained results are shown in the charts and graphs.

RESULTS AND DISCUSSION

There are various classifications of small and medium-sized enterprises in the literature, but the most adequate classification from the entrepreneurship aspect is into: traditional, subcontracting and contemporary small and medium-sized enterprises [1]. In EU, one of criteria for defining small and medium-sized enterprises is number of employees. Pursuant to such criteria, there are micro, small and medium-sized enterprises, chart 1.

Chart 1. Definition of small and medium-sized enterprises in EU

Criteria	Micro	Small	Medium
Number of employees	<10	<50	<250

Source: S. Petković, 2007

Small and medium-sized enterprises, unlike large enterprises, have significantly higher flexibility level, they adapt to the requirements of the environment they are in, providing itself not just sustainability, but also adequate growth and development. There are few larger agricultural enterprises in the sector of processing industry of Montenegro, which used to be owned by the State. These enterprises can mainly be categorized as medium-sized with 50-250 employees, while the majority of vital enterprises of the agro-industry sector are owned by families or independent entrepreneurs. They were mainly founded in the last decade as the Greenfield investments. Considering that the livestock production gives the highest contribution to the agricultural economy of Montenegro, thus number of small and medium-sized enterprises is the highest in the meat and dairy industry. However, out of total amount of milk produced by farmers in Montenegro, only 20-25% are purchased by domestic dairy plants which through processing satisfy 45% of demand of domestic market regarding the milk and its products. Main characteristic of farms in Montenegro is the pronounced own processing, especially of milk. In the areas where there is no collective purchase of milk, all produced amounts are being processed at the households, mainly into various types of cheese. Moreover, farms in Montenegro are characterized by low level of specializations and low competitiveness. Higher level of specialization ensures higher level of productivity. The size of farms in Montenegro (average around 2 ha) is significantly lower than EU average, which in 2000 was 17.5 ha and in 2007 18.70 ha [2]. Previously stated results indicate that development of processing sector in Montenegro is significantly harder than in EU members.

Out of 320 agricultural-industry enterprises in Montenegro, around 20% are of meat-processing industry. Regarding the industry of food and drink production, 4,765 employees are engaged or 2.85 out of total number of employees in 2008. (Monstat, 2009.). According to the estimations of the Ministry of Agriculture, Forestry and Water Management, total number of employees in the Montenegrin meat industry (slaughter and meat processing) is around 900 and approximately the same number of employees is engaged in distribution and meat retail sale within the domestic agro-business system. Four largest enterprises in the meat processing industry of Montenegro, which have complete system of slaughter and processing units and are engaged in retail sale throughout the country, have the annual capacity of meat production between 1,000-6,000 tons or total 15000 tons of meat a year. They cover 2/3 of total domestic meat processing and export meat to Serbia, Bosnia and Herzegovina and are waiting for permission to export meat products to EU. Production range of these four enterprises encompass many various meat products (around 50-120 per enterprise). There are also around 20 to 30 small family enterprises, specialized for slaughter and production of fresh meat and/or limited number of processed products, which are orientated towards regional/local market (for example butcher shops, restaurants, regional retail sale facilities) in Montenegro. There are also three specialized enterprises that are engaged in slaughter and processing of poultry.

It is estimated that there are 221 facilities for meat retail sale. A number of larger supermarkets have meat sector or is directly linked with meat processors. Specialized producers of traditional Njegusi smoked ham and other smoked products of pork are very important for Montenegrin meat industry. Not just that some of larger smoked ham producers export smoked hams to neighboring countries (Serbia, Bosnia and Herzegovina and Macedonia) and plan to expand to the EU market and further, but also usually provide services for other meat processors.

Chart 2. Overview of the meat-processing enterprises in Montenegro

Processing unit	Enterprises with complete facilities for slaughter and processing and retail sale	Enterprises with complete facilities for slaughter and processing and retail sale	Enterprises that produce traditional smoked ham with focus on entire country and export	Enterprises specialized for poultry slaughter and processing
Annual capacities (used)	Around 1000-6000 tons of meat	Around 500-1000 tons of meat	400-800 tons of finished products	Around 100-750
Technological standard	Relatively high standards achieved, still some improvements required in certain areas. Traditional technology prevails in production of smoked ham.			
Product range	50 -120	30-50	Main product is smoked ham	3 with 1 product, 2 with 2 products, 1 with 41 products
Market	Throughout the country and export			
Number of employees, including distribution and retail sale	50-600	55-150	20-32	
Size according to the EU definition	MEDIUM	Small/medium	Small/medium	Small/medium
Number around	4	2	3-4	6

Source: Analysis of the sector for IPARD program, 2010

There are 49 registered slaughterhouses in Montenegro, out of which 12 are for butchering cattle, sheep and goat, while 29 slaughterhouses in addition do butchering of pigs and are authorized by the relevant authority pursuant to the provisions of laws, which are in compliance with EU rules. Chart 3 gives

overview of registered slaughters in 2009, showing that percents of registered slaughters in Montenegro for certain animals are currently very low.

Chart 3. Data on slaughter; number of registered slaughters in 2009

	Cattle	Sheep	Goats	Pigs	Poultry
Total	28.570	36203	12	28222	523716

Source: Reports of the veterinary inspectors

All medium-sized enterprises engaged in meat processing and several smaller plants have introduced HACCP system. Provisions on food traceability are incorporated into the Montenegrin Law on Food, but the system has not been established yet due to the nonexistence of relevant secondary legislation.

The price level for agricultural products in Montenegro is relatively high. The fluctuation of retail prices depends on the purchase power of population and foreign competition through arrival of international supermarket chains. Chart 4 gives overview of average price fluctuations in the period 2002-2008.

Chart 4. Average prices of fresh meat (sale process in meat industry), €/kg

Products	2006	2007	2008.
Fresh beef, halves and quarters	3,76	3,85	4,09
Fresh veal, halves and quarters	5,20	5,30	5,41
Fresh pork, halves and quarters	2,50	2,53	2,71
Lamb, fresh and refrigerated	5,21	5,50	5,50
Whole chicken, fresh and refrigerated	2,30	2,29	2,47

Source: Monstat

Very important part of the Montenegrin meat processing sector is production of traditional smoked ham from imported pork which is being smoked and dried on air.. „Original“ Njegusi smoked ham is produced in Njegusi, area between Cetinje and Kotor. Specific climate conditions with Mediterranean winds have positive impact on production process in the Njegusi location. Specific taste and aroma of smoked ham are result of the mixture of sea and mountainous air and woods burned during the drying process.

Pursuant to the above stated, it is to indicate some limitations that have influenced the meat processors in order to become more competitive, which are as follows: lack of expert knowledge and introduction of better technologies in many meat processing enterprises; non-fulfillment of EU standards regarding the technical project, equipment, work methods, professional personnel and inadequate level of internal control system; incomplete implementation of HACCP; buildings are mainly inadequately constructed; equipment is to be

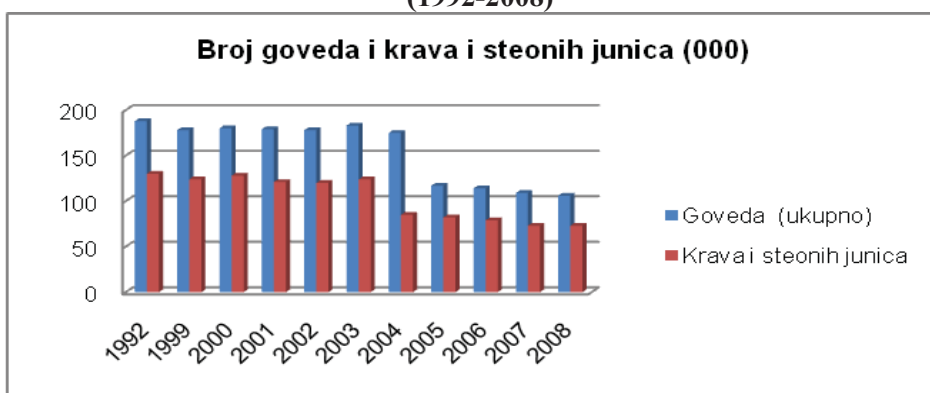
modernized; evident lack of appropriate loans for investments into processing; not loyal competition by unregistered informal sector (no VAT payment, no costs for hygiene requirements, etc...); quality of animals from domestic market and structure of livestock farms; inspection service not trained for control and supervision over the implementation of food safety standards in accordance with the national regulations; competition from Serbia; production with label “Njegusi” outside the region, etc...

Potentials of dairy sector in Montenegro and its contribution to the economic development of the country currently have not been sufficiently used. Total volumes of processed milk vary at the level of only 15%, where still the largest percent is being used for beef baby feed, household processing, satisfaction of personal needs of households or for sale. Sale channels are characterized by lack of dispersion when choosing the sale channel, since green markets and direct sale dominate. Problems in distribution operations and low level of competition within domestic undertakings present problem that may influence further development of this sector.

In previous few years, the emphasized development of distribution network, increased hotel-tourism consumption, preferences of domestic consumers towards certain products, have had certain positive impacts to the improvement of this sector, primarily through introduction of standards.

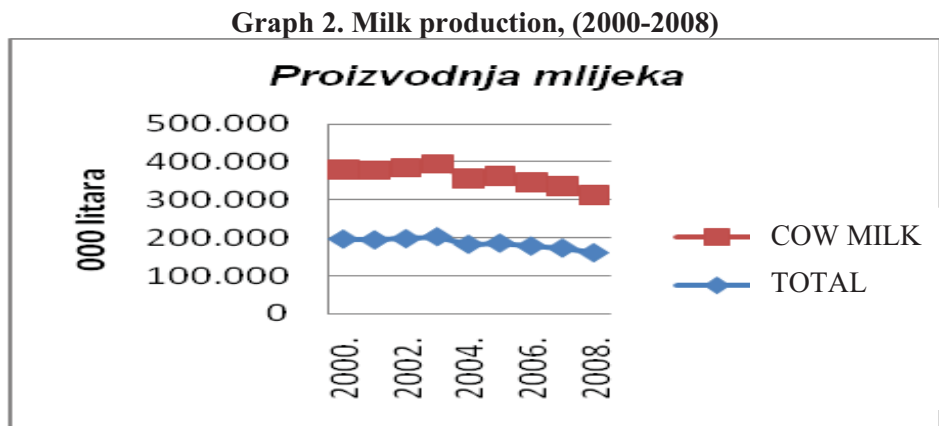
According to the data from graph 1, in the period 1992-2008, the number of bovine, cows and pregnant heifers in Montenegro reduced. In Europe (27 member countries), in the period 2000-2007, the negative trend was recorded in respect to number of heads and farms, where the number of farms was decreasing for 11% every two years and number of animals for 8%. Average herd size in Europe (27 member countries) is 26 heads per farm, while the same average in Montenegro amounts to around 3-4 heads per farm, therefore in this respect it is similar to Poland and Romania.

Graph 1. Fluctuation of number of bovines and cows /pregnant heifers (1992-2008)



Source: Monstat for stated years

Reduction in number of heads caused reduction in milk production in the period from 2000 until 2008 (graph 2), while the average milk production per dairy cow oscillated for around 2000 liters, which is significantly lower than in developed countries.

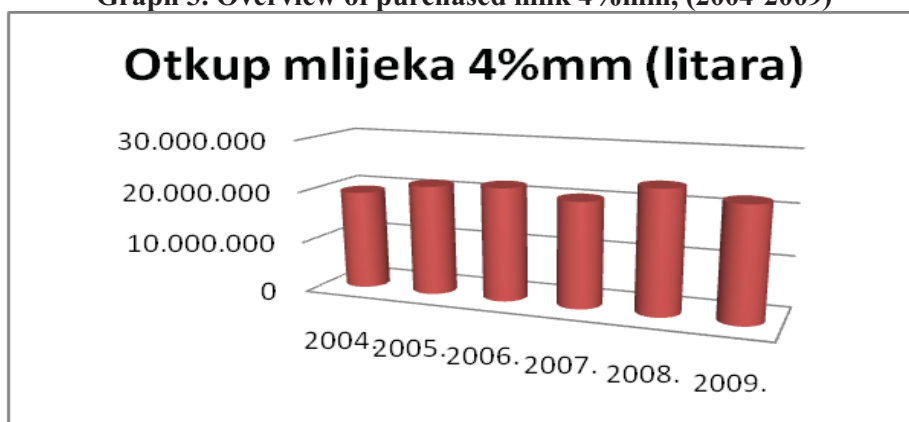


Source: Monstat for stated years

In 2007, the intensive process of structural changes started in the dairy sector, including also the primary producers and dairy producers. Such changes contributed to positive growth trend in delivery of milk from larger farms and represent good base for preparation of these farmers for the competition increase. Such trend is, inter alia, result of important activities directed towards improvement of dairy sector in few previous years.

Amounts of milk collected by dairy plants in the period 2004-2009 are shown in the graph 3 and resemble slight growth trend. After increase of amounts of milk processed in dairy plants for 20% in 2005-2008, the reduction for around 1.8 million of liters occurred in 2009.

Graph 3. Overview of purchased milk 4%mm, (2004-2009)



Source: Monstat for stated years

The number of operative dairy plants increased from 15 to 19 from 2005 until 2008, while in April 2009 one of dairy plants shut down. According to the most recent available data, the total processed amount of milk at the annual level amounts to 22,047.122 kg, where six dairy plants cover 75% of total processing. Leaders in milk processing sector are “Nika”, “Srna” and “Simsic”, processing more than 50% of milk, while ZZ “Kooperativa”, „Dinosa Bubulj” and Doo “San Nikola” process around 25%. From the territorial aspect, the structural disharmony between allocation of capacities and productive heads is pronounced. The Central part is the largest area regarding the milk processing capacities, while the Northeast part represents the largest area regarding the number of productive heads.

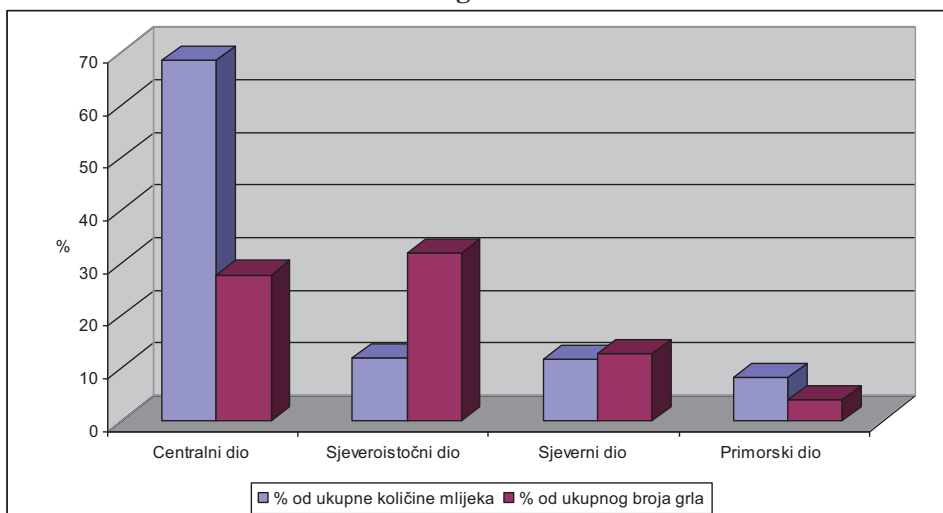
For most of milk processors, who are at the same time the main holders of specialization upgrading among farmers in Montenegro, there is growth tendency regarding the amount of milk processed in the period 2005-2009, the highest for Nika which moved from 2 163 599 kg in 2005 to 3 489 744 kg in 2009 and achieved increase with average rate of +12.7 % annually, Simsic moved from 3 205 960 kg to 4 587 394 kg (+9.4% annually), and Srna from 3 357 436 kg to 3 935 266 kg (+4.0%) in the same period.

In the previous period the collective purchase of milk and milk processing sector had increased level of integration between producers and processing sector. More attention is given to the quality. It is important to emphasize stability achieved in mutual relations between producers and processing sector through regular payments, purchase of feed and high quality breeds of cows. Productivity per head has increased. The intention for differentiation of products through renewed branding and alternative production was shown. Unlike the high quality companies which plan to expand capacities, certain number of milk processors currently does not take into consideration expansion of processing capacities due to the insufficient amounts of milk.

Geographically speaking, processing plants are unevenly allocated in

Montenegro. Principally, the largest processing capacities are not proportionally linked to the size of livestock fund in that area, graph 4.

Graph 4. Presence of livestock and processing capacities in respect to regions



Source: Monstat

On the basis of current trends at the level of primary production it is to expect that structural changes are to be directed towards reduction of number of farms, significantly affecting micro farms with up to 5 heads, which will require social measures and alternative sources of incomes. Regarding the medium-sized farms (5 to 10 heads) it is to expect that the number will increase, whereby its survival is closely linked with the possibility to add value to the primary production and supplement the family budget. Farms with 10 or more heads will also increase and should become self-sufficient.

Specific features of dairy sector and existence of small farms for milk production in Montenegro have influenced the market organization and sale. Agricultural producers and plants place and sell their products at the market. Farmers, primarily sell raw milk to dairy plants. In certain cases, when amounts of milk are not sufficient for justifying the transport costs or when payments are in delay, farmers decide to process milk on their own and to sell cheese. On the other hand, dairy plants regularly purchase milk from farmers, which is being stored in adequately cooled collection units, being kept there from one to two days.

Milk is subject to regular control when entering processing units and when leaving it, before being placed on the market, for the purpose of assessing its quality in accordance with the contract entered with the state laboratory network. Number of somatic cells and bacteria are regularly monitored, as well as the quality indicators.

Dairy plants pay price for cow milk in average 0,33-0,36 €/kg, which is at the level of prices in Poland (0,30 €/ kg) and in Romania (0,32 €/ kg). Producers and dairy plants may submit request for obtaining premiums for collective purchase and processing of milk.

Sale of milk products is performed through trade networks. In recent years, the share of milk product sale in large trade chains has increased. Prices for milk products are being freely established in accordance with the market conditions.

Having regard to all the above, it is necessary to point out the advantages of the agro-industry development, more precisely, the advantages of the restructuring of large systems, which has started at the end of nineties of the last century. Namely, small number of employees in the newly-opened processing enterprises provides flexible and efficient use of labor, as well as of material and production resources. It is to indicate their larger possibilities to adjust to changes at the market and to provide self-employment for the family members. In addition, no larger social turbulences occur with financial problems and liquidation. Disadvantage is that the enterprises have more difficulties with the existence of monopoly structures and excessive administration in comparison with the large systems. Lack of managerial knowledge and insufficient experience in the management process also occur as a problem. As an important disadvantage it is to point out the harder access to external sources of financing due to the high possibility to lose economic independence. However, previous development of processing sector (meat and dairy industry) in Montenegro has significantly slowed down migration of population from northern parts towards central and costal area. Considering that both sectors are still in the restructuring phase, whose result is to be a group of producers capable of facing the international competition, higher support of banking sector is required. Policy of further development of processing sector has to be linked with social policy, with special reference to the improvement of life in rural areas. Role of the State in the period of transition towards contemporary market economy is to influence with minimum interventions to the creation of business environment where the entrepreneurs will have possibility to plan with high certainty and undertake their business activities.

CONCLUSION

In recent years, in the sector of Montenegrin processing industry, several plants have been constructed (relatively small ones for European conditions) for production of dairy and meat products with relatively wide range of products. However, in addition to positive trends it is to conclude that enterprises in the mentioned sector are faced with lack of raw material and insufficiently used capacities. But, regardless to the problems that occur, it is to point out that construction of modern capacities for processing of milk and meat represent a driving force for development of primary production and on the other hand

contribute to increase of employment, primarily of qualified labor. From the territorial aspect, the structural disharmony between allocation of capacities and productive heads is pronounced. The Central part is the largest area regarding the milk processing capacities, while the Northeast part represents the largest area regarding the number of productive heads. Achieved results in recent years indicate that agricultural and processing industry are non-separated whole. Generally speaking, vital and competitive processing sector in dairy and meat industry is important not just for more stable placement of products on market, but also as a generator of rural area development. It is to point out that development of processing sector has had significant influence to reduction of migration from northern towards central and southern areas.

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**PERSPECTIVITY OF SMALL AND MEDIUM
ENTERPRISES IN SERBIA**

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Abstract

Small and medium enterprises (SMEs) in transition countries are still at a low stage of development. The vast majority of SMEs are micro enterprises, which employ family members or close relatives. In most countries in transition, SMEs are generally oriented to trade and only a small number of them produces products which are intended for sale or deals with the provision of services. In transition countries, the focus should be on the creation and development of SMEs, using the recommendations of the European Charter for SMEs, as well as positive experiences of developed countries to enable them to operate effectively in the market economy.

It is very important to achieve positive political and economic environment suitable for the creation of a strong SME sector, for the following reasons: SMEs contribute to the employment growth much more than large firms and may, in the long term, provide a very significant share of all employees: SMEs can help in reconstructing by absorbing redundant workers; SMEs enhance competition in the market.

Keywords: Small and medium enterprises development, priorities, strategic vision, results.

1. INTRODUCTION

Creating a positive political and economic environment is a prerequisite to nedovljno organizational and personnel developed SME sector in the development phase to grow substantially transformed in the SME sector, which will contribute significantly to employment growth, acceptance of surplus workers from large companies that had befallen the fate of a significant

reduction in the transition period and the world economic crisis and will contribute to increase competition in the market.

In addition to dominance in the number of small and medium enterprises in the economy of Serbia can realistically be expected to take about an exact position and the creation of a national social income, productivity, hire, export and other relevant economic indicators.

Strategies for competitive and innovative small and medium enterprises brought the period of 2008. - 2012. years (based on recommendations of the European Charter for SMEs) contribute to further strengthening and effective use of development potential of small and medium enterprises which will have a positive impact on economic growth in the Republic of Serbia.

2. IMPLEMENTATION OF THE EUROPEAN CHARTER FOR SMALL AND MEDIUM ENTERPRISES IN THE WESTERN BALKANS

Report on the European Charter for Small and Medium Enterprises in 2009. year saved are:

1. Organization for Economic Cooperation and Development,
2. European Training Center,
3. European Bank for Reconstruction and Development.

With global financial turmoil, which increasingly include Serbia, the authorities have sought help from the International Monetary Fund. Both external and domestic economic environment had collapsed suddenly and mercilessly. Imports and exports have made it difficult, opportunities for external lending dried up and economic activity declined sharply.

The agreement of the Government and the IMF provides a loan of about 3 billion euros with the detailed program for a period of 27 months, by mid-April 2011. This package includes two elements of the Government: big and imbalanced package of fiscal adjustment and maintenance of clients of foreign banks in the country.

Small and medium-sized enterprises dominate the economy of Serbia and made 99.8% of all registered companies. The European Union small and medium enterprises account for 70% of the total turnover of the European Union and 60% of the total social income of the same. In Serbia, the small and medium enterprises, but it seems 67.6% of total trades and makes 56.7% of the national social income. The importance of this sector in the overall economy is reflected by its impact in the total number of people it employs. 65.5% of the total number of employees in Serbia, are employed in the sector of small and medium

enterprises, with a dominant share of small and medium enterprises in private hands, where the number reaches 46.5% of employees.

Despite the growing activities of small and medium enterprises in the past few years, small and medium enterprise-wide in Serbia are still facing major challenges in increasing its competitiveness and export potential and still have forestalled financial difficulties. Small and medium enterprises in Serbia are based on the local market and the lack of exports with only 43.9% of the total exports.

Serbia also needs to improve the situation of women in the economy. The percentage of women of 40.8% was below average, than in developed countries, where about 56%. The rate of women in Serbia is 27.4% and was significantly higher than male unemployment rate which is 17.6% and an increase in the number of women entrepreneurs is one of the solutions to this problem.

2.1. Classification of small and medium enterprises in Serbia

In line with Eurostat standards, the main criterion for classifying companies by size is the number of employees:⁶⁵

1. Micro - up to 9 people
2. Small - 10-49 people
3. Medium - 50-249 persons

According to the definition of SMEs in the European Union are companies which employ fewer than 250 people and has annual turnover not exceeding EUR 50 million and income not exceeding 43 million euros. The definition of small and medium enterprises in Serbia, as based on the same criteria as the definition of EU classification starting points are different due to size and economic performance of Serbia. Number of employees is a major factor in both definitions, followed by annual turnover and balance.

In the sector of small and medium-enterprises, micro companies dominate both numbers and trades and total value added, but in proportion to their numbers, small and medium enterprises make big contributions. Therefore, economic efficiency increases with the companies in the sector of small and medium enterprises. Increase in turnover of micro enterprises is declining while the increase in trades of small and medium enterprises is steadily growing.

While small and medium enterprises dominated in all sectors in Serbia, the evidence suggests that the economy and service play a major role in developing economies. Of the total number of small and medium enterprises, 65% is tightly

⁶⁵ Izvor: Izvestaj o malim i srednjim preduzećima i preduzetništvu za 2007. godinu

concentrated in the following three sectors: wholesale and retail, servicing of motor vehicles, motorcycles and home appliances 37.5%, manufacturing 16.8% and transport, storage and telecommunications 10.7%

In terms of geographical distribution, the small and medium enterprises to dominate the whole of Serbia. However, most small and medium enterprises (46.6%) is concentrated in four regions: the city of Belgrade, South Backa, South Banat and Nis. These areas are also areas where there is the greatest trades in which money follows them and Srem, where SMEs have a slightly higher turnover than the southern Banat.

2.2. Impact of the global economic crisis

As a result of the current global financial crisis, the Serbian economy, the import and export products. Privatization and foreign investment are postponed for later, or are canceled, because the expectations of favorable economic moment. After three failed attempts the Serbian government has abandoned the sale of majority shares Bromining complex. Tender to sell 51% share of Jat collapsed in October 2008. year because no one submitted a bid within the required time⁶⁶ and tenders for sale of the Belgrade Fair and the mining and smelting Bor.

According to unofficial estimates in Serbia there are about 300-500 small public companies whose privatization may be postponed due to the global economic crisis. U.S. Steel Serbia and Tiger tires - the largest exporters in Serbia have already felt the financial difficulties that they were forced to temporarily suspend production.

Foreign direct investment will probably fall this year and not because of bad weather forecast for the fiscal front in the country, but because investors tend to collect money. Disposal of Fiat's investment in Zastava is a clear case of this situation.

In February 2009. The government adopted a series of measures to mitigate the global economic crisis. This program provides for setting aside 1.3 billion euros in provisions to encourage production and exports by improving the liquidity of the economy and purchasing power. The state is encouraging banks to finance companies and to withdraw additional funds from their head office and to allow citizens to buy at more favorable terms.

Cabinet of the Government of Serbia will also set aside additional funds to maintain an interest rate of 5.5% when it comes to loans. To facilitate

⁶⁶ SME Policy Index 2009., Preogress in the implementation of the European Charter for small enterprises in the Western Balkans

the local economy, the government will allocate 400 million euros of foreign loans for the small and medium enterprises. Affected by the growing crisis, the Serbian government has asked the International Monetary Fund loan of three billion euros.

An organization responsible for the small and medium enterprises is called the Council for Small and Medium Enterprises and was established in 2006. year. The Council's duties are:

- Monitoring and analysis of small and medium enterprises
- providing support for the development and implementation of policies of small and medium enterprises
- Mediation between the ministries.

The Council has worked on several značajanih documents, such as drawing up a draft strategy for small and medium enterprises for the period since 2008. year 2013. year.

In October 2008. Serbia adopted a new strategy for small and medium enterprises as the strategy of development of competitiveness and innovativeness of small and medium enterprises.

New the strategies is based on five points:

- promote and support entrepreneurs and capital for beginners
- human resources
- Finance and Taxation
- advantages of small and medium enterprises to export markets
- legal, institutional and economic environment in Serbia for the Small and Medium Business

Previous strategies for the period 2003-2008. year proved to be successful and contributed to the development of entrepreneurship in the region.

2.3. Simplification of existing legislation and reduce administrative overhead

Council for regulatory reform and quality control was established in 2003. in order to assist the Government in the reform process. The Council has designed a reform for the period 2008-2011. year that is approved in 2008. year.

One of the main objectives of the reform is to reduce the administrative costs of companies for at least 25% by 2011. year. Key elements of the strategy are:

- principles of good regulatory system
- strengthen the Council for Regulatory Reform and Implementation
- funds to maintain quality

- the establishment of funds and coordination of regulatory activities.

2.4. Company registration

Serbia is one of the first Western Balkan countries which adopted the reform process of establishment. Law on Business Registration was approved 2004th The Registration Agency and the company has taken their registration from the courts in November 2005. year. Today, Serbia has an efficient and relatively inexpensive technique of business registration and operation of these agencies is highly valued in the world of entrepreneurship.

By law, registration of enterprises should be completed within 5 days of their application, in fact, the entire procedure is usually completed within three days. Agency takes on notification and reporting of companies in the Employment Office, Pension Fund and Social Fund.

However, a special process to be registered company to the Tax Administration. This may take as long as 15 days, but generally all within the 5 Over 95% of new companies registered as limited companies. There were no significant changes in company registration in the last two years, but the overall effect of these agencies generally fixed.

2.5. Intellectual property rights

In the past two years Serbia has shown significant progress in implementing the Law on Intellectual Property. In October 2008. The Government has set up the Office for Protection of intellectual property rights and mandated as the coordinator for all government activities relating to the protection of the rights of copying and reproduction. In June 2008. The Serbian was invited to join the European Patent Office. However, further improvements are needed employing a number of specialized judges and stronger nadgedanjem market.

2.6. Access to finance

The banking system in Serbia is still fairly stable due to strong regulation. The government increased the amount of guarantees of deposits of citizens, entrepreneurs and small and medium enterprises from 3,000 euros to 50,000 euros. Emergency funds are included in the budget, in order to cope with a potential crisis of the banking system.

Completion of organization of the cadastre system in Serbia is planned for 2010. year with 16% of unregistered land. Guarantee Fund of the Republic of Serbia, Vojvodina and several other municipal funds, issues guarantees to small and

medium enterprises of all branches of the economy, finnsiraju beginners and farmers.

2.7. Improving access to the Internet

Still small and medium enterprises in Serbia is not allowed to report tax refund money from the social via the internet, the inability of recording electronic signatures.

Research company statistics can be entered via the Internet, but must be sent or e-mail or by hand.

Information on the Internet for small and medium enterprises in Serbia are available at a few well-designed sites in Serbian and English (and often in a few more European languages).

The most influential are the sites of the Ministry of Economy and Regional Development Agency to incorporate in Serbia, the National Agency for Small and Medium Business, and newly fabricated Serbian Chamber of Commerce site. All these sajtoi provide owners of small and medium enterprises about business registration, tax, regulatory, credit, provide answers to frequently asked questions and the possibility of asking questions on different topics. However, only the Serbian Chamber of Commerce site resembles a portal that provides information on other sites and services. National Strategy on razvou small and medium enterprises should open a web site devoted to small and medium enterprises.

2.8. E-business and support to small and medium enterprises

In October 2008. The conference was held in order to make national and regional associations and entrepreneurs, the procedure for registration of an entrepreneur. National Agency for Small and Medium Business provides the same free consultation.

As for, the availability of information on services, Serbian Chamber of Commerce has a fairly complete database of entrepreneurs. Information is available on request or regionally and locally, although there are plans that this information can be collected via the Internet free of charge from the website of the Chamber of Commerce. Opportunities (Serbia Investment and Export Promotion Agency) was prepared and directory of exporters and entrepreneurs, but he is still incomplete. Law on Electronic Signatures was adopted in March 2004. year.

2.9. Equity in human resources

By the phrase equity in human resources include the training and training of entrepreneurs. Today, attention is paid to the fact that in primary education (primary school, secondary school, college) added entrepreneurship as a subject, and items that would facilitate the understanding of entrepreneurship.

3. STRATEGIC VISION AND PRIORITIES

Strategies for competitive and innovative small and medium enterprises 2008th - 2012. The contribution to further strengthening and effective use of development potential of small and medium enterprises which will have a positive impact on economic growth in the Republic of Serbia. Such orientation should contribute to increasing competitiveness and exports, further strengthening innovation capacity of businesses, dynamic growth of employment and balanced regional development. The strategy was designed in order to ensure the achievement of priorities set out in the National Strategy for Economic Development of the Republic of Serbia from 2006-2012. year.

3.1. Strategic Vision

The development of the entrepreneurial economy based on knowledge and innovation, creating a strong, competitive and export-oriented SMEs and contribute to the higher living standards in Serbia.

3.2 Main results

Successful implementation of the Strategy will ensure achievement of the following results:

1. A number of new companies that successfully survived the first years of operations;
2. Faster overall growth and development of SMEs, the dynamic transformation of micro enterprises to small and small to medium-sized enterprises;
3. The increase in exports and a significant improvement in trade balance;
4. Continued employment highly skilled labor - permanent employment of;
5. Balanced regional development.

3.3 Achievement of desired results

Expected results of implementation of the Strategy will be achieved by the basic principles, aimed at transforming politics in the activities contained in the five pillars of the Strategy:

1. Promotion and support of entrepreneurship and the establishment of new enterprises
2. Human resources for competitive SME sector
3. Financing and taxation of SMEs
4. Competitive advantage of SMEs in export markets
5. Legal, institutional and business environment for SMEs in Serbia

Implementation of the strategy is based on the Operational Plan on the basis of which will be developed annual action plans.

The strategy puts special emphasis on the need for active dialogue between public and SME sector in order to ensure their active participation in the establishment and implementation of SME policy. The strategy takes into account the needs of the SME sector and includes activities that will be implemented through projects financed by the Republic of Serbia, the National Investment Plan, as well as from donor funding.

Annual action plans provide operational strategies with the possibility of determining the necessary corrective actions.

4. CONCLUSION.

Economic progress and development of the Republic of Serbia demands from the need to develop a competitive economy based on knowledge, new technologies and innovation. Support to the SME sector is one of the main focus of economic policy of the Republic of Serbia. Increased volume and intensity of support, and the number of institutions that directly or indirectly implement various incentive programs for the sector.

Is defined by the draft Strategy of competitiveness and innovation of small and medium-sized enterprises from 2008 to 2012. year, strengthened the work of the Council for SME Development, who was promoted to a permanent working body of the Government of Serbia, a National Competitiveness Council, and completed the preparations for the realization of comprehensive reform legislation.

Annual reports of the European Commission on the application of the principles of the European Charter for Small Enterprises indicate the progress of Serbia in the development of SME policy. The greatest progress has been made in making the "cheaper and faster establishment" and "Financing and taxation", while the poorest results were achieved in making the "availability of knowledge and skills" and providing "With a higher power representing the interests of SMEs in the public sector. "

In order to achieve expected results in the SME sector, expressed the need for: further regulation and systematization of regulations, increasing productivity, innovation activities, reducing the high trade deficit, improving the business environment in our economy, reducing the number of days, permits and procedures at the opening of the company.

The global financial crisis is significantly slowed the growth of our economy, reduce exports and imports. Privatization and foreign investment are postponed for later, or are canceled, because the expectations of favorable economic moment. According to unofficial estimates in Serbia there are about 300-500 small public companies whose privatization may be postponed due to the global economic crisis.

The government has received from the International Monetary Fund loan of three billion euros of which will allocate 400 million euros for the small and medium enterprises.

Council for Small and Medium Enterprises (founded in 2006.) is tasked to monitor and analyze the situation of small and medium enterprises, supporting the development and implementation of policies of small and medium enterprises and mediate activities between ministries.

Their contribution to the increase in living standards in Serbia will definitely make the development of the entrepreneurial economy based on knowledge and innovation, creating a strong, competitive and export-oriented SMEs.

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**ROLE OF THE STATE IN DEVELOPMENT OF SME IN
THE WORLD AND IN SERBIA**

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Abstract:

Small and Medium Enterprises (SME) present the most vital part of economy of countries in transition, as well as Serbian economy, they are generators of social growth and new positions, decreasing of poverty and also the key factor in maintaining stability of country economy. In European Union from total 21 millions of enterprises, 99 percentages are small and middle enterprises with most micro enterprises that employ up to nine employees. SME are main source of employment and creating fortune, providing over 80 millions of positions. Employed in SME make two thirds of total number of employed workers in private sector, realizing 70 percentage of total turnover, 600.000 euros per employer and 65.000 euros of new economy value per employer and 60 percentage of gross domestic product.

SMEs are key factor of economy development in Serbia, because they make about 98,8 percentage of totally registered enterprises and there work even 60% of total number of employed. Analyzing conditions in which work SMEs in Serbia, the word is about very difficult conditions, disloyal competition and underground economy. Key steps in creating favorable environment for development and improvement of SME business are: decreasing of pressure on administration and forwarding of administrative procedures for establishing, promoting the entrepreneurship and micro enterprise, simple access of SME to free capital, credit stimulations by state side and also big capital, providing the legal security and development of innovations and pioneering spirit.

Key words: enterprise, entrepreneurship, employment, compatibility, promoting, competition.

INTRODUCTION

From total 23 millions of enterprises and about 100 millions of employees in this sector, of how many there are in the European Union, even 99 percentage are small and medium enterprises (in USA there are 25 millions, and in Japan five millions). They contribute to the total gross domestic product of EU with 60 percentages and provided on the eve of receiving the newest

member of more than 80 millions of jobs. It actually means that in sector of SME work two thirds of total number of employees in private sector in EU.

According to official statistic, in Serbia, at the end of the last year there were total 76.394 enterprises, from which 75.729 or 99,1 percentage of small and medium enterprises. According to the latest, updated data from the Business Register Agency, at this moment in Serbia there are about 86.000 enterprises that can be categorized as small and medium.

Also, according to official statistics, at the end of 2010. all enterprises in Serbia employed totally 1,138 millions of people, from which small had 366.516, medium 256.890 and large 514.406 employees. In enterprises with a purely private property were 407.819 employees, from which 278.264 in small, 71.879 in medium and 57.694 in large enterprises.

The private small and medium enterprises at the end of 2009. were 52.441, from which 44.769 with less than 10 employees, and this is the most dominant type of enterprise in Serbia - small privately owned enterprise with less than 10 employees.

It is said that small and medium enterprises are engine of economic development, and that this sector promote private ownership and entrepreneurial skills. According to the dominant opinion of economists, SME is synonym for private sector, and figuratively for entrepreneurship.

The comparative advantage of these enterprises is that they are flexible, they can quickly adapt to changes and to meet market demands. In European Union countries, governments adopt regulations that are focused on supporting small and medium enterprises and on stimulating their growth and competitiveness.

Small and medium enterprises are the most vital part of the economies in transition, as well as in Serbian economy, they are generators of social growth and new jobs, poverty reduction, as a key factor in maintaining stability of the national economy.

1. DEVELOPMENT OF SME IN THE WORLD AND EUROPEAN UNION

The number of small and medium enterprises abroad is far greater than to us. In United States of America there were about 25 millions, in Japan five, in Germany four millions. [1]

In Ecuador for example, companies with less than 50 employees count 99 percentages of all companies and 55 percentages of total employment in 1980.; in Bangladesh, companies with less than 100 employees count 99 percentages of all companies and 58 percentages of employment in 1986. In countries with low-income per capita, the majority of companies are micro or small enterprises, besides which there are several large enterprises. In middle-income countries, medium-sized enterprises are beginning to take a relatively larger share in total production and employment. In most countries, the trend is

that larger companies make increasing national income per capita. The exception to this rule are the Asian countries, Taiwan or China for example, where the relationship between large and small companies is relatively constant in the last thirty years, no matter that the structure of production changed of primitive workshops to high technology and computer industry. On average, small enterprises do not play a major role in the development of a country.

From twenty million companies, how many there are in the European Union, 99% are small and medium enterprises. They contribute to total Gross Domestic Product of the EU with 60% and provide over 80 million of jobs. It actually means that in sector of SME is employed two-thirds of the total number of employees in the private sector in the EU.

SMEs are the engine of economic development. They promote private ownership and entrepreneurial skills. According to many experts and economists SMEs are synonyms for the private sector, and in a figurative sense for entrepreneurship.

The general trend is that SMEs are developing faster in highly developed countries, which employ 40-80 percent of the total number of employees. In Serbia, the percentage is about 40 percent and the same percentage of SMEs in Serbia is in total gross domestic product. Statisticians say that 50 percent of new-born businesses in Europe fail within the first five years, as a consequence of the fact that 70 percent of entrepreneurs do not prepare well for the business. 90 percent of them before starting own business does not test their ideas in terms of market. Two-thirds of newly established small and medium-sized enterprises did not have adequate logistic support from institutions, and bad organization can ruin the business.

Badly organized enterprise, „is self-eaten". However, the same number of companies are “re-born” in the market, which demonstrates the vitality of this sector. The basis for the success of every business is to have a clear goal and methodological approach.⁴

In Great Britain there are around 1.8 million small companies. According to British law on companies, there are three types of small and medium enterprises. They are defined in relation to the number of employees (small – up to 50, large – up to 250), compared to the value (small – up to 1,4 million, large – up to 5,6 million of pounds) and the annual turnover (small – up to 2,8 million, large – up to 11,2 million of pounds). Of all the tasks performed in the UK only 0.7 percent of them are made in companies that have 50-250 people, and only 0.2 percent means large companies. Even 69 percent means employed one person. White said that in Britain 50 percent of small and medium enterprises take loans, by which the British banks in late 2003. placed 40 billion pounds. Most of that money was a long-term loan. [2, p. 4]

Table 1. As defined by the European Union, the division of the enterprises looks like this:

Criteria - the definition of the European Union	Micro	Small	Medium
Number of employees	< 10	< 50	< 250
Total income		< 7 mil. €	< 40 mil. €
Total assets (assets)		< 5 mil. €	< 27 mil. €
World Bank divides enterprises as follows:			
Criteria - definition of World Bank	Micro	Small	Medium
Number of employees	< 1	< 50	< 300
Total income	< 0.1 mil. €	< 3 mil. €	< 3 mil. €
Total assets (assets)	< 0.1 mil. €	< 15 mil. €	< 15 mil. €

Italian economy is dominated by small enterprises. In Italy there is no precise definition of what are small and medium enterprises. The driving force behind the creation of new enterprises a law from 1986., with a new approach and methodology for use of local entrepreneurial resources for new jobs creation. The whole thing is set up in a way that government by its measures can create the atmosphere that will encourage creation of new generation of entrepreneurs. To implement this idea various services were offered, such as assistance in planning, management schools and technical assistance for starting business, with financial incentives, subventions and loans all in accordance with EU regulations. From 1986 until today, some 7.500 new entrepreneurs started new business ventures and 73 percent of them are young people. [3, p. 183]

Entrepreneurship in Austria has been developed very carefully. The results speak for themselves, 99 percent of all companies are small and medium enterprises. The trend in legislation is all the greater liberalization. Permanent certificate of new technology contributes to increasing the competitiveness of Austrian SMEs in the global market. Strategic Directions for SME development in Austria: 1) Production of new high quality products; 2) Raising the quality of tourism; 3) Create new and higher quality - extra services; 4) Saving energy, maximum utilization of raw materials, waste collection and reuse (recycling); 5) Implementation of new technologies; 6) Industrial cooperation; 7) Improvement of transport equipment and logistics.

On the 28. of April 1992. the Czech government adopted the Act, by which the state decided to support SMEs. The main goal of this document is to facilitate the establishment of SMEs and strengthen the economic position which they take. For the further implementation of this act, the government established funds financed from state budget and established the institutions entrusted with the task of providing support to entrepreneurs. Other forms of support include the following: 1) support of vocational training; 2) support the work of consulting companies; 3) support of cooperation between SMEs; 4) support of collection, processing and distribution of information; 5) support of research and technical development; 6) support of creation of new jobs; 7)

encouraging regional economic development; 8) support of cross-border cooperation and participation in trade fairs. Ministry of Economy has developed detailed programs to support SMEs. The program includes eight sub-programs with clearly defined goals and transparent determined criteria.

In Poland, for 2 million SMEs, employing about 60 percent of the workforce and generating nearly half of the total gross national product. Based on the association agreement with EU, on 6 June, 1995. the Council of Ministers adopted and presented a national strategy of SMEs. Despite the fact that SMEs are the most important element of economic policy, so far no unique definition of what small enterprises are. Unofficially, small enterprises have 50 employees, while medium-sized enterprises employ between 51 and 250 workers.

Romania. Legislative activity, in terms of incentives and support for the establishment and development of SMEs is reflected in the act that has brought Parliament in 1994. By this act the government unambitiously defined what are small (25 employees) and what are medium (25-200) enterprises and the main direction of promoting the SME sector. The main forms of support to SMEs are: 1) providing information, support and services of consulting companies, 2) support to regional development programs; 3) training of entrepreneurs, managers and employees in SMEs, 4) research and technological innovation; 5) access to resources, public procurement, and preliminary contracts, 6) export promotion; 7) economic and financial skills, and 8) necessary funds, Act of 1994. creates conditions for the formation of funds to support SMEs. Assets that full these funds are all from the annual allocation of assets approved by the state budget until private contributions and the economic assistance.

Slovenia. Slovenian small enterprises are sector of the economy with the fastest-growing. On the basis of legislation to promote small business, a fund for small enterprises is established, which is financed from the national budget and from other sources.

2. CONVENTION AND THE EU INSTITUTIONS FOR SME DEVELOPMENT

In the beginning of 2000. during the Summit of Heads of Government of the European Union in Lisbon, the sector of small and medium enterprises has been marked as one of the mainstays in achieving the goal for the European Union to become "the most competitive and dynamic economy in the world until 2010. In the middle of 2002. EU leaders adopted the European Charter for Small and Medium Enterprises, which calls on EU Member States and the European Commission to support and assist small and medium enterprises in a number of key areas, such as education and training of entrepreneurs and creating more effective legislation, regulation, taxation and financial system. In this way, the importance of small

enterprises and entrepreneurs for development, competitiveness and employment in the European Union is fully recognized. [4]

In EU countries, governments adopt regulations that are focused on supporting small and medium enterprises and to stimulate their growth and competitiveness. The European Commission in 2005. adopted a comprehensive policy of development of small and medium enterprises, which aims to ensure that the policies and activities of the European Union are good for small and medium enterprises, as well as to contribute to the European Union to be increasingly attractive for establishing the new companies and their business. The new policy of the European Commission seeks to apply principle:

„first a bit of thought“, in order directly business environment for SMEs to become more favorable and to reduce administrative costs, simplify and speed up procedures, improve (easier) access to market, create legal and other frameworks for job creation, in one word creating conditions to increase their competitiveness. In this way it supports the implementation of the Lisbon Treaty.

The European Commission has developed and implemented a wide range of activities under a policy specifically designed to support the sector of small and medium-sized enterprises in Europe. This policy is aimed at creating conditions under which small enterprises can establish and develop. If the EU wants to achieve the goal to speed up the economic growth and create many new and better jobs, the main role in it will play small and medium-large enterprises. In particular, SMEs are source of new jobs in Europe.

European Charter for Small Enterprises "Small Business Act" for Europe (SBA) adopted in June 2008. The Charter reflects the political will of the European Commission, which recognizes the role of SMEs in the economy of the EU and member states, and for the first time sets the framework for its comprehensive SME policy. The goal is to improve current approaches to entrepreneurship, to found the postulate “first think to small things” or “Think Small first” in policy making for public services for regulating the activities in this area, to promote SMEs and their development so as to give them support and assistance in dealing with all kinds of problems that hinder their development.

European Charter for Small Enterprises, applies to all entities that have an independent way of action and employ less than 250 employees - in fact, we talk about 99% of all businesses in Europe.

European Charter for Small Enterprises is the mean by which countries have a close mutual cooperation, as well as cooperation with the European Commission with a view to realizing the full potential of our small and medium enterprises. By implementation of the principles consisted in the Charter, countries closely cooperate in the reorganization of the environment for small enterprises with the help of measures such as: removing legal and administrative barriers, improving access to finance, enabling cheaper and faster process of establishment of enterprise, business support and training services, strengthening innovative and technological capacity and enabling more effective representation of the views and priorities of the small enterprise sector.

The Instrument for Pre-Accession Assistance (IPA) of the European Union. European Agency for Reconstruction was the institution responsible for the management of major programs of assistance (CARDS program - The Community Assistance for Reconstruction, Development and Stabilization) which the European Union sends to Serbia (Montenegro, Kosovo under UN administration), and the former Yugoslav Republic of Macedonia. Having made the decision to replace all pre-accession funds with the new pre-accession instrument (Instrument for Pre-accession Assistance - IPA), the European Commission together with the state administration became the competent institution in the management of EU pre-accession funds for 2007-2013. The instrument for Pre-Accession Assistance aims to increase the capacity of public administration, encourage social and economic development and meet the needs of the Stabilization and Association Process.

IPA consists of five specialized components: a) transitional assistance and institution building, b) support for regional and cross-border cooperation; c) regional development, d) human resource development, d) rural development. Republic of Serbia, as well as other potential candidates for EU membership will be enabled to use assets from funds of the first two components. It is also possible from the funds of the first component to finance programs/projects from components three, four and five. Ministry of Finance by the Government of the Republic of Serbia, was named to the National Coordinator of IPA assistance. The financial framework for the IPA amounts to EUR 11.468 billion for the period from 2007-2013.

Programs designed for cooperation between neighboring countries (Neighborhood Programs). Neighborhood Programs are new instruments of the EU for support and promotion of cross-border cooperation outside the EU. The programs are focused on promoting sustainable socio-economic development, environmental protection, fight against organized crime, improving border control and the promotion of cooperation "people to people".

Programs aimed at reducing differences in levels of development between regions outside the EU and promoting socio-economic cooperation between local communities, as well as cooperation in culture. Calls for project

proposals are in accordance with the rules of EU external assistance. These funds are distributed through so-called grant scheme, the mechanisms that enable direct financial grants to users. Each project has its own priorities and limitations that should be taken into account when applying. Ministry of Finance is responsible for coordinating and implementing the program, while the European Agency for Reconstruction has contracting authority. Local offices have been opened to facilitate coordination and activities at the local level. [4]

3. INSTITUTIONS OF REPUBLIC OF SERBIA FOR SUPPORT TO DEVELOPMENT OF SME SECTOR

Although has been done much on the issue of improving the institutional support to sector for SMEE by intensifying the activities of ministries on the development of SMEE sector and the establishment of new agencies, centers and offices to support SMEE in the national and regional levels, the activities will continue in order to make the public sector in the Republic of Serbia more responsive to the needs of small and medium enterprises and entrepreneurs.

Table 2. Employment in Serbia and Belgrade in large enterprises and small and medium enterprises, 2001-2010. (Employees - annual average)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Employees										
Serbia	2101668	2066721	2041395	2050854	2068964	2028854	2002344	1999476	1889085	1795775
Belgrade	559018	551298	567949	595239	613744	623770	617737	628363	613803	596801
% participation of Belgrade in Serbia	26,6	26,7	27,8	29,0	29,7	30,7	30,9	31,4	32,5	33,2
Employees in enterprises, institutions, cooperatives and other organizations ²⁾										
Serbia	1752226	1676835	1611632	1580140	1546471	1471750	1432851	1428457	1396792	1354637
Belgrade	467695	450849	454540	469882	470892	465044	454895	465733	473535	469006
% participation of Belgrade in Serbia	26,7	26,9	28,2	29,7	30,4	31,6	31,7	32,6	33,9	34,6
Entrepreneurs, individuals self-employed and their employees ³⁾										
Serbia	349442	389886	429763	470714	522493	557104	569494	571019	492293	441138
Belgrade	91323	100449	113409	125357	142852	158726	162842	162630	140268	127795
% participation of Belgrade in Serbia	26,1	25,8	26,4	26,6	27,3	28,5	28,6	28,5	28,5	28,9

3.1. Ministry of Economy and Regional Development

Ministry of Economy and Regional Development is responsible for defining and implementing the development strategies of SMEE sector. Accordingly, the Ministry intensified its activities through its two departments: the Department for Development of Small and Medium Enterprise and Department for Private Entrepreneurship. The Ministry is also actively involved in implementing regulatory reform in areas of importance for SMEE.

Ministry of Economy and Regional Development is the major stakeholders of activity for creating new, stimulating business environment for SMEE in Republic of Serbia and has primary responsibility for the development of this sector. The Ministry will focus its activities on the development of the SMEE sector as a whole, paying equal attention to developing small and medium enterprises and private entrepreneurs.

3.2. National Agency for Regional Development (NARD)

The agency was established with the aim to provide a balanced regional development of Serbia, to support (help, advise and protect) the development and interests of the SME sector, which should contribute to balancing the economic structure, dynamic of economic development and revival of economic developments in the country:

- To support the creation of an enabling environment for growth and development of SMEE
- Participation in the development in national regulations and the creation of institutional (market) infrastructure for the establishment and development of SMEs
- Direct non-financial support to SME sector (consulting, information, networking, facilitating access to funding sources ...)
- Preparation and implementation of education programs for instructors and training of entrepreneurs and managers of SMEs (training for unemployed, training trainers, mentoring ...)
- Coordination of the Republican network of regional agencies / centers
- International cooperation
- Promotion of entrepreneurship

To assist SMEs in new technologies and support their innovative activities (creating links between research and development sector, universities and SMEE sector)

The Agency will support projects of small and medium enterprises and entrepreneurs, through participation in funding to 50 percent of the cost of consultancy services for the regulation of business in accordance with the standards of quality, improvement and development of new technological processes, products, services and education of management and staff through

specialized training. Funds are awarded in the amount of 50,000.00 to 500,000.00 dinars.

Republic Agency is in constant contact with many international organizations in order to identify appropriate areas of cooperation and provide support to the sector of small and medium enterprises. Through various forms of cooperation, international events, initiatives and projects, Republic Agency uses a number of international experience in the field of small and medium enterprises, cooperate in all aspects of support to the sector, and creates opportunities for networking and internationalization of companies from Serbia, and their performance in international markets. [5]

Table 3. Number of SME in Serbia from 1999-2010.

year	small		medium		large		total	
	number	%	number	%	number	%	number	%
1999	58.662	94,8	2.359	3,8	879	1,4	61.870	100
2000	59.106	94,3	2.616	4,2	973	1,5	62.695	100
2002	63.995	95,6	2.223	3,3	742	1,1	66.960	100
2003	65.547	95,8	2.181	3,2	663	1,0	68.391	100
2004	66.989	96,9	1.515	2,2	605	0,9	69.109	100
2005	68.309	95,8	2.292	3,2	702	1,0	71.303	100
2006	73.382	96,00	2.347	3,1	665	0,9	75.394	100
2007	80.939	96,23	2572	3,0	598	0,7	84.109	100
2008	83.939	96,36	2.572	2,95	598	0,68	87.109	100
2009	73.321	95,97	3.073	3,13	665	0,9	76.394	100
2010	83.017	95,85	2.983	4,12	611	0,3	86.611	100

Regional agencies and centers will have an important role in the development of SMEE and will be catalysts and implementers of concrete support to owners and managers of small and medium enterprises and entrepreneurs in the initial phase of their work as well as during growth and development. The priority of the Serbian Government is to expand and strengthen this network so that the entire spectrum of business advisory services is available throughout the Republic of Serbia, as well as to improve the quality and diversity of services provided by agencies and regional centers.

3.3. The role and activities of the Government to support SMEs

Throughout the built network of institutions to support SMEs, the government can:

- be focused on the provision of solutions based on development initiatives not only "from top to down" but in the direction of "from bottom to up"

- seek by its policy to maximize use of energy of SMEF in the community
- raise the status of SMEE
- support building of sustainable local institutions through partnerships between interest groups, improve network of communication and trust at the local level
- establish the connection between the state and local institutions
- encourage use of public funds required to balance the entrepreneurial energy
- build the organization to support SMEE
- emphasize on effective measures in promotional activities, rather than narrow results based on activity
- seek to represent the future of SMEE by appropriate language and in appropriate form

The mentioned guidelines suggest an important role of government and institutions to support SMEE in the development of SMEE sector. Activities that need to be accessed, primarily by creating equal conditions for all SMEE and favorable macroeconomic and social environment, include:

- closely monitoring the private sector, at national and regional level
- advancement of knowledge and good practices in the development of SMEE over time
- providing research and development of designing good programs and institutions
- enabling the exchange of experiences at national, regional and local level
- proposing appropriate ideas from abroad, their adaptation and dissemination
- support of national and regional agencies for international Networking
- support of assessment and feasibility studies
- provide guidance on criteria for efficiency in order to support the development
- support of training and development of institutions to support SMEE
- coordination of local activities with the central ministries
- finding mechanisms to ensure that local needs are adequately represented at the national level
- detect deficiencies in infrastructure to support SMEE
- presentation of scenarios for the future in a form that meets the needs of SMEE
- provide motivation for public and private entities to work together
- providing motivations for large companies to work with SMEE on issues of socially responsible restructuring, supply chain and development of sector

3.4. Guarantee Fund

The state has established a Guarantee Fund to enable entrepreneurs more secure way for loans. Since then, entrepreneurs who have ideas for good business and have not the money to implement, they can count on help. For people who have no money or property which would guarantee paying back loans at some banks, and have a realistic plan on starting a new business, can not rely on the Guarantee Fund, which will stand behind them. This means that there are no material obstacles to translate good ideas into good business, stand out in this fund.

The aim of the Guarantee Fund is, as it is emphasized, to encourage the development of small and medium enterprises in Serbia and to enable access of entrepreneurs, farmers and companies to credit markets, in order to develop. The Fund issues guarantees to banks and covers part of the risk of banks in situation of approving loans of SME at range from 50 to 80 percent, but for loans with annual interest rate not greater than ten percent. [6]

The Guarantee Fund has so far signed contracts with 32 banks. Most of guarantees is given for loans that are granted to entrepreneurs by Commercial Bank, Vojvodjanska Bank, National Savings Bank, Hypo-Alpe-Adria and Kulska Bank. The Fund will continue with its efforts to establish cooperation with other banks, emphasizing that banks with majority foreign capital operating in Serbia have recognized their interest in cooperation with the Guarantee Fund.

The guarantee of fund is useful for enterprises because it helps them that banks approve loans under favorable conditions. This is particularly important for entrepreneurs to start business, called Start-Up projects, but also for small companies without such a guarantee is still difficult to obtain loan. Guarantees are granted for loans having a term of five years on average. Most often, these were loans for manufacturing and agriculture. A large number of guarantees that were granted loans of several thousand to half a million euros related to the purchase of equipment.

For more than two years Guarantee Fund has issued guarantees for loans to SMEs and entrepreneurs in the value of 18.6 million euros. During this period, 4,400 requests for loans were processed and worth of 127 million euros. Only the first six months of this year, the Fund has positive praised the 676 requests with the guaranteed amount of 4.04 million euros, of which about 30 percent is from undeveloped parts of Serbia. Priorities in obtaining government guarantees, that are given only to loans with lower interest rate of ten percent, had investment loans with

longer repayment. The most loans for which the Fund has so far approved the issuance of guarantees were with repayment period of three years.

3.5. Republican Network for Technical Support RNTS

Republican Network for Technical Support to Small and Medium Enterprises (RNTS) was established with the goal to contribute to the creation of better conditions for SMEE development in Serbia, as well as strengthening of the network members. The Republic Network was established in May 2003, initiated by the Serbian Agency for the Development of SMEs and Entrepreneurship in order to gather and link all Regional Agencies/Centers in the country those established and those that will be established. The Network is not a legal entity, and its members retained their independence and legal entity rights. The Network is open for new members which contribute to the development of entrepreneurship in Serbia. [7]

Serbian Agency for the Development of SMEs and Entrepreneurship coordinates the Republic Network consisting of 14 regional agencies and centers for SME development, which cover 85% of the Republic of Serbia (Kosovo and Metohia excluded), i.e. the territory of the City of Belgrade and 19 counties with 130 municipalities in total. Ten regional agencies and centers were established in the period December 2001 – December 2002, supported by the donors: EAR (Kragujevac, Niš, Kruševac, Zajecar, Zrenjanin, Uzice and Belgrade), GTZ (Novi Sad and Subotica) and SDC (Novi Pazar), as limited liability companies, in accordance with the Company Law ("FRY Official Gazette" no. 29/96, 36/02) whose founders are relevant stakeholders from the regions they cover (local authorities, regional chambers of commerce, associations of entrepreneurs, business associations, banks, institutes, faculties and others). Co-founder in seven regional centres (Zajecar, Zrenjanin, Uzice, Belgrade, Kragujevac, Niš and Subotica) is also the Government of the Republic of Serbia.

One of the main areas of activity of the Serbian Agency for SME development is also to assist small and medium enterprises and entrepreneurs in developing new technologies in the form of consultative support for their innovative activities, and eliminating obstacles to the introduction of innovations. This support is manifested particularly through practical help to innovators to protect their intellectual property and industrial property in particular, with the Intellectual Property Office in Belgrade.

CONCLUSION

European Charter for Small Enterprises, applies to all entities that have an independent way of action and employ fewer than 250 employees - in fact, we are talking about 99% of all businesses in Europe. European Charter for Small Enterprises is the mean by which countries realize the close mutual

cooperation, and cooperation with the European Commission with the goal to achieve the full potential of our small and medium enterprises.

SME Development in Serbia in comparison with countries in transition sets the crucial question - the corporate policy to SMEs at all levels - its declaration, gaps in implementation proclamations and actual stimulus of state, compared to the integral index of development, employment rate and a low level of competitiveness of small and medium enterprises and entrepreneurial sector.

Regional variation regarding the level of development of SMEs in Serbia is expressive, because of their strong concentration in Belgrade and South Backa District, where are 40 percent of the total number of registered small and medium enterprises in the country, and on the other hand, in Toplica only under one percent.

Analyzing the conditions in which SMEs work, the word is about the extremely difficult conditions, unfair competition and the underground economy. The practice became more popular to change the law intention and get worse the business conditions drastically by laws, interpretations and opinions of relevant ministries because the questions of SME are treated by 32 laws.

The biggest problem of small and medium enterprises in Serbia is the lack of loans or adverse conditions under which they are approved. Although Serbia, in percentage terms, regarding the number of SME, are not far behind other EU countries, concerning the effectiveness of SME they are showing poor results.

The registration of companies in Serbia according to new legislation is in line with EU standards. The goal of changes in Company Law is that the process of establishing becomes simple, efficient and transparent. The aim is to engage many people with more assets to work independently in order to make profit. Law does not prescribe the conditions of education for performing activities and the conditions for starting the business are liberalized.

In the Republic of Serbia it is necessary to create conditions in the future for SMEs to operate in a much simpler and more secure legal environment, starting from the principle that the purpose of laws and regulations is to enable the work of enterprises and entrepreneurs, not to put up obstacles.

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**FAMILY BUSINESS AS A CHANCE FOR SMALL
BUSINESS DEVELOPMENT IN SERBIA**

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Abstract:

Family-owned businesses are the oldest forms of business organizations in the world. Family business is today one of the most important generators of wealth and employment in the world economy. In all major economies, the small family business is the backbone of the economy and economic progress. Although it is difficult to accurately assess their presence in global terms, some estimates say that the participation of entrepreneurial companies that have established or run by families, ranging from 65 to 90 percent of the total number of active companies in the world economy. Family businesses are in the visible expansion in Serbia, too. Such companies reported significant results. What a challenge, especially today's, is the fact that life in a family-owned business is relatively short. A large number of family businesses fail to survive after the disappearance of its original founders.

This primarily contributes to the lack of preparation for the upcoming generation growing business as well as numerically larger family. Just using good management structures, education of generations to come, by defining clear rules in the family, a clear separation of ownership from management, development of business instruments, the chances of survival and development of family-owned businesses are far greater.

Key words: family business, small business, families, family members, management, development, education.

1. FAMILY AS THE BASIC UNIT OF SOCIETY

From time immemorial, among the all nations the family was given the great importance. Religious preachers, statesmen and philosophers have aspired to make the better family life regulations. They all agreed in one: that family is the basis of society. The family is more than a school, the state or society, it appears as a factor in preparing the men for life in all directions. The family is the basis of human society; it is irreplaceable in the process of spiritual and social

development of humans. The family is the source of love in its dedication to learning, joint suffering the troubles, life's struggles and delights. The family creates a feeling that we are together in all; this also applies when we leave our family homes, no matter where the life takes us. We are free to say that the family creates a sense of personal self-realization and mutual happiness.

According to the research of certain agency (2007):

- About 67 % of Serbian citizens find the greatest satisfaction in the family life.
- The same survey also showed that respondents, in terms of expectations, were at least disappointed by their loved ones.
- However, many sociologists believe that it should not be fooled by these results and that the family is still very vulnerable. The storm winds of social and political crisis continue to destroy it.

The fact is that the family has been destroyed, so now it is the less cradle of personality and the value system of young people are less established in the family. Social distress and poor life style are some of the causes of family deterioration. Families reflect the state of society, and since our society has been extremely poor or even on the verge of poverty, living conditions in the family and its survival have become extremely problematic.

Without the strong family, family business and family sacrifice, there are no social, economic and biological survival for the new generations.

2. FAMILY AND COMPANY

Family and business are terms that, in everyday conversation, often and regularly mentioned and which the most lay people are known with:

- Family is the group in which we are born and grown up; it cares for us and protects us until we will create our own family; and this whole cycle is on and on.
- On the other hand, the company is an organization that connects people, and above all, has interest in certain activities regarding the profit, where individuals, i.e. employees of the company provide the everyday existence and its owners the long-term investment of their capital.

Companies have defined the tasks and objectives in the environment where they perform their activities, while the family's only task is to create favorable conditions for the healthy upbringing of its members.

What happens when members of one family found a common interest in achieving certain existential economic interest in a specific form of organization? The consequence is the emergence of family business.

To start and run the family business in the 21st century is far more difficult than in the developed countries and the EU. Challenges include:

- Limited resources (manpower, capital, market opportunities),
- Specific forms of organization that often have their own, unique approach (entrepreneurial) management,
- The need for an appropriate focus on the long-term policy development,
- Vulnerability concerning the different stakeholders - government, financial institutions, interest groups,
- Difficulties in providing the financial support,
- Economic problems (turbulence) in the environment,
- Lack of adequate institutional support,
- The tax system (at national and local level)
- recruiting the appropriate workforce ...

When all this is added to the specific family factors, there is a very complex phenomenon - the family business.

3. THE FAMILY BUSINESS AND ITS SIGNIFICANCE FOR THE DEVELOPMENT OF ENTREPRENEURSHIP

Family is very important for the development of entrepreneurship and small and medium enterprises in Serbia and abroad. Entrepreneurial business starts its development primarily as a family business where the only employees are family members.

All those ones who, in the last 15-20 years, alone or with the partners run their companies, are in some way in the family business. Consciously or unconsciously, in that moment the entrepreneur-founder started the family company that established itself in its first phase of life. Formally, it shall become a family one only when both he or his children decide to join a new generation to a company.

Becoming the part of the family business is the special time in entrepreneurship. To bring up the children and enter them into the world of family business means opportunity, potential great wealth and, above all, a sense of belonging and pride. Statistics says that all the world economy is considered as an ally to the family business and very important item for economic and social development of each country. Although it is difficult to accurately assess their presence in global terms, some estimates say that the participation of entrepreneurial

companies that have established or run by families range from 65 to 90 percent of the total number of active companies in the world economy.

Family businesses are so deeply rooted in many countries, and has a large percentage of stake in the creation of gross domestic products of every country.

Most family businesses are small enterprises. However, there are numerous examples of family firms, which are small businesses becoming the large corporations such as Fiat, Ford, Mercedes, Samsung, LG and so on. All these companies started as a small workshops two or three centuries ago, and in the meantime, its successors developed it into a large company and recognizable brands. However, more than 90% of companies are just small businesses that employ less than ten employees. From another point of view, from five companies in the world, four are family-owned businesses.

Domestic small and medium-sized family companies have not such a long tradition. They are less present in our country than in the world, but being in the visible expansion in the last two decades, some of them managed to consolidate and achieve the great success in the food, pharmaceutical, textile industry, trade, viticulture, horticulture. Statistics say that all world economy family business is a major ally and very important item for economic and social development of each country. It will slowly, but surely, become the commonplace in our country, taking the number of the unemployed into account, especially those ones who have entered the fifth decade of life. But when the family business grows up into a large corporation, the opinion of the family is still respected, and the family of the founder, as a rule, continues to participate in the decision-making and corporate governance.

The essence of the family business is primarily in the persistence and patience, while ideas are slowly poured into something visible and tangible - creating the product.

The common denominator of all family businesses is a grand work, the great results and new ideas, which many of them have been already realized, a while large number of them are waiting some better time and working conditions.

But, as studies show, when someone is asked to say where he/she is working, the expected and desirable answer should be - in the wealthy companies. This means that it is a company that is renowned with a good salaries.

If, however, due to the answer that this is a family business, it, at least in our conditions, requires the further explanation that it is a personal choice, because it is almost an established rule that a family business is something that is not easy to do. It is believed that this is a family craft, which is transmitted from generation to generation and thus, it survives.

According to the International Academy for Research of Domestic Entrepreneurship [7]:

- About 80 and 95 % of companies are family-owned ones at the global level,
- About 60 % in France,
- 60 % in Germany,
- 74 % in the Netherlands,
- 79 % in Sweden and
- In Greece up to 80 %.

4. DEFINING THE FAMILY BUSINESS

To define a family business is quite a challenging task, if we previously answer the questions such as:

- What the family implies;
- To which extent the property must be in the hands of the family;
- How many family members must be employed so as the company should be regarded as the family one, etc.

For the defining the family business, the following criteria in three categories shall be used [8, p. 14]:

The broadest definition of the family business requires that the family has some degree of effective control over development strategies and that at least a small part of the business remains owned by the family.

Central definition includes the widest possible definition of all criteria, but also requires that the founder or a descendant runs the company.

This definition includes those businesses where only one family member is directly involved in daily business operations.

The closest definition of the family business requires that a few generations back are involved directly in the business activities, then family involvement in daily business operations and that more than one member has significant managerial responsibilities.

The essence of the family business is primarily in the persistence and patience and ideas are slowly transformed into something visible and tangible - creating the product.

The common denominator of all family businesses is a grand work, significant results and many new ideas, many of which have been already realized, large number of them is waiting a better time and working conditions.

5. THE STAGES IN DEVELOPMENT OF THE FAMILY COMPANIES

Today, Serbia is in much better environment for starting the business. Our people have good ideas, but it is very important that they can make a profit.

The business startup money is very important but not crucial thing. Moreover, it is at the third place. Firstly, the idea and business plan, and then the money following. It is also known that a successful business is usually preceded by several failures.

Statistics says that the half of the newly established operations in Europe, in the first 5 years of experience fail, because the most people are not prepared to enter the race market. To make the family business achieve, you should build the foundation out of commitment, clear communication and solid ethics. At least for the moment, you should forget the grim statistics on the survival of family businesses, but think of the thousand ones who have succeeded - for generations.

Probably the Serbian entrepreneur and his family business will not be in a position to compete with the world's oldest family enterprises - Japanese hotel Riokan Hoshi, which was established in 717 and who now runs the 46th generation of Hosi family - but such extreme examples only confirm that a family business may not last very long. To set up a long-term family business in Serbia, it must be strengthened from the bottom up.

Conscious commitment of entrepreneurs in creating their company will be the first step in establishing a solid foundation. It is necessary, of course, to have a luck to survive for generations, but it certainly does not happen by accident - it all starts with the manager's intentions.

There are three stages in the development of family businesses:

1. The first phase, the era of owner's management, when the company is owned and run by one man who has founded or bought or controlled its actions. When the founder still keeps it under control or when the successor exercises that control.

There are two key problems that family business faced in the first phase:

- First question is whether there is a competent successor,
- And secondly, whether there is a willingness and ability of founders to relinquish the control.

For, such situations give birth to a new problems:

- To assess the characteristics of a competent successor,

- Or how to facilitate the retirement of the founder so as he does not feel less valuable,
- Or, more delicate, how to prevent the founder not to delay to leave the leading position in the company.

They impose more and more other issues.

2. The second phase, the company has passed into the hands of a partnership that consists of two or more children of the founder. When the generation of successors, daughters or sons, that is, brothers or sisters, leading the work, and

3. The third phase (cooperation of relatives), in which relatives, often in the third generation or later, manage the company. And then they inherit from their children and children of their children and so on.

Table 1. Model of family enterprises in three stages [6]

First phase	Second phase	Third phase
Owner-managed	Partnership of brothers and sisters	Cooperation relatives
Ownership control is given to a family member who takes control over the company	The ownership is divided between two or more brothers and / or sisters	Ownership control extends to many family members from generation to generation

If the owner-manager wants to keep the family company, it will be transferred to another owner-manager as its successor, or it will be passed on to those brothers and sisters of the owner, creating a partnership of brothers and sisters, or at the second phase, the development of domestic enterprises.

If the company is transferred to the partnership of brothers and sisters, like the family owners they will relate to a completely different set of decisions. They can sell the company so as to consolidate its stake in one branch of the family, division of business between brothers and sisters, or to transfer the ownership of all or many relatives in the next generation, making the company the third phase, the cooperation of relatives.

Not surprising that only one third of the companies survives intergenerational transfer of the first generation of successors (ie, second generation), and that only 10% of companies survive the transition to third generation.

Transition to third generation is considered as the most problematic phase in the life of the family company.

6. THE DIFFERENCE BETWEEN A FAMILY BUSINESS AND BUSINESS ORDINARY

The fact that the owner of the company, in fact, the family, manifested in almost all business segments:

- For family businesses are characterized by long-term planning or at least the founder's vision that his work will survive for many years. In this way, successful family businesses provide special opportunities to combine career and personal life of family members, women, and employees who are not family, but also the local community (community) in which they live and work.
- At the same time, family members who share the entrepreneurial desire to expand operations, to do that have a firm basis. Specifically, women in family enterprises have the ability to flexibly deploy their working hours, which facilitates their performance of traditional roles in family and combining motherhood with a professional career. In neporodičnom company, women are at some point finds that he must choose between these two roles. Otherwise, her professional role will, as a rule that stangnira.
- Also, employees who do not belong to the family for their work in family enterprise better rewarded, staff turnover is lower, and hence employment in family enterprise means more responsibility for long-term social security.

Subsequent images show the specifics.

Table 2. Differences of family businesses and non

Family businesses	Ordinary company
The family members in management positions have long-term, personal involvement in the business.	Control interest in a company is limited by the terms of contract
The family members in management positions may be in this business during his long career	Managers are rarely retained throughout his career in only one employment, the company
Family members have a vague time horizon	Managers have a shorter time horizon

The future of business has dramatic personal and business implications for family members, especially those in senior managerial positions	The failure of business managers perceive less personal
The probability of completion of employment for family members who participate in the management of very low	The probability (or probability estimate) completion of employment for managers is much higher

Understanding the complex nature of family business requires a multidisciplinary approach. This complexity arises primarily from the fact that the source of all – business.

7. FAMILY MEMBERS AND MANAGEMENT

In the world of the entrepreneur has to learn to know and, then, to make decisions. In Serbia, it is important to decide, with or without knowledge, it is enough that a boss in his family company. Serbian entrepreneur as a man who thinks he knows everything, is closed to advice and changes.

Its vitality, a family business draws primarily from the full commitment of the founders and because some family businesses, at least initially, engage the whole family. Especially in these times of crisis, the fact is that all that is due to remain under the same roof, also the family business becomes a good basis for survival and reduce the outflow of profits. A small number of employees in the family business, successfully compensates for greater involvement of family members. A significant part of the work done by family members are not recorded and not paid, neither of them is fixed working hours. Family businesses because of the crisis can be easier to accumulate the initial capital required for serious investment.

Different families have different attitudes towards leaders and managers of the family in the future.

In some cultures prefer to have a leader and demands that the eldest son take responsibility for all my life taking care of the family name - often for the situation he says "to be the guardian of his brother." Such a form of leadership can be done with the principle of trusteeship, or "golden shares". Some other sons-in-law and in family businesses are treated as second-class citizens. While in some cultures, daughters are fully equal members of the family in all forms of ownership, leadership and wealth.

In short, different families have different cultural assumptions, and assumptions of one family may be completely different from the assumptions of other families. Should consider the following conflicting assumptions and expectations related to the way in which families can see their relationship to their own company.

Business as unity family in the ↔ business as a threat to family
Family comes first in ↔ Business in the first place
Equal powers in ↔ one leader

8. PROBLEMS HINDERING THE DEVELOPMENT OF FAMILY BUSINESSES IN SERBIA

- **Clear rules in the family**

The Serbian firms is necessary to introduce clear rules in the family: who is in any way involved in the management of family enterprise, and who owns it.

- **A key factor in successful management of the family enterprise**

Is the understanding of the fact that each member of the family business (since owner / will, over the owner's spouse, children, relatives and others) have a different view of the family business and from there, as well as between the owner / s - the successor / s, may arise potential as a family, and business conflicts and problems.

- **Property Assessment**

Very important thing is to assess the property, ie. to separate capital firms of money to invest in real estate and luxury goods. If the first has no rules, children will spend the owner of the luxury capital of the company going out, cars, clothes and so on. So it often happens that they do not become successful entrepreneurs.

- **Fast reakija to changes**

Family businesses need to react more quickly to market changes, because the process of making them shorter duration. However, more often the case in Serbia that the family firm static and difficult to change mentality in the sense that react quickly to changes

- **Separate ownership from management**

Owner, for example, can be a father, and controls women and children, but not good when all at once and the owners and managers.

- **The family business has to work on the four "table"**

The first is for owners, Together with the stakeholders, determine the strategy of the family business. The other's board of directors, which may be one of the owners, but not all. For third the managers - for example, production manager or

chief financial officer, and the fourth belongs to the supervisory board. In the Serbian family enterprises, however, the same people sit in several of the tables "and here comes the confusion. For example: the son can not be the owner, board member and manager at the same time. In many world kompanijama initially lower-level manager, if proven aksnije progressing further.

- **The more you develop the tools of business - budget, business plan**

Instruments business, banks will not support projects, family businesses. It often happens that the Serbian family businesses perceive as a bank ATM machine, and not as partner of the joint project. However, the bank will not be a partner in the project, if not supplied with enough information about the company, if it is presented to a business plan and so on. In developed countries in the world, a bank that gives money required to have a man on the board company, to guarantee the project in which it invests. Many Serbian entrepreneurs are not ready for it, because it would get someone who will be judged by how they operate.

- **Development of family businesses depends on the personal characteristics of the successor (offspring), the successor of training, readiness and desire for offspring to work in the company, etc.**

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CONCLUSION

Family-owned businesses are the oldest forms of business organizations in the world. Family owned companies in many countries today, by far make up the largest percentage of the total number of companies. Family businesses are an attractive expansion and in Serbia, because such companies recorded impressive results.

When in Serbia says the family business, the first thing one thinks of the bakeries, pastry shops, craft shops and small manufacturing companies, where the father of the owner, the mother takes finances, and children serve customers and assist in production. Formed is often out of necessity, because the unemployment rate high, and run the family manufacturing acts as the most realistic way to secure a livelihood. In the world, family businesses and is the basis of small and "large" economy and the most natural thing is to hope that one grows into a major corporation. What a challenge, especially our time, is the fact that the life of a family-owned business is relatively short. A large number of family businesses fail to survive after the disappearance of its original founders.

It primarily contributes to the lack of preparation for the upcoming generation of growing a business as well as the numerically larger family.

It is the application of good governance structures, educating generations to come, the definition of clear rules in the family, a clear separation of ownership from management, developing tools business, the chances of survival and development of family-owned businesses are far greater.

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**ROLE OF ENTREPRENEURIAL BEHAVIOUR OF YOUTH
IN THE DEVELOPMENT OF NATIONAL ECONOMY**

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Abstract: The world economic crisis has had an impact on the rise of unemployment in many countries, which has caused serious economic problems worldwide. The unemployment issue is significant especially in regard to the young population. Namely, this group of unemployed people is proportionally the most prominent one in all labor markets, there by necessitating the need to more actively involve them in contemporary business activities. In addition, the older generations are losing their jobs due to being made redundant or as a result of their inadequate adaptation to the new requirements on the labor market. Experience from previous economic crises shows that in those periods there is an increase in entrepreneurial initiatives and business start-ups. The reason may be found in the fact that, in those times, people see starting their own business as a sole alternative. To a national economy, encouraging young people to start their own business represents the key element in economic development and the decrease of unemployment. Therefore, in the process of supporting young people towards entrepreneurship, a necessary requirement are the joint and coordinated cooperation of various institutions, such as the pertinent ministries, chambers of commerce, universities, employers' associations, students' associations, etc.

Keywords: entrepreneurship, unemployment, start up business, knowledge, competitiveness

1. INTRODUCTION

Development of small and medium enterprises (SMEs) in the period of economic crisis, presents one of the best alternative solutions to the recovery of the national economy. Specifically, the SME sector plays a significant role in all

economies as a key generator of income and employment, as well as the driving force for innovation and development. According to the latest statistical economic data in the European Union (EU) 99% of the total number of enterprises are within the SME sector, and 91% are micro enterprises with less than 10 employees.

These data only confirm the importance of SMEs and entrepreneurship for economic improvement of the national economy. Programs that governments of developed countries create, in order to reduce the effects of the global financial crisis, highlight the necessity of employment and development of SME sector, as an excellent way to its fulfillment. The reason that governments of mentioned states have such a big interest in SMEs and entrepreneurship lies in the fact that throughout history, it was shown that period of great economic crisis were good time for encouragement of entrepreneurial initiative and starting up personal businesses. Experiences in countries such as Germany, Italy and South Korea have shown that SMEs can be a driving force for development of the national economy.

Therefore, after the Second World War and the great war of destruction these countries realized that only by encouraging the development of entrepreneurial initiative and innovation could they expect to have development of national economy. So now after 60 and more years when talking about the importance of SMEs for the development of national economy we could say that those countries stand up as excellent examples of it.

However, even in regular economic conditions countries have realized the for continued survival and development of SMEs it is importance of having special policies and programs. In period of global crisis SME business becomes increasingly difficult for several reasons such as [1, pp. 6]:

- It is hard for them to get smaller, because their structure is already small;
- they are individually less diverse in their economic activities
- they have poor financial structure (small capitalization);
- they have poor or none credit rating;
- they rely a lot on crediting
- they have only few financial options

Therefore, it is very important that the state creates institutional support for the continuous operation of SME sector. Also, states must have one special segment for start up business and creating a suitable environment. The fact is that without suitable environment, there is no starting up of «own» business and no decrease of unemployment, which is the biggest problem in all economies.

2. PROBLEMS OF YOUTH EMPLOYMENT IN MODERN BUSINESS

2.1. Unemployment among young people - leading economic problem in the world

Unemployment of youth and situations in which they give up on looking for a job or don't want to work, due to inadequate conditions, becomes cost for the economy, society and also, on individual bases to theirs families. Experiencing

the lack of decent job positions in their early ages, young people could have difficulties in future employment procedures and also develop unsuitable behavioral employee's pattern for the rest of their lives. There is a clear link between youth unemployment and social exclusion.

The inability for young people to find a job leads to feelings of worthlessness and boredom that can later contribute to a variety of conflicts, such as violence or similar problems.

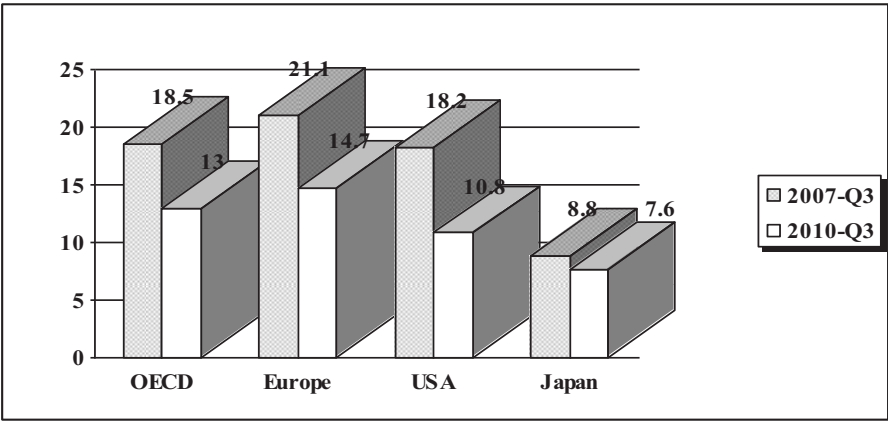
Focusing on young people will result in increased production potential which has not been sufficiently utilized. Some young people are unable to earn their own income, and it is therefore necessary for families to reduce expenses and invest in the household at a higher level.

Beside the family support, it is also important to have support of society which should be investing much more in the youth education. Young people could have less experience, but they could also be highly motivated and capable to offer new ideas and understandings that are easily utilized. They are in fact, the guides for the economic development of an country.

According to OECD data, in period of the Global Economic crisis, youth has suffered disproportionate share in the loss of jobs. In the third quarter of 2010, in the OECD, the average level of youth unemployment was 18.5% of total working-age persons (from 15/16 to 24 years), with approximately more than 3.5 million young people who are comparable with levels of unemployment with the same quarter in 2007. Europe has a problem with the number of unemployed young people and as they are and can be seen in Figure 1, when in 2007 the percentage was 14.7%, and 21.1% in 2010, indicating a rise in unemployment from 6.4%.

United States, despite a smaller percentage of young unemployed in 2007 and 2010 (10.8% and 18.2%) has a higher increase in unemployment of 7.4%. Unlike the U.S. and Europe, Japan has the lowest unemployment for young people of 1.2%.

Figure 1. The rate of youth unemployment in the third quarter of 2007-2010 (in percentages)



Source: Off to a Good Start? Jobs for Youth, OECD, 2010, pp. 2

Table 1 presents the unemployment rate among young people (aged 15 to 24) in some European countries in different time periods from 1994 to 2009. What can be immediately noticed is that there is a big difference in the percentage of unemployment among young people during this period. Spain is a country that in the period from 1994 to 2009 had the highest level of youth unemployment, which stood at 42.9% and 37.9%. In 2006 and 2007 the percentage was much lower and amounted to 17.9% and 18.2%, while in 2008 there was an increase of 24.6%. Italy had a similar movement of youth unemployment. Specifically, in 1994 unemployment rate was 30.5%, 25.4% in 2009. However, the unemployment rate among young people in 2006, 2007 and 2008 was 21.6%, 20.3% and 21.3%, which indicates that at that time they found a way for youth employment. The countries which are shown in Table 1, that joined the European Union in 2004, had the highest percentage of unemployment among young people in 2009, as follower: Estonia (27.5%), Slovakia (27.3%), Hungary (26.5) and Poland (20.7 %).

However, among all these countries, Estonia is one with the highest youth unemployment problem, because in the period 2006 to 2008 the percentage ranged from 10% to 12%, and in 2009 it has sharp increase of 27.5%. Poland has succeeded since 1994 until 2009 to significantly reduce youth unemployment by 11.9%, although this rate is still high, country tends to find solutions to this problem.

Table 1. The unemployment rate among youth (15 to 24) (percent)

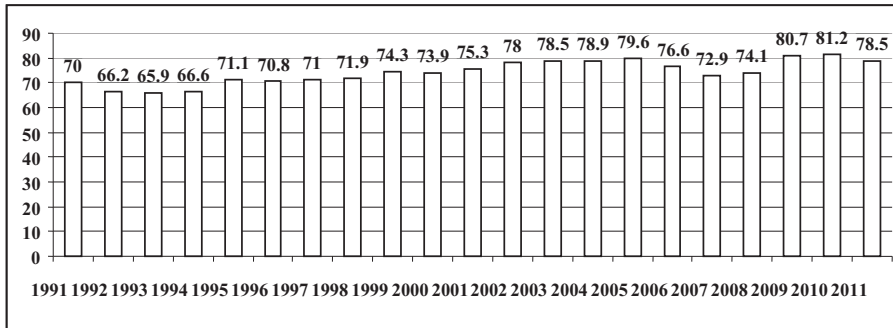
Country	1994	2006	2007	2008	2009
France	27.5	21.3	18.7	18.1	22.4
Germany	8.2	13.6	11.7	10.4	11
Greece	27.7	25.2	22.9	22.1	25.8
Hungary	20.9	19.1	18	19.9	26.5
Italy	30.5	21.6	20.3	21.3	25.4
Poland	32.6	29.8	21.7	17.3	20.7
Slovakia	27.3	26.6	20.1	18.8	27.3
Spain	42.9	17.9	18.2	24.6	37.9
UK	16.1	13.9	14.4	14.1	18.9
Estonia	-	12	10	12	27.5
Slovenia	-	13.9	10.1	10.4	13.6

Source: OECD Employment Outlook 2010-Moving beyond the jobs crisis, OECD2010, pp. 274-276

According to the International Labor Organization (ILO), at the global level, from 1991 to 2008 the level of youth unemployment is quite varied and amounted to 70 million (1991), 66.6 million (1994), 78.5, 78.9 and 79.6 million (in 2003, 2004 and 2005) to 81.2 million (2010).

As can be seen from Figure 2, the number of unemployed is particularly increased in the period from 2009 to 2010 and amounted to 80.7 and 81.2 million. As estimated by the ILO, in 2011, the number of young unemployed will amount to 78.5 million, which would represent the beginning of finding solutions to youth unemployment at the global level. The last three years (2009 - 2011) in percentage is 13%, 13.1% and 12.7%, indicating a slight decline in youth unemployment. In the past twenty years, the highest percentage of unemployment was 13.2% and for 2002 and 2003.

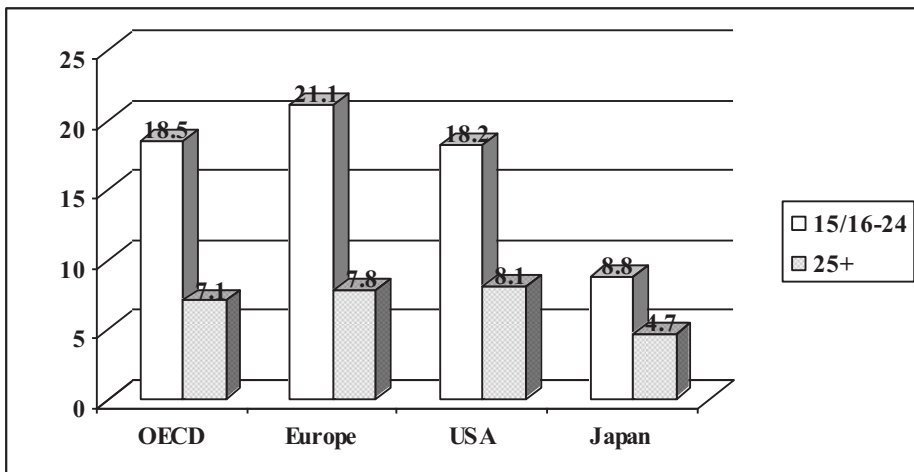
Figure 2 Youth unemployment on the global level (in millions)



Source: Global employment trends for youth, Special issue on the impact of the global economic crisis on youth, ILO, August 2010, pp. 18

Young people are much more vulnerable than adults and older employees, and this statement is best indicated in Figure 3. In fact, as can be seen in the third quarter of 2010, there is a big difference between youth unemployment from 15/16-24 years and persons over 25 years. Highest unemployment rates are among young people in Europe, the OECD and the United States: 21.1%, 18.5% and 18.2%. When it comes to unemployment among adults, the arrangement is similar to the U.S., Europe and OECD countries, with 8.1%, 7.8% and 7.1% unemployed. However, the biggest difference between these two categories of unemployed is in Europe and it was 13.3%, while in OECD countries 11.4%. The smallest difference in the categories of unemployed people is in Japan and it is 4.1%.

Figure 3 Unemployment of youth and adults at the global level (in percent)

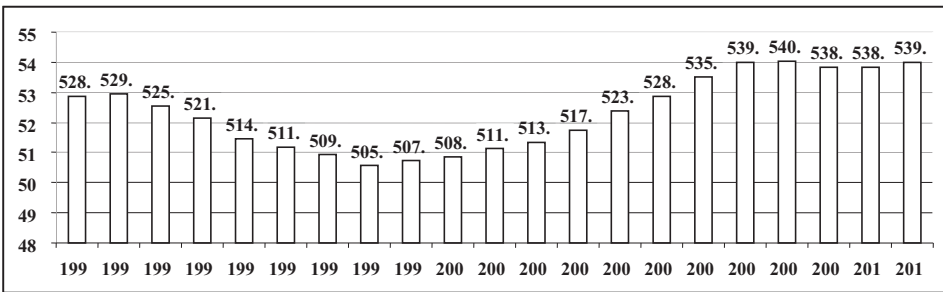


Source: Off to a Good Start? Jobs for Youth, OECD, 2010, pp. 2

2.2. Employment of young people in the world

Youth employment is a serious challenge for any economy, regardless of its level of development. As shown in Figure 4, from 1992 to 2001 there was a decline in employment of young people, in order of growth that began in 2002 and despite the occasional falls, still continues. In fact, since 1998, labor force participation of young people increased from 505.9 to 540.4 million, result in an increase of 34.5 million of new jobs. However, the growth of young population is happening in much faster pace than employment for young people, so the share of youth in the total number of employees in the past ten years (1998-2008) suffered a fall from 47.9% to 44.7%.

Figure 3 Employment of young people on a global scale (in millions)



Source: Global employment trends for youth, Special issue on the impact of the global economic crisis on youth, ILO, August 2010, pp. 13

As can be seen in Table 2 the percentage of youth employment has declined in almost all countries, regardless of its economic development. From 1994 to 2009, the largest decline in employment in the category of youth aged 15 to 24 years, among the older EU member states are: United Kingdom (6.7%), Italy (6.6%) and Germany (4.8%). In the UK there has been the biggest decline in demand for workers in the past ten years, and also a drop in wages, as a result of cost reductions in companies. The UK economy is in serious trouble, because the number of unemployed is growing rapidly, while the economy is heading more and more into a recession. However, countries that later joined the EU, which are located in this table, have a larger decline in employment: Hungary 12.7% and Slovakia 11.6%.

Of all the countries that are shown in Table 2, only France (for the period 1994-2009) had growth employment in young of 8.1%.

Table 2 Employment in the wider population of young (15 to 24) (percent)

Country	1994	2006	2007	2008	2009
France	22	28.9	30.1	30.7	30.1
Germany	51.4	44	45.9	47.2	46.6
Greece	26.7	24.2	24	23.5	22.9

Hungary	30.8	21.7	21	20	18.1
Italy	28.3	25.5	24.7	24.4	21.7
Poland	28	24	25.8	27.3	26.8
Slovakia	34.4	25.7	27.6	26.2	22.8
Spain	28.3	43.3	42.9	39.5	30.8
UK	58.8	57.3	55.9	56.4	52.1
Estonia	-	31.6	34.5	36.4	28.9
Slovenia	-	35	37.6	38.4	35.3

Source: OECD Employment Outlook 2010-Moving beyond the job crisis, OECD 2010, pp. 274-276

According to Eurostat in December 2009 the rate of unemployment in the Eurozone stood at 10%, the highest since its formation. The unemployment rate in the EU is slightly lower at 9.6%. From all of the countries in the Eurozone Spain is one the mostly hit, with a rate of 19.5% and in the EU that is Latvia with 22.8%. The lowest rate of unemployment is in the Netherlands (4%) and Austria (5.4%). Also, in Europe there is a large increase in youth unemployment, and the reason lies in the inadequate training of youth and part-time jobs that are engaged in this population, and which was first suffer the impact of the economic crisis. According to data from EU countries, Spain has the highest unemployment among youth - 44.5%, and the lowest is in Netherlands - 7.6%

Trend of increased unemployment in some countries in Europe Union (EU) imposes the need for the European Commission to find the general solution. Non-governmental organization European Youth Forum also deals with problems of unemployment in the EU from the standpoint of youth. According to recent data, the number of young unemployed in the EU is about 6 million, of which the most represented population aged 15-24 years (21.4%), while in 2008 this percentage was lower (16.9%).

This organization has launched a campaign to maintain **the European Pact for youth** and their main ideas are presented in "New Economic Strategy in 2020 the EU", as a form of commitment of the EU and its members in connection of resolving the problem of unemployment among young people.

President of the European Commission (EC) in March this year introduced the plan under the EU's - the "New Economic Strategy 2020", in order to strengthen coordination of economic policies. Economic plan consists of five pillars as followers [5, pp. 17]:

- Increase the percentage of employees of EU citizens, aged 20 to 64, from 69% to at least 75%;
- Increase the percentage of investment in research and development, from 1.9 to 3% of GDP;
- Reduce carbon dioxide emissions by 20%, and for the same percentage amount increase the share of renewable energy and reduce energy consumption;
- Increase the number of citizens under the age of 34, who are in higher studies, from 31% to at least 40%;
- Lower level of poverty, from 17% to as yet undetermined percentage.

In the opinion of the President of the EC, the European economy over the next decade must be thoughtful, social and inventors.

According to the authors of the new economic policy of the EU, its essence is to be green, smart, competitive and innovative. The imperative of the New economic policy will be on competitiveness, innovation, knowledge, equality, protection of environment and employment.

3. YOUTH UNEMPLOYMENT IN REPUBLIC OF SERBIA

According to the National Employment Service (NES) in the Republic of Serbia in 2010, the number of unemployed persons was 729,520 a slightly decreased by 852 persons in compartment to previous year. However, according the Labor Force Survey (real unemployment) of the Statistical Office from October 2010, the number of unemployed persons was 566,720 and unemployment rate was 19.2% (population 15 years of age and older).

From the total number of unemployed persons in Serbia, the most categories of unemployed youth aged 25 to 29 years (13.29%) indicating the significance of the unemployment problem among young people. As presented in Table 3, the percentage of youth unemployment in Serbia is growing every year across all demographic characteristics. Between 2008 and 2009 the youth unemployment has risen by 8.1 percentage points. By educational attainment, we can see increased of unemployment among the categories of high, higher and secondary education, which is 27.3 and 8.5 percentage points, and therefore it could be concluded that this category of young people, especially in the category of higher education, is more oriented to its education studies.

Table 3 Youth unemployment rates to certain demographics (%)

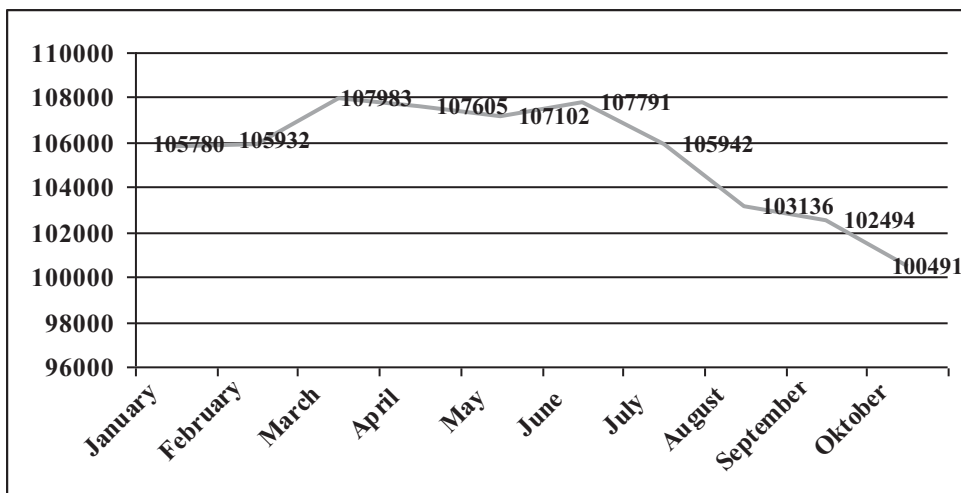
		2009.	2008.	2009/2008 percentage points
	Total	40.7	32.6	8.1
Education	Primary	33.8	33.8	0
	Secondary	41.1	32.6	8.5
	High and higher education	55.4	28.1	27.3
Age group (year)	15-19	46.8	40.2	6.6
	20-24	39.5	30.6	8.9

Source: Krstic G, Arandarenko M. Nojković A., Vladislavljevic M., Location of vulnerable groups in Serbia's labor market, the United Nations Development Programme-UNDP Serbia, the Sector for inclusive Development, June 2010, pp. 75

Data from the National Employment Service in 2009 show that the number of registered unemployed young people (15-24 years) has decreased by 5,289 persons from January to October. As can be seen in Figure 5, at the beginning, the number of young unemployed was 105,780, while in March rose to 107,983. From March to June, the number of unemployed young people was 107,791, and since then there has been a reduction in unemployment, and in October the number was 100,491. The reason for this movement can be found in the implementation of the

Program of Government of the Republic of Serbia called "First Chance", which was launched in order to reduce this problem.

Figure 4 The number of unemployed youth in 2009



Source: Krstic G, Arandarenko M. Nojković A., Vladislavljevic M., Location of vulnerable groups in Serbia's labor market, the United Nations Development Programme-UNDP Serbia, the Sector for inclusive Development, June 2010, pp. 79

The Serbian government set for one of its main economic priorities to increase the employment, but the results has not been as planned. In fact, statistics indicate a decrease in employment among young people, which further aggravates the states economic situation. As given in Table 4, we could compare the two years (2009 and 2008) in certain demographic characteristics. Total employment of young people in 2008 was 21%, and this percentage decreased in 2009 to 16.8%, down by 4.2%. It is an interesting parallel in the area of education where the largest reduction recorded was in the category of Higher Education, 29%, considering the fact that in 2008 it amounted 55.6%, while in the following year it was 26.6%. Also, there is a drop in employment by 5.6% in the category of secondary education compared to 2008 when it amounted to 30.4%, to in 2009 year fell to 24.8%. However, it is necessary to emphasize that the Republic of Serbia has not yet established the real is connection between the labor market and the companies, that is necessary for fulfillment of the needs of enterprises. In fact, Serbia has traditionally been pushing certain occupations in the labor market, while the economy itself requires a totally different profession. According to the latest research Serbian enterprises seek educational profile such as pharmacists, civil engineers, technicians, administrators and developers.

Table 4 Employment rates of young people according to certain demographic characteristics (%)

		2009	2008	2009/2008 percentage points
Education	Total	16.8	21	
	Primary	6.9	8.9	Education
	Secondary	24.8	30.4	
	High and higher education	26.6	55.6	
Age group (year)	15-19	5	8	Age group (year)
	20-24	27.2	33.4	

Source: Krstic G, Arandarenko M, Nojković A., Vladislavljevic M., Location of vulnerable groups in Serbia's labor market, the United Nations Development Programme-UNDP Serbia, the Sector for inclusive Development, June 2010, pp. 75

The latest survey relating to young people, conducted by the Balkan Trust for Democracy, on the population of 18 to 27 years, shows that the biggest problem among the youth is unemployment (61%), and the indifference of society. However, 30% of young respondents from 20 to 25 years and 27.8% from 15 to 19 years, believes that reformation of the education system is a prerequisite for positive change in society.

The experience of developed economies indicate the importance of entrepreneurship in the process of fostering economic development, as a means of reducing unemployment. The unemployment problem is especially evident during the global economic crisis, where according to OECD it is expected to have a large number of layoffs. According to them, one way to start is by encouraging SMEs. Therefore OECD, EU and certain associations of SMEs have given significant attention for resolving problematic situation of SMEs sector.

Serbian Government through adaptation of two strategies for SME development tries to increase the number of new enterprises, shower as the initiators of a new economic development. However, according to data from Table 5 we see that more than 40,000 new enterprises, but, unfortunately, a similar number of closed, which indicates the lack of state support to the SME sector. Number of companies that are closed in the last year was higher than the number of newly established companies, which indicates a serious problem that the state must deal with.

Table 5. The ratio of newly opened and closed businesses

	Open	Close	Balance
2008.	54.623	37.640	16.983
2009.	49.378	40.042	9.336
2010.	44.765	46.553	-1.788

Source: Bulatovic S., Lock on another 6000 shops, Evening News, 06.4.2011.,pp. 6

The situation is no better for the SME sector in the area of employment, which was supposed to be a place where many workers from large systems should go, could not survive in the global crisis. In the last two years 120,000 employees from the SME sector have left, of whom in 2009 there were 75,000 people. Small and

medium businesses have a number of problems that impede their business and that contribute when more of them went bankrupt. There are three major problems identified:

- Reduction of mandatory fees, taxes and contributions
- Public sector reform
- Underground economy

Problems of taxes and hinder a lot of business enterprises because the state in the past year has introduced 14 new fees, and part of companies have already pay 44, and some companies even 62 different obligations.

In this way, many SMEs will not be competitive in the gray market and will inevitably come at a loss. As a result of these economic indicators, young people cannot be encouraged to start their own businesses.

Table 6 presents the structure of youth labor market in 2008 and 2009., which in most cases indicate slight decrease compared to 2008. Of all the categories presented, the highest percentage is in category of young people who work for pay and there is a growth of 4.7% over the previous year. However, the category of self-employment and farmers a in decline of 2.7% i.e. 2.1%, while in the category of owners of a company remains at the same percentage representation. The big problem is that percentage difference between these two categories, employees for wages and the owners of a company, amounts 75.1%.

This data refers to the under developed awareness among young people for entrepreneurship and starting your own business.

Table 6 Status of young people on labor market (15-24 years) (%)

		2009.	2008.	2009/2008 percentage points
Labor market status	Employed for pay	78	4.7	73.3
	Owners of companies or store	2.9	0	2.9
	Self-employed	3.2	-2.7	5.9
	Farmers	2.8	-2.1	4.9
	Helping household members	13	0	13

Source: Krstic G, Arandarenko M. Nojković A., Vladislavljevic M., Location of vulnerable groups in Serbia's labor market, the United Nations Development Programme-UNDP Serbia, the Sector for inclusive Development, June 2010, pp. 79

Results of a survey⁶⁷ among young people indicate that most students, exactly 80.73%, have a desire to start their own businesses. As a reason for not doing so surveyed students (78.42%) reported that they have no real idea about kind of business they would start, which suggests that in promoting the development of the concept of entrepreneurship in colleges and high schools it is necessary to insist on developing the entrepreneurial skills of students (8, p.71). From these data it can be concluded that young people do not yet have enough confidence to

⁶⁷ Research on "Analysis of attitudes and opinions of young people in relation to starting up businesses and application of corporate social responsibility" was conducted from 15 September to 24 December 2009 on a sample of 520 students who are profiled on the management of Belgrade Business School - Universities of Applied Sciences and Technical Faculty Mihajlo Pupin Zrenjanin.

start their own businesses. There are several reasons for the lack of confidence of youth, and one of them is that they are yet insufficiently education in entrepreneurship, i.e. the obligation to find new ways to educate and promote the concept of entrepreneurship. Young people in Serbia are not yet sufficiently trained for the development of entrepreneurial initiative and starting their own business. Another reason for the lack of confidence in young people is environment that stays unmatched to encourage entrepreneurship among young people.

In the opinion of students (88.08%) in the Republic of Serbia there is no suitable environment that encourages youth to start their own businesses currently. As reasons for this attitude, students are provided the following restrictions that hamper them: too high taxes (35.52%), unstable political and economic situation (29.92%) and the long and complicated registration procedures (21.62%). Students in the survey carried out in 2008⁶⁸-expressed dissatisfaction (78.70%) with the atmosphere for encouraging of young people to start their own businesses. The biggest factors that hinder them in starting their own businesses are the same as in the survey carried out in 2009, but was replaced by a sequence: the unstable political and economic situation (36.54%), long and complicated registration procedures (13.75%) and taxes too high (10, 02%) (8, p.72). This highlights an inadequate state policy towards young people as potential entrepreneurs, but also toward the private enterprise. The unstable political and economic situation, debt registration procedures and excessive taxes are repeated for two years in a similar survey, which indicates the absence of an appropriate atmosphere for starting a business. When we along with it add that there are not any specialized institutions that support young people to start a business, it is clear what is the reason for the unhappiness of the young when it comes to the environment to encourage young people to start their own businesses. Without adequate environment that will encourage youth to start their own businesses, we cannot expect youth to be seriously encouraging toward entrepreneurial behavior.

4. SUPPORTING AND ECOURAGEMNT IN YOUTHS ENTREPRENEURIAL BEHAVIOR

Ministry of Economy and Regional Development of Serbia through the National Agency for Regional Development provides businesses a wide range of assistance such as: financial support, projects to support entrepreneurship and fair promotion. Also, on the website of this agency there is an entrepreneurship portal that provides plenty of information to existing and potential entrepreneurs. The latest project under the Ministry of Economy and Regional

⁶⁸ From May to December 2008 a study "Analysis of the attitudes and opinions of young people in relation to starting your own business" was carried out , a sample of 506 students Belgrade Business School and the Technical Faculty Mihajlo Pupin Zrenjanin.

Development is the protocol on cooperation in the project "Establishment of partnerships for lifelong entrepreneurship education in Serbia", which was launched by the European Training Foundation (ETF). The signatories to this protocol were 11 institutions (partners in this project) aimed to work together on creating a strategy and action plan of the entrepreneurial life-long education, as well as through activities falling within the scope of activity of their organizations take the necessary measures for the successful implementation of the Strategy. Institutions involved in this project are: Ministry of Economy and Regional Development, Ministry of Education, Ministry of Youth and Sport, Department for the Improvement of Education, the National Employment Service, the National Agency for Regional Development, the Conference of Universities of Serbia, Union of Employers of Serbia, Belgrade Open School, Civic Initiatives and the Serbian Chamber of Commerce.

National Employment Service offers to future entrepreneurs training program "The road to a successful entrepreneur" within which it had a workshop for creating a business plan. According to NES data, this training is now attended by 13,448 persons who thereby acquire a condition for granting subsidies. In this way, entrepreneurs are able to check the validity of future work and gain other information necessary for business.

In a support for start-up businesses Serbian Government has adopted a program for affordable loans to beginners. The planned amount for start up loans is 2.2 billion. In the period since 2007 by 2009 there is contest of the Ministry of Economy and Regional Development, the National Employment Services and Development Fund which resulted in opening of 6625 new enterprises and employment of 21,121 workers justifying the funding of this program. Also, entrepreneurs through the Development Fund can apply for start-up loans from 500 thousand to 1.3 million Serbian dinars, with interest rate. 2.5% per annum, repayment period of 3 to 5 years and with a grace period of one year.

The National Employment Service (NES) through financial support and education to support people who have entrepreneurial ideas and the desire to start their own businesses. Subsidy program for self-employment includes 2,000 persons of which anyone can get at 160,000 dinars. Last year the subsidies spent 352 million dinars, which employed 2,213 persons. Users of these resources often opt for the services and trades and it primarily for the purchase of equipment.

Unfortunately, young people do not have enough business experience and local companies are difficult to employ because they believe that plenty of time necessary for their practical training, and it costs a lot of their introduction into practice. That is why the Serbian Government decided to grant financial assist those enterprises that employ a certain number of unemployed persons, and to initiate a program of Youth Employment First Chance 2010 ". Specifically, this program aims to enable young unemployed to have voluntary practice of three months in the company and employment opportunities for professional training of interns in the next 12 months. In order to further promote the practical

training of young, Serbian Government also announced a competition for the "First Chance 2010" in this year.

Also, it must be noted that the state has for several years, financially supported by the cluster formation and development of innovations in the domestic economy and thus influences the improvement of competitiveness in the domestic economy.

According to the "post-crisis model of economic growth and development of Serbia 2011-2020" as one of the segments of direct aid measures planned loans for beginners in all sectors, as well as loans for first-time targeted sectors (sectors of medium and high technology areas of industrial production). Unfortunately none apply to young entrepreneurs, because the term "novice" is not limited by age, which increases the population interested in these loans. However, this type of support can be significant for potential young entrepreneurs only if the degree of implementation is high. In the development of entrepreneurial behavior in the Republic of Serbia, it is necessary to improve the business environment in several ways in order to facilitate operations of existing and future entrepreneurs, including (8, p.74):

- creating a legal framework for faster and easier process of business entrepreneurs, as well as young entrepreneurs,
- creating the strategy for developing the concept of entrepreneurship among young people
- provide financial support to young people to start their own businesses
- incentives for the implementation of quality management systems (individual and group), integrated management systems in order to develop the competitiveness of local SMEs
- maintain the active role of universities in helping entrepreneurs
- launch of several business incubators and business centers
- greater involvement by associations of undertakings to promote the concept of entrepreneurship among young people,
- the promotion of entrepreneurial concepts as a means of overcoming problems in the transitional recession.

It is important to emphasize that the issue of development of entrepreneurial behavior must deal with multiple interest groups such as the state (through its various agencies and ministries), then universities, associations and, media, which in their own way can positively influence the creation of an appropriate atmosphere for starting small business.

As already mentioned earlier, the Government of Serbia has started to work on improving the business environment by accelerating business registration procedures, better start-up loans, practical training of unemployed and similar. What is needed to make state-level strategy is the development of the concept of entrepreneurship among young people which will include: training, practical application of knowledge, institutions to support young people etc.

Training is particularly important and it must be given special attention as early as in elementary and secondary schools that culminated in colleges and high

schools. There are already some programs that are used in high schools, but it has not been sufficiently followed up by the state, economy and guild associations.

The practical application of acquired knowledge in the field of entrepreneurship is a special segment of the training and the key roles are: Serbian Chamber of Commerce, Union of Employers, the National agency for Regional Development, Universities, Ministry of Youth and Sports and Ministry of Economy and Regional Development. In this way young people receive the necessary experience that they can later use in real life working in their own or someone else's company.

Promoting the concept of entrepreneurship among young people is a special section in which several segments of society participate, such as media associations, relevant ministries, universities, and student associations. The promotion of young people should receive information about the concept of entrepreneurship, the importance of innovation for entrepreneurs, the use of certain tools for the development and implementation of business ideas. Good examples programs can be taken of the European Union that paid special attention to this issue.

Also, successful local entrepreneurs in the public hearings to the universities or colleges could talk about their origins or the reasons for starting their business and the difficulties that were encountered before reaching the current level.

In this way, local entrepreneurs are encouraging young people to start their own businesses, and also expose various prejudices and preconceived ideas that young people can have.

5. CONCLUSION

National economy supports the entrepreneurial spirit by creating conditions for increasing productivity through investments in the individual of society, as well as in any company, regardless of its organizational form and character of the property. The most important areas for the function of entrepreneurial economy are: limited effect of the bureaucratic apparatus, creation of equal playing field for all, and establishing a climate of entrepreneurship in economies. The future belongs to the most resourceful, innovative and most flexible companies. The global economic crisis has shown that these companies from industrialized countries such as China, India, Russia and Brazil. These countries have had problems in the economic sphere, but they managed to overcome them. The key to their success was the optimization of price and product quality, based on productivity.

All over the World number of young unemployed people is increasingly growing and seriously threatens the national economy, regardless of the level of development. The United Nations declared the year 2010-2011 for the year of Youth, by issuing a statement in which they presented the main problems of youth, particularly emphasizing issues of education and youth unemployment.

Serbian Government created its economic policy with aim to help development of the SME sector, especially the segment of youth as entrepreneurs. Therefore, Serbian Government created, with support from the EU, various forms of financial assistance and trainings. Funds that the state gives to the young to start their own businesses are small and unrealistic. Means that young people receive from the funds are insufficient and do not provide opportunities for broader involvement in private business. It is more a matter of good will of the state, rather than creating opportunities for encouraging entrepreneurial initiatives. Also, the biggest problem is inadequate business environment thus is necessary to enable better support measures. Issues such as the unstable political situation, tax policy, tax, financial loans, monopolies in the market, the gray market, lack of institutions, are among the other problems that enterprises in Serbia face with, which further discourages young people for starting their own business. Certainly one of the major problems of transition economies, largely conditioned by poor market performance of companies in the international market, is inadequate use of knowledge, and the failure to honor the knowledge required for effective management. Business enterprises in countries in transition must be based on the application of management techniques that support competitiveness, innovation and flexibility, as well as the intervention for improvement of knowledge of its employees, particularly executive management. Applying the concept of corporate entrepreneurship in companies should enable the formation of conditions for successful market performance and the achievement of competitiveness of domestic enterprises. The main driver of these activities must be knowledge

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**ROLE OF THE ENTREPRENEURSHIP IN THE
DEVELOPMENT OF SMEs**

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Abstract::

Managerial tasks are executed in a particular environment such as: marketing environment, ideological, political, economic, cultural, religious, psychological, social. This clearly implies that managers cannot successfully perform their tasks, if they do not possess necessary skills and information about the environment, the relations, forces and actors who function within it; about the problems that occur in it; the opportunities and dangers generated in it; and everything else that affects the successful managerial performance.

Key words: Entrepreneurship, entrepreneur, features, management, business, economy, product, ownership.

Profile of the entrepreneurs of the future is to be regarded in the dynamic development of economy and society. His primary task is to, by predicting the future course of development; strategically implement the achievements of technological innovations, creating new opportunities for affordable business transformations. Innovative entrepreneurs seeking a high degree of managerial initiative in initiating development opportunities, supporting the research spirit and entrepreneurial atmosphere, flexibility in operations and enable more humane interpersonal relations.

An entrepreneur of the future must know to think innovatively and to create and apply innovation. The knowledge the entrepreneur needs can not be acquired all of the sudden, a continuing education is necessary for the new situations. Therefore, the entrepreneur of the future should acquire knowledge related to intuitive operation. But continuing education is necessary to the other managers

as well, and to all the other involved in the innovative processes. The content of education should be directed to the achievement of strategic goals, adapting to changes, mastering the innovation and the democratization and humanization of the relations.

The economic activity in modern societies takes place in a very complex, intertwined influences of individuals and organizations with the ultimate goal to produce and distribute a mass of products necessary to meet the social needs.. The entire process of production and exchange of goods and services is carried out through the action of specific institutions: enterprises.

Enterprise as an economic institution is: ϖ Product of historical development; ϖ Formed to carry out specific tasks in the social reproduction; ϖ Connected and conditioned with other economic institutions;

Manufacturing capabilities are developed by improving human production and transport experiences, by improving the working subjects and the means of work and through the introduction of new scientific and technical levels. All this contributes to the possibility of creating greater mass of products, opening new markets, improvement of product quality, cost production reduction and increment of the level of meeting the needs of the society, i.e. of the consumers.

Enterprises are forms that accept the influences of their own improvement, they adapt to the favorable impacts and develop their organization in a way that enables higher production efficiency and market activity.

The motive of enterprise business is defined as gaining as much profit in relation to the invested capital, which is the net result that arises in economic transactions. There are companies which emerge as units of capital and which are competing in the amount of profits appropriated.

Hence, the companies are units which concentrate capital, natural resources, labor, information, and technology integrated in a suitable business venture directed at creating values. In the extent in which it is stronger creator of these values, they have greater weight gain, with which they become more prominent independent force.

However, the company is simultaneously, in constant relation with many other enterprises and institutions from which it obtains the necessary inputs and to whom it ships its operation results. Without such continuous connection there would be no existence for the companies. In these continuous relationships, the enterprises are confirmed as more or less valuable. If it is adapted for its function, the enterprise will develop and maintain, and it will stagnate and decay if it is unable to adapt to the increasingly difficult market conditions.

An entrepreneur is a person that combines a set of characteristics which make him distinct, i.e., which identify him as a special factor who with their innovations brings the benefit to the economy. Therefore, it is necessary to distinguish: the entrepreneur as the type and character in the economic life and entrepreneurship as a specific function in the economy. An entrepreneur is a

person that combines certain characteristics that are proscribed for creative economic figure:

⊗ Strong initiative, which means desire and motivation to initiate some action through their personal engagement, implement it and find personal satisfaction in its realization; ⊗ Ability to create vision of the events in the economy and vision of its own contribution to resolving the economic tasks in an innovative manner, under which creates conditions for creation of new values and appropriation of personal gain; ⊗ The willingness to bear risk, or the willingness to accept challenges and opportunities offered to him, in the viewable circumstances; ⊗ Ability to evaluate business opportunities and business ventures, and to predict the outcomes of their own enterprise; The originality of the enterprise, which means creativity, flexibility and ability in solving problems in business economy; ⊗ The orientation towards the future, for what he has the ability to predict and the sense for reality;

These characteristics are the general characteristics of the type of entrepreneur, and every entrepreneur is a special person that has a unique set of properties. In this regard, particular traits of entrepreneurs, which we stated in the general characteristics, are strongly pronounced, while others are less pronounced.

Entrepreneurship is the way to perform the appropriate actions in resolving the economic tasks. Seen from this perspective, entrepreneurship has:

1) *historical perspective of the business economy*. Due to series of changing circumstances in the modern business conditions, the business economy re-emphasizes the role of entrepreneurs in production and business processes. Entrepreneurship is now being re-stimulated in the business economy because of the beneficial consequences which it brings with its innovative actions, manner of conduct brought into the enterprise, destroying bureaucratic relationships and general upgrade that brings competitive advantage.

2) *emphasized function in the business economy*. Due to the high effects it brings when favorable opportunities of development arise, entrepreneurship today is being recognized as an important factor of production and business economy in general. Although within the classification of factors influencing the economy, the entrepreneurship doesn't have its place; it is a specific factor with a particular identity. In that sense, of entrepreneurship is being discussed as of a special kind of mobilizing human energy and its direction into a useful development.

3) *content in the business economy*, which is defined as:

- production of a new product or new use-values;
- introduction of the new labor and production processes;
- introduction of the new organization of production and management (implementation and increased productivity);

- introducing new methods of providing services to clients, thus provides a higher level of client servicing, which improves its business economy;
- exploring new markets and new sources of supply of production factors and services;

In the economy, the business enterprises usually occur as a result of someone's entrepreneurship. This is the case when for meeting some social need (in production, trade or services), there is the necessity to create a new organization (enterprise) that will work on establishing the conditions for meeting those needs.

So, one of the manners in which the business is set is planned state of new enterprise. However, with the formation of the enterprise as an expression of entrepreneurial activity, the need for entrepreneurship in it doesn't cease. Rather, the effective enterprise operates in the further promotion of entrepreneurship.

In the business economy, the entrepreneurship brings innovations, where the conquest of new markets is achieved by plan, the production costs are reduced and convenient use of all available production conditions. Therefore, in order to spread the entrepreneurial system, the required conditions are elaborately developed for obtaining a special status of those who want to act entrepreneurial.

In contemporary conditions, there are two main goals of business enterprises: meeting the needs of consumers and to maximizing its profits with less market risk.

Application of modern marketing concept presents a complete turnaround in the business or in the treatment of the market. Nowadays, in the center of attention is the demand rather than supply; market-enlargement of the company, not its production. In this sense, all business functions and business activities are oriented toward the customer and work together to understand, serve and satisfy all the picky buyers.

COMPLETENESS OF THE BEARERS OF ENTREPRENEURSHIP

In reviewing qualifications, i.e., competency of the holders of managerial functions, we understand the application of knowledge, methods and skills needed to perform managerial functions. Managerial competence is usually regarded in three basic variations that include technical, social and conceptual dimensions, with a special emphasis for the need of combining them.

Technical dimension, which is always concrete and is a sort of pre-condition for carrying out specific business activities, refers to the implementation of specific knowledge, methods and skills related to a particular category, company, products, markets etc. The characteristic of this type of

competence is the time spent in some sort of technology, because one can find his way in each technology over a course of time.

The social dimension of the competence is expressed by the sensitivity for the people and the use of suitable styles and methods which enable the integration of individuals in the team, aiming to achieve the ideal of their identification with the organization they belong to. This dimension refers to the application of knowledge, methods and skills of people management and includes interpersonal relations, motivating and developing staff, building and maintenance of teams.

The conceptual dimension of competence is related to the application of knowledge, methods and skills of running an organization as a whole, including confronting the challenges and impacts of the environment. An important assumption of this dimension is the tendency of competency in strategic thinking and the sort of thinking, as well as expressed flexible sort of knowledge applied by using the methods and skills of decision making under uncertainty or high risk.

According to the contemporary management theory, the eligibility of persons to perform managerial functions depends on two components: psychological and educational. Mostly independent character of the mental component, in relation to the educational component, arises from the fact that there is a genetic predisposition to gain knowledge and not vice versa. This basis can be of different character and it therefore has a decisive influence on the scope and pace of acquisition of professional knowledge. This should be added that by practical application of unified psychological and educational characteristics, personal skills in performing managerial functions are developed.

The practical component of persons performing managerial functions are characterized by adequate psychological traits. In this regard, appreciable disagreement of the leading scientists in this field should be emphasized when it comes to the structure of psychological traits that a successful carrier of managerial functions should possess. However, based on logical comparing the offered model, for the main psychological traits of the business planners can be taken: (1) problem-solving ability, (2) discerning business opportunities, (3) the ability of universal communication, (4) confidence in business performance, (5) control of personal emotions, (6) preference for business cooperation, (7) ability to transfer knowledge, (8) ability to adapt to changes, (9) reality in the assessment of phenomena, (10) orientation toward the future, (11) adherence to professional work, (12) resistance to business stress.

The educational competence of the individuals to perform managerial functions is characterized by certain professional skills that enable successful implementation of administrative and managerial jobs. With more careful study of the various classifications of technical knowledge that can be encountered in contemporary management theory, it is possible to identify the key ones, which

the persons involved in management should possess, where knowledge in the following areas could be included:

(1) Commercial law, (2) economic system, (3) market activity (4) market competition, (5) marketing techniques, (6) applied technology, (7) Business Economics, (8) service provider, (9) business organization, (10) Human Resources (11) business informatics and (12) Business Administration.

As can be seen, the competence of the persons performing managerial functions should be characterized by compliance with the requirements of a multitude of psychological and educational tasks. It should be added that an individual can never fully satisfy these requirements (elements) of psychological and educational character. It is important for him to be aware of his less developed characteristics and to seek their depreciation through adequate practicing and learning and, in turn, using the services of appropriate staff.

FEATURES AND PROFILE OF A SUCCESSFUL ENTREPRENEUR

Searching for the answer on the question what are the features of a successful entrepreneur is present in the literature, where we can find simplified and primary approach to the answer of the given question.

. Creativity and the risk, together, as basis for profile defining, had helped many scientists to illustrate different ways and possibilities of influencing the processes in the systems.

Entrepreneurs are not of a certain age, or level of education or degree of expertise. Nevertheless, entrepreneurs share certain characteristics, which could be classified as typical features of successful entrepreneurs.

Timmon's study, which, in professional fields, is considered as one of the most comprehensive and most integral approach in understanding of entrepreneurship, indicates that none of the entrepreneurs do not possess all the desirable qualities. It is believed that the next fifteen features are very important, and that can be learnt:

1. total commitment to business;
2. need for large achievements
3. orientation on the goals and opportunities;
4. creativeness;
5. persistence in problem solving;
6. awareness of his own good and bad features;
7. belief that he / she is the only master of the destiny;
8. readiness to endure the stressful and risky situations;

9. acceptance, of "calculated" risk;
10. not to express his strength and power;
11. reliability;
12. determination;
13. foreseeing;
14. ability to organize teams;
15. personal responsibility;

In each study (research) , Timmons quote some behaviors that cannot be learned, such as: great work energy and emotional stability, creativity and innovation, visionary skills and a high degree of intelligence, which cannot be gained through formal education.

Entrepreneurial qualities are numerous and include the readiness to take risks and accomplishing of creative services in the process of conducting operations and business.

Thus, S.C. Herper sees entrepreneurial qualities in the context of rating predisposition in achieving of entrepreneurial success pointing following distinctions:

- ⊗ The entrepreneurs are seekers for new opportunities as chances of development;
- ⊗ they are oriented on the challenges and changes, as the aspect of the upcoming future;
- ⊗ emphasized need for winning - to be the best;
- ⊗ market-oriented;
- ⊗ Skill in rewarding employees;
- ⊗ Just and realistic;
- ⊗ hard working and responsible in carrying out assigned tasks;
- ⊗ Dynamic and full of life , what makes them attractive;

Author W.G. similarly sees the characteristics of successful entrepreneur pointing out some entrepreneurial qualities:

- ⊗ Readiness to accept the risk;
- ⊗ The need for strong competition;
- ⊗ The ability to master stress and stressful situations;
- ⊗ Experiences the business also as a fun;
- ⊗ Solving problems in a creative and original manner;
- ⊗ It has a sense of recognizing the opportunities;
- ⊗ Commitment to job and business;
- ⊗ Goal-oriented;
- ⊗ realistic in assessment and evaluation of chances and success

Concept 10 D by W. D. Bugrave deserves attention due to orientation and introduction of new demands that are placed in front of those who want to be successful entrepreneur:

Tendency to fantasize and dream (dream) - the ability to create business and requirements for the realization of ideas;

2. Persuasiveness (decisiveness) - the key of success lies in the rapid decision-making;

3. Author (doer) - perseverance in the realization of idea;

4. Determination (determination) - perseverance in the realization of the ideas;

5. Commitment (dedication) - Entrepreneurs love their work and have the same attitude even when there is a difficult situation;

6. Devotion (devotion) - business is on the first place, even at the price of compromising friendships and family relations;

7. Perfectionist, stickler (perfectionist) - entrepreneur insists on information and details important for business;

8. Fate (destiny) - manages the situation and holds the destiny in his hands;

9. Money (dollars) – Money is not the primary motivating factor,, but it is a measure of success;

10. The tendency of entrepreneurs to participate in the ownership position (distribute) – that is when direct associates are related;

Table 1. Desirable features of entrepreneurs

FEATURES	PERCENTAGE
Honesty	87
Ability	74
Farsightedness	67
Inspiration	61
Intelligence	46
Frankness	42
Courage	35
Creativeness	32
Reliability	31
Readiness to help	29
Readiness to cooperate	23
Maturity	20
Ambition	18
Determination	14
Self-confident	13
Fidelity	10
Independence	8

Source: Sajfer, et al. Zvonko: Entrepreneurial Management

The results of the research, concerning desirable features of an entrepreneur, conducted in U.S. are presented in the table.

We notice that 87% of respondents consider for the most important entrepreneurial feature - honesty.

Features such as: frankness: honesty, reliability,, tolerance, and professional qualities of the entrepreneurs: the capability, intelligence, creativity, as well as personal characteristics as: courage, reliability, directness.

1. Independently make decisions;
2. Aspiring
3. Energetic
4. Internationally oriented
5. Honest and ethical
6. Physically active
7. Known to create an efficient team
8. Understand new technologies

CONCLUSION

The theory of enterprise and entrepreneurship define enterprise and entrepreneurship as an imminent phenomenon, as the two inseparable entity of the same body. Thereby, entrepreneurship is considered as direction of resources in the areas of its optimal usage, while the entrepreneurs are considered as the persons who act and provide concrete form of the business, persons who anticipate risk, create new forms of work and allocation of factors of production, persons who influence higher employment rate and creates better and efficient organization of the firms.

Nevertheless, it is impossible to imagine firms operating outside the chain: ownership -market- entrepreneurship - management. Therefore, it is impossible to imagine position of the manager without the entrepreneurship, at the same time, it is impossible to imagine entrepreneur not using some management methods.

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**INFLUENCE OF SMES IN MACEDONIA ON ECONOMIC
DEVELOPMENT**

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Abstract

Dynamic development of technology, a challenge to the future of competitive development, cannot be understood outside the context of global economic developments, without participation of the volume of small business - small and medium enterprises, in manufacturing sector and services, the challenge for national and international management in the strategic market economy, thus enabling a quality of life for the community or our society, in that offers great employment opportunities, i.e. reduction of unemployment and are key actors in economic development. Given that small and medium enterprises today are over 98% of companies in the EU, as a result, many national organizations for export promotion is increasingly necessary to support the small sector of the economy as incentive for the creation of new values through development programs, characterized by flexibility and innovation. This paper will explain the structural definition of the Small and Medium Enterprises (SMEs) in the EU and the R of Macedonia by sector and size, using multiple statistical analysis, strategy as a central category in SME's and gross domestic production as we gauge the impact of economic activities and opportunities for small business development.

Keywords: SMEs, sectors, strategies, economic development, innovation, gross production, globalization.

1. INTRODUCTION

One of the factors with which invested heavily on modern society, the realization of strategic programs with the rational use of resources, the enterprise is, the main driver of innovation, competition for business success. Entrepreneurship in the Republic of Macedonia is related to micro, small and medium enterprises. recent years is seen a trend developing, which is the result

of continuous efforts of the Macedonian Government for creation of favorable climate and business investment to adapt to that of the European Union, especially in developing small enterprises and medium development which means economic reform, demonopolization market, liberalization of foreign exchange trading was imposed by the EU to become its member Macedonia.⁶⁹ The government program through the Strategic Program 2007 - 2013 provided by the Ministry of Economy, the program for development of entrepreneurship, competitiveness and innovation of the small and medium enterprises, conferences and symposia in support of entrepreneurship, industrial policy, international cooperation, promote investment foreign and domestic, is a great challenge and binding to continue the path of reforms to create a national economy more competitive and in compliance with the policy perspective of certain European countries. This policy is a line with EU industrial policy which follows the recommendations of the Lisbon strategy and vision for the Union of Innovation 2020, where it is planned to increase research and development investment of 3% of gross social product, the largest state investment in development of science and technology university system (especially in public research) and not only in equipment, laboratories, infrastructure but also in human resources through training, using the logical framework and support business strategies related to innovation. For creating economy based on knowledge to guarantee the resolution of current problems, more so today when we are in time of slow recovery phase, but more stable growth and its recession, which will continue during 2011 and 2012 (Sources: World Bank in its report, global economic prospects for the year 2011).⁷⁰

This project is also supported by policy innovation in R. of Macedonia 2012 - 2020, carried out with financial and technical assistance Organization for Economic Cooperation and Development (OECD), for investments in Southeastern Europe and the regional project "Regional Competitiveness Initiative (RCI) for the Western Balkans".

Means that small businesses or small and medium enterprises in the global economy, facing a strong competition, because there are other companies that offer similar products or services or are under the pressure of consumers, this means that enterprises must be prepared to offer innovation (the driving force of competition) the market economy, respectively conquest of new markets in the application of new technologies that the administration shows that in this way The advantage achieved competitive, realized through strategic connectivity.

The main strategic goal of connectivity is the realization of competitive advantage because the strategic relationship enables small enterprises to exploit the weakness of competitors and favorable circumstances in the market, suitable for the development of business culture, they are constantly renewed and increased productivity and quality. According to Joseph Schumpeter, innovation is the process of creating a new product or service, new technological process, new organization of labor, product improvement and organization of work.

⁶⁹ www.economu.gov.mk

⁷⁰ Resource: World Bank Report and International Monetary Fund "Global economic perspective for year 2011".

2. STRATEGY AS A CENTRAL CATEGORY IN ECONOMIC ENTITIES OF SMALL AND MEDIUM SUBJECTS

In the last decade, with major political changes, economic, technological, the role of the state as regulator and competitive free market, as the internationalization of businesses, have made the operating environment for businesses to be quite complex. Then for the future of such an environment is necessary to use the strategy of a business organization. However, despite the environment in which business operates, specialized for a limited number of markets, they will be subject to competitive pressures, this is the reason that the problems of competitive strategy are particularly important for economic small and medium subjects. Through an agreement reached strategy for business executives as follows: where we are now, what and who will provide, where should we go (**where we want to be**) and when we should be where we want, at what price will win the client. Conceptually it seems that the strategy for the organization is very simple to estimate where it is, in practice this stage is not simple but is a logical problem, that's where we are, that defines the market definitions, competitors, customer needs, technology, demography and a large number of factors. **Hunger**, the strategy defines as a set of managerial decisions and stock with which determine long - term performance of the enterprise.⁷¹

The first step strategic process for the future of the company begins with analysis of the environment (factors inside and outside the company), which includes monitoring, evaluation and dissemination of information from external and internal environment, and key people in the companies. Viewed from the aspect of strategic management, both factors have equal importance. The easiest way to implement this is the SWOT analysis, which identifies opportunities, opportunities and threats (external) the present and future, and powers, strengths and weaknesses (internal) of the enterprise with the market. External environment consists of variables which are outside the company (organization), outside the influence of senior management, which indirectly affects the activity, position and development of the company. This includes these macro environmental factors: the economic, social, political - legal, technological, environmental, regulatory, and environmental micro significant stakeholders (customers, competitors, suppliers, distribution channels and contractors).⁷² Internal Environment (Direct Environment) of the company consists of variables that are within it, in determining its strengths and weaknesses, and they may affect management, we involve resources, culture and structure of the organization, that organization may use In order to achieve competitive advantages, namely to exploit opportunities and minimize threats. Internal forces affecting the enterprise's success convincing in its business, existing and future development, therefore these has been attached great importance, given

⁷¹ Hunger, J.D., citing the act pg. no.3

⁷² M. Buble, Sanja Pfeifer, Strateski Menadzment, Zagreb, 2005, pg.30

always in mind what are the current forces and weaknesses of the company and what the strength and potential weakness or possible could have been presented in the coming period.

The second strategic step for SMEs, which stands as a factor for the achievement of high rates of economic development of the country (small and medium enterprises), as the process is establishing the organizational setting, where the indicators are counted: vision, mission, and purposes or goals of the organization, because companies today have dynamic open system features. Vision usually presents prediction, namely the thought of a future situation or event of the enterprise. The vision for the company is what has to perform in the future, for that is the driving force and energy of employees in a certain direction. The vision of building on the mission and goals helps the management to see the position and preparation of the company in the future where to go. The absence of such a vision in business organizations, leads the business to a wrong management. This means that if you do not know where you go, you will remain on the road or grip.

Mission is the reason for which the company exists. This speaks to what society provides the company, services or products offered to the market which will be supplied and how these functions meet. Goals are the final results of the planned activities that the company should do what, in what volume and when you realize these as: the net profitability, efficiency, increased activities, utilization of resources, the contribution for employees, leadership in the market and technology (innovation), survival (avoidance of bankruptcy). With the formulation of connectivity strategy (mission, vision and goals) the company maximizes the skills competition and minimizes the competitive weakness, only to gain competitive advantage in order to win the game. Competitive advantage for enterprises means to do better than others or do something that others do not.

The third step is implementation of the strategy with the help of politics, programs, regulations and procedures, by which the following operations are consistent with the strategic goals of the enterprise.

2.1 National strategy of developing the small and medium enterprises.

Today, the national strategy (continuous program of the government) of the development of small and medium enterprises (SME), provides basic orientation for the realization of the vision, goals and priorities set out in the field of entrepreneurship and small and medium enterprises for a long time period. Strategic goals are to increase the number of SME, increase the number of employment in SME, and increase the contribution of SME in the creation of gross domestic GDP (national strategy for development of small and medium enterprises, 2002 - 2013). So, for a period of three years in R. of Macedonia, European funds available, the competitiveness and growth of IPA, regional and rural development for small and medium firms. For 2011 are exploited, 98 million EU, for the year 2012 are exploited 105 million EU, and in 2013 will be

used 117.2 million EU, (Sources issued by the Chamber of Commerce of the Republic of Macedonia).⁷³

3. ENTERPRISES IN THE REPUBLIC OF MACEDONIA, SIZE AND STRUCTURE

Number of small and medium enterprises, in the R. of Macedonia, in order continuously grow. There are incentives to innovation, increase productivity factor, factor in the realization of the highest rates of economic development since the country are facing strong competition, and are bound in search of new opportunities. In all countries worldwide, the number of SMEs represents between 95.0% and 99% of the total number of enterprises. This confirms the fact that they are the main driver of the national economy. The enterprises sector in the Republic of Macedonia does not substantially differ from the sector in other countries in terms of its importance for the economy. Most or the active enterprises are small in size. For example, in 2007, this size category of active enterprises represented over 98.0% (exactly 98.98%) of the total number of active enterprises,⁷⁴ reflecting the importance of these enterprises for the economy of the country. Private enterprises contribute considerably to the economy of every country. They play an important role in terms of their contribution to GDB, creation of employment, contribution to exports, creation of innovation products and services and payment of taxes, etc.

3.1 Classification of Enterprises

According to the Law on Trading Companies, enacted in 2004, enterprises in the Republic of Macedonia must take one the following legal forms: General Partnership Companies, Limited Partnership Companies, Limited Liability Companies, Joint-stock Companies, Limited Partnerships by shares. Most of the enterprises in the Republic of Macedonia are registered as limited liability companies, which means that are founded by one or more natural or legal persons. The law on Trade Companies defines the value of minimum capital requirements of an enterprise. This value may not be less than EUR 50.000 in convertible MKD. Structural part of the annual turnover is based SMEs, the number of employees, balance sheet, the way of management, etc. Classification of SMEs according to the law on commercial companies (Companies Trade) is prepared in accordance with the definitions used by the recommendations of the EU, these are practically shown in table number 1.

⁷³ Resource: Issued by the Chamber of Commerce of the Republic of Macedonia, www.mchamber.org.mk

⁷⁴ Annual Report, 2007, for the SME Sector, R. of Macedonia, www.economy.gov.mk

Table 1. Classification of Enterprises

	EU definition for Enterprises⁷⁵	Law on Trade Companies (2004)
Micro	Up to 10 employees	Up to 10 employees
	Annual turnover \leq 2 mill EUR	Annual turnover \leq 50.000 EUR
	Balance sheet total \leq 2 million EUR	Not more than 80% of the gross income should come from one client
Small	Up to 50 employees	Up to 50 employees
	Annual turnover \leq 10 million EUR	Annual turnover \leq 2 mill EUR
	Balance sheet total \leq 10 million EUR	Balance sheet total \leq 2 million EUR
Medium	Up to 250 employees	Up to 250 employees
	Annual turnover \leq 50.000 EUR	Annual turnover \leq 10 million EUR
	Balance sheet total \leq 43million EUR	Balance sheet total \leq 10 million EUR
Large	All others which do not fall under the above mentioned classification	All others which do not fall under the above mentioned classification

Source: European Commission, The New SME Definition: User guide and model declaration, *Enterprise and Industry Publications*, Brussels, 2005, p.14

5. ACTIVE ENTERPRISES IN THE REPUBLIC OF MACEDONIA AND BY SECTORS, PERIOD 2005 -2009

Number of SMEs in the half of the decade to 2011, according to statistical analysis are increasing,⁷⁶ see table 2. From **table 2** we see that the average small enterprises for the period 2005 to 2009, is 53.772 or 98.7% percent. The highest percentage, of small notice in 2007 with 98.98%.⁷⁷

Table 2. Number – demography of active enterprises in the period 2005-2009,

Year	Small enterprises	Medium enterprises	Large enterprises	Total	% small
2005	43,877	463	84	44,424	98.7
2006	43,269	438	78	43,785	98.8
2007	50,541	424	95	51,060	98.98
2008	61,827	1,177	189	63,193	97.8
2009	69,347	1,159	204	70,710	98.07

Source: State Statistical Office of Republic of Macedonia, 2010

This can best be seen as sectors shown in **table 3** according to their size, state statistics provided by the R. Macedonia. The greatest number of active companies in 2008 seen sector, wholesale and retail trade, and that with 26.317 or 42.56%, 2009 with 29.225 or

⁷⁵ http://europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm

⁷⁶ Report of Statistical Office of R. of Macedonia, no.6.1.9.32 date 29.06.2009

⁷⁷ Source: State Statistical Office Of Republic of Macedonia, 12.03. 2010, no. 6.1.10.15

42.14%. For medium industrial sector, also seen that for 2008, 366 or 31 %, 2009 with 364 or 31.4%. Also, for large enterprises also seen that the industrial sector for 2008 by 80 or 42.3% and 2009 with 74 or 36.27%. From table number 3 noted in various sectors are active even that small enterprises with particular is that of retail and wholesale trade

Table 3. Number of active Enterprises by Sectors, period 2005-2009

Sector/Year	Small enterprises		Medium enterprises		Large enterprises	
	2008 ¹	2009 ²	2008	2009	2008	2009
Agriculture, forestry, hunting	2.647	2.778	33	32	3	5
Fishery	47	55	0	2	0	0
Mining	92	133	8	7	4	4
Manufacturing industry	8.595	7.787	366	364	80	74
Providing electricity, water, gas	60	93	19	22	9	9
construction	3.703	3.944	54	53	8	7
Wholesale and retail trade	26.317	29.225	82	96	6	9
Hotels and restaurants	3.270	3.920	20	17	2	1
Traffic, storage and links	5.664	6.45	25	26	10	11
Financial intercession	121	298	18	17	6	9
Real estate	4.384	6.161	37	41	11	13
Public directory and protection	143	146	74	47	21	26
Education	594	677	284	274	3	3
Health and social work	2.934	3.106	121	119	19	21
Other municipal activities, cultural, etc.	3.256	4.613	45	44	36	12
Total	61.827	69.347	1.177	1.159	189	204

Source: ¹Report of the Statistical Office of Republic of Macedonia, dated 29/06/2009.nr.6.1.9.32, p.3 and ²Report of the Statistical Office of Republic of Macedonia, dated 12/03/2010 nr.6.1.10.15, p.2

6. NUMBER OF ACTIVE BUSINESS ENTITIES BY SECTORS OF ACTIVITY ACCORDING TO THE NATIONAL CLASSIFICATION OF ACTIVITIES NKD REV. 2 AND BY NUMBER OF PERSONS EMPLOYED, 2010.

According to the data of the State Statistical Office the number of active business entities in the Republic of Macedonia in 2010 was 75497.⁷⁸

The sectors with the highest share in the structure of business entities were: Wholesale and retail trade; repair of motor vehicles and motorcycles with 28326 entities or 37.5% and Manufacturing with 8263 entities or 11.0%, whereas the least represented were the sectors Electricity, gas, steam and air conditioning supply with 107 entities or 0.1% and Mining and quarrying with 164 entities or 0.2%, see table number 4.

Table 4. Number of active business entities by sectors of activity, 2010

Sectors of activity	Total	Number of business entities by number of persons employed					
		0	1-9	10-19	20-49	50-249	250+
Total	75497	10756	59276	2483	1568	1211	203
A. Agriculture, forestry and fishing	3038	342	2568	40	36	31	3
B. Mining and quarrying	164	39	88	14	12	7	4
C. Manufacturing	8263	853	5927	596	461	359	67
D. Electricity, gas, steam and air cond.	107	69	24	3	4	4	3
E. Water supply, manag.	107	69	24	3	4	4	3
F. Constructi.	4368	593	3335	247	126	61	6
G. Wholesale and retail trade	28326	2721	24520	684	295	96	10
H. Transport and storage	6417	442	5722	141	81	24	7
I. Accommodation and food service act.	4433	427	3683	225	74	23	1

⁷⁸ Report of Statistical Office of R. of Macedonia, no. 6.1.11.12 date 25.02.2011

J. Information and comm.	1412	381	914	58	30	22	7
F. Financial and insurance act.	408	94	260	12	10	23	9
L. Real estate	415	101	280	18	12	3	1
M. Professional, scientific act.	5228	701	4360	111	44	12	-
N. Administrative	2519	1569	827	48	37	23	15
O. Public administration and defence	249	12	24	56	63	68	26
P. Education	992	87	423	35	158	284	5
Q. Human health and social work	3166	58	2845	71	57	112	23
R. Arts, entertainment and recreation	1304	580	599	54	37	28	6
S. Other service	4415	1644	2703	46	15	7	-

Source: Report of Statistical Office of R. of Macedonia, no. 6.1.11.12 date 25.02.2011

The data on the structure of active business entities according to the number of persons employed show that the highest share of 78.5% belongs to business entities with 1-9 persons employed, followed by business entities with no persons employed (or the entities did not provide information about persons employed) with 14.2%, and entities with 10-19 persons employed with 3.3%. The share of entities with 20-49 persons employed was 2.1%, those with 50-249 persons employed participated with 1.6%, while entities with 250 or more persons employed had a share of only 0.3%.

Active business entities are all business entities that contribute to the gross domestic product, and the basic criterion for determining the activity of the entity are the data on income and / or employees.

7. GROSS DOMESTIC PRODUCT IN THE REPUBLIC OF MACEDONIA IN 2009 - preliminary data-

According to the data of the State Statistical Office the gross domestic product (GDP) in 2009 was 409 100 million denary and in comparison with 2008 it decreased by 0.6%. The real GDP growth rate in comparison with 2008 was - 0.9%, table 5.

The following sectors had the biggest share of value added in the structure of GDP in 2009: D-Manufacturing industry (14.1%), G -Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods (13.1%) and A - Agriculture, hunting and forestry (9.7%). The Household final consumption including NPISHs in 2009, in comparison with 2008, decreased by 5.6% in nominal terms. The Final government consumption increased by 4.6% in nominal terms in the same period, In 2009 the share of Gross capital formation in GDP was 26.2%.⁷⁹

Table 5 GDP, 2001 – 2009

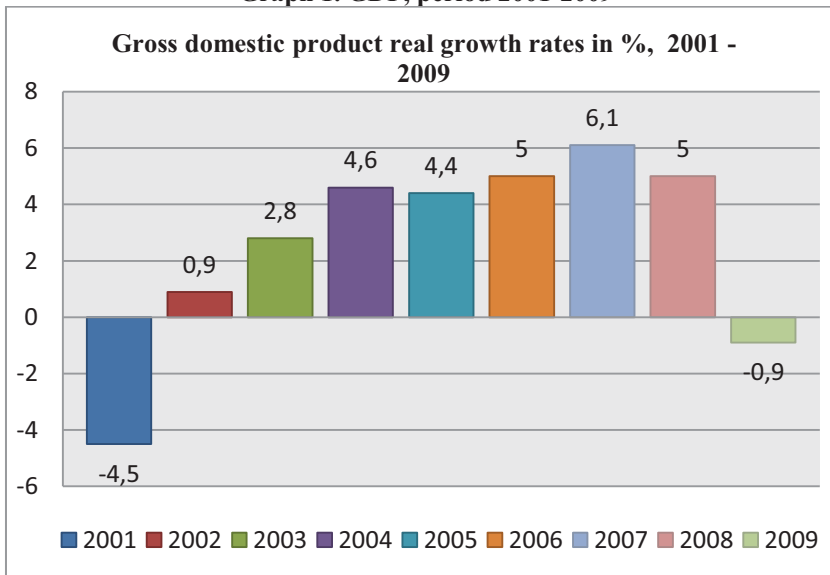
Source: Report of Statistical Office of R. of Macedonia, no. 3.1.10.08 date 29.10.2010

Year	GDP at current prices (in million denary)	GDP per capita in Euros (at current Exchange rate)	GDP in million Euros (at current exchange rate)	GDP real growth rates in %	GDP deflator
2001	233841	1887	3839	-4.5	103.6
2002	243970	1981	4001	0.9	103.4
2003	258369	2081	4217	2.8	100.3
2004	272462	2186	4442	4.6	100.8
2005	295052	2363	4814	4.4	103.8
2006	320059	2564	5231	5.0	103.3
2007	364989	2919	5965	6.1	107.4
2008	411728	3283	6720	5.0	107.5
2009	409100	3253	6677	-0.9	100.3

Best preliminary data for GDP, period of years 2001-2008 and 2009 seen in graph 1.

⁷⁹ Report of Statistical Office of R. of Macedonia, no. 3.1.10.08 date 29.10.2010

Graph 1. GDP, period 2001-2009



Source: Report of Statistical Office of R. of Macedonia, no. 3.1.10.08 date 29.10.2010

6. GROSS DOMESTIC PRODUCT BY PRODUCTION APPROACH, GROWTH RATES, FOURTH QUARTER OF 2010, R OF MACEDONIA.

According to the estimated data, the growth rate of the Gross Domestic Product (GDP) in the third quarter of 2010 was 1.3% and fourth quarter of 2010 was 2.3%.⁸⁰

The value of gross domestic product in the fourth quarter of 2010, compared to the same period of 2009, increased by 7.4% in nominal terms. Gross capital formation increased by 24.8% in nominal terms, compared to the same period of 2009, and its share in the GDP structure was 32.5%. In the same period, Export of goods and services increased by 37.5% in nominal terms, while Import of goods and services rose by 19.7%. In this quarter, a bigger increase was registered in the following sectors: F-Construction by 38.2% and G-Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods by 6.4%, table no 6.

⁸⁰ Report of Statistical Office of R. of Macedonia, no. 3.1.11.02 date 22.03.2011

Table 6. GDP by sectors, for the year 2009 and third quarter of 2010

Year	Quarter	A+B: Agriculture, hunting, forestry and fishing	C+D+E: Mining and quarrying, Manufacturing and Electricity, gas and water supply	F: Construction	G: Wholesale and retail trade, repair of motor vehicles, motorcycle and personal household goods	H: Hotels and restaurants	I: Transport, storage and communication
2009 ¹	I	1.4	-11.2	2.8	0.3	-5.3	0.6
	II	2.8	-10.5	8.5	-0.5	-7.3	-2.1
	III	3.5	-12.9	2.4	1.3	-7.4	0.4
	IV	2.2	0.7	2.5	2.0	-14.2	-2.3
		2.5	-8.8	4.2	0.8	-8.6	-0.9
2010 ²	I	5.1	-1.3	7.7	0.1	-15.0	-1.4
	II	1.8	1.8	-12.1	2.3	-8.7	4.0
	III	2.4	0.7	18.4	2.7	-7.5	0.8

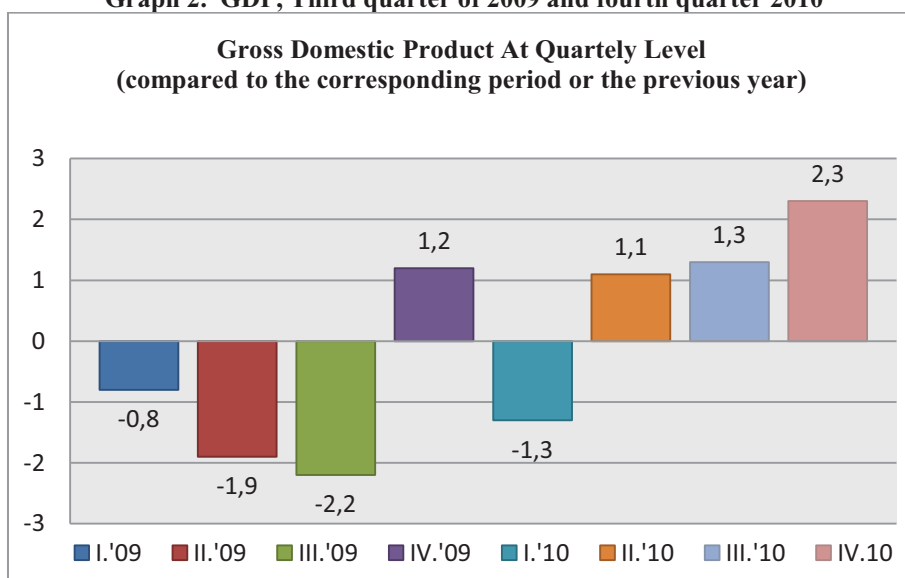
Year	Quarter	J+K+O: Financial intermediation, Real estate, renting and business activities, Other community, social and personal service activities and Imputed rents	L+M+N: Public administration and defense, compulsory social security, Education, Health and social work	Value added	Net taxes on products	Gross Domestic Product
2009 ¹	I	6.1	1.1	-1.9	2.9	- 0.8
	II	1.5	2.4	-2.1	-2.2	-1.9
	III	4.7	1.5	-2.1	-2.9	-2.2
	IV	2.5	1.3	1.4	1.3	1.2
		3.6	1.6	-1.1	-0.3	- 0.9
2010 ²	I	5.7	4.0	1.0	1.3	- 1.3
	II	4.5	0.7	1.0	1.3	1.1
	III	3.8	0.8	2.0	-2.2	1.3

¹⁾ Preliminary data

²⁾ Estimated data

Part statistical graphics GDP for third and fourth quarter of 2009 dhe 2010, seen in the graph. 2, as follows.

Graph 2. GDP, Third quarter of 2009 and fourth quarter 2010



Source: Report of Statistical Office of R. of Macedonia, no.3.1.11.02 date 22.03.2011

The graphics have given se in this quarter, a bigger increase was registered in the following sectors: F-Construction by 38.2% and G-Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods by 6.4%.

Macro-economic indicators for R. of Macedonia in 2007, show there was a successful year of real GDP by 6.1%, with real improvements seen within the years 2010 (fourth quarter 2.3%) have positive GDP improvement is the result of communication between government institutions and community business, compared with 2009 (-0.9%). The macroeconomic condition seen in the economic scene EU - 27 with real GDB for 2007 by 2.9% in 2008 to 0.8%, 2009 to -4.1%, 2010 with 0.7 and have provided minimal improvements in 2011 to 1.6% (Source: European Economic Forecast Autumn 2009, Statistical Annex, **macro- economic indicators European Union, us and Japan 2007-2011, annual growth rates in %**).⁸¹ This positive result is seen also in the increasing number of employees in the euro area (EA 16, The euro area (EA16) consisted of 16 Member States up to 31 December 2010: Belgium, Germany, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland. From 1 January 2011 the euro area (EA17) also includes Estonia), and all the European Union,⁸² where for the last quarter of last year grew 0.1% compared to previous quarters, Euro stat

⁸¹ Annual report on EU Small and Medium – Sized Enterprises, pg. 11, 2009

⁸² Published by euro stat the statistical office or the European Union, 15 March, 2011, <http://ec.europa.eu/eurostat/euroindicators>.

announced, Statistical office of the EU, to March 15, 2011, number 40/2011, published in the Journal Koha e Re, R of Macedonia, to 17.3.2011, pg 6. www.kohaere.eu.⁸³ Euro stat estimates that in the last quarter (fourth quarter, 2010) of last year in the EU have worked 221.7 million people of whom 144.8 million in the euro zone.

Considering the economic development based on the technological development, the developing opportunities for small business are: the expansion of production capacity, increased investments which help to create conditions for liberalization of economy because it's challenged by both internal (national) competition and external (international), because without these two parameters it's not possible to be indicated major increase of GDP.

7. CONCLUSION

The statistical analysis of national and transnational clearly seen that SMEs are more effective in improving the business. Successful implementation of strategic connectivity for SME, are also important for economic stability as well as to the prospects of the country, as well as in improving the living standards of the community, who are used as input factors to be integrated into EU and NATO structures. Therefore in support of SMEs is one of the main priorities of the European Commission's economic development, creating new jobs and economic and social cohesion.

Investment and innovation, improving business climate, the application of new technologies, support of entrepreneurship remains the most important components for the dynamism of economic activities or the creation of preconditions for faster development and sustainability, creating new jobs, improvement the competition, free products and services and quality of the country. Investment of R Macedonia have increased 26% from GDB in recent years compared with 20% in the decades of the transition period. According to statistics, national and European GDB for the remaining year have been improvements, despite challenges that have been, except the year 2007 that distinguished successful year. Importance of the program through the RM policy innovations for 2012 - 2020, imposed by **European matrix** of innovations, the main aims strengthening of Macedonia by industry based on science, technology, and deep analysis of innovation.

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SMALL AND MEDIUM ENTERPRISES IN SUPPLY CHAIN

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Abstract: Dynamic character of human society and economy has become more significant today than ever before. Business entities operate on the principle of mutual dependence, which, metaphorically, can be represented as a single chain, whose efficiency depends on the connection between its links. The supply chain is composed of all entities involved in satisfying consumer demands, directly or indirectly. Cooperation and joint activities of important business functions (new product development, marketing, operational management, distribution, finance, customer service, etc.), are very important for supply chain efficiency. Small and medium enterprises, as partners of large companies, have significant role in supply chain. Their flexibility and ability to adjust to new market conditions, allow them to actively participate in the processes of supply, production and customer value delivery. Despite numerous financial, human and technical barriers, it is important for them to accept the concept of supply chain management, because it is one of the main reasons for their stable and competitive development.

Keywords: supply chain, cooperation, customer value.

INTRODUCTION

A supply chain consists of all parties involved, directly or indirectly, in fulfilling a customer request. The supply chain not only includes the manufacturer and supplier, but also transporters, warehouses, retailers, and customers themselves.

Within each organization, such as manufacture, the supply chain includes all functions involved in receiving and filling a customer request. These functions include, but are not limited to, new product development, marketing, operations, distribution, finance, and customer service. The objective of every supply chain is to maximize the overall value generated. The value a supply chain generates is the difference between what the final product is worth to the customer and the effort the supply chain expends in filling the customer's request.

The adoption of the strategic supply chain management approach by large organizations in supply chains has significant impact on SMEs. Many SMEs are already supplying materials, products and services to large organizations. *They have very important place in maximizing supply chain value. As the global marketplace continues to develop, SMEs provide an effective tool for economic growth through participation in global supply chains.* In any case, supply chain networks play a key role in the evolution of traditional SMEs toward the emergence of global supply chains with higher specialization or specificity of local member firms.

1. THE SUPPLY-CHAIN CONCEPT

A dominant logistics philosophy throughout the 1980s and into the early 1990s involved the integration of logistics with other functions in an organization in an effort to achieve the enterprise's overall success. The early to mid-1990s witnessed a growing recognition that there could be value in coordinating the various business functions not only within organizations but across organizations as well – what can be referred to as a supply – chain management (SCM) philosophy.

A supply chain encompasses all activities associated with the flow and transformation of goods from the raw material stage (extraction), through to the end user, as well as the associated information flows [1, p.36]. It can be defined as “the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across business in the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole. Importantly, while nearly any organization can be part of a supply chain(s), SCM “requires overt management efforts by the organizations within the supply chain.

Successful supply-chain management requires companies to adopt an enterprise-to-enterprise point of view, which can cause organizations to accept practices and adopt behaviors that haven't traditionally been associated with buyer-seller interactions. Moreover, successful supply-chain management requires companies to apply the systems approach across all organizations in the supply chain. When applied to supply chains, the systems approach suggests that companies must recognize the interdependencies of major functional areas

within, across, and between firms. In turn, the goals and objectives of individual supply-chain participants should be compatible with the goals and objectives of other participants in the supply chain.

Supply chain management is a cross-function approach including managing the movement of raw materials into an organization, certain aspects of the internal processing of materials into finished goods, and the movement of finished goods out of the organization and toward the end-consumer. As organizations strive to focus on core competencies and becoming more flexible, they reduce their ownership of raw materials sources and distribution channels. These functions are increasingly being outsourced to other entities that can perform the activities better or more cost effectively. The effect is to increase the number of organizations involved in satisfying customer demand, while reducing management control of daily logistics operations. Less control and more supply chain partners led to the creation of supply chain management concepts. The purpose of supply chain management is to improve trust and collaboration among supply chain partners, thus improving inventory visibility and the velocity of inventory movement.

Figure 1. Processes in the Supply-Chain Operations Reference (SCOR) model



One widely used model of supply-chain management, the SCOR (Supply-Chain Operations Reference) Model, currently identifies five key processes associated with supply-chain management [3, p.6]:

- Plan - The Plan processes describe the planning activities associated with operating a supply chain. This includes gathering customer requirements, collecting information on available resources, and balancing requirements and resources to determine planned capabilities and resource gaps. This is followed by identifying the actions required to correct any gaps;

- Source - The Source processes describe the ordering (or scheduling) and receipt of goods and services. The Source process includes issuing purchase orders, scheduling deliveries, receiving, shipment validation and storage, and accepting supplier invoices;
- Make - The Make processes describe the activities associated with the conversion of materials or creation of the content for services. It focuses on conversion of materials rather than production or manufacturing because Make represents all types of material conversions: assembly, chemical processing, maintenance, repair, overhaul, recycling, refurbishment, remanufacturing, and other material conversion processes. As a general guideline: these processes are recognized by the fact that one or more item numbers go in, and one or more different item numbers come out of this process;
- Deliver - The Deliver processes describe the activities associated with the creation, maintenance, and fulfillment of customer orders. It includes the receipt, validation, and creation of customer orders; scheduling order delivery; pick, pack, and shipment; and invoicing the customer;
- Return - The Return processes describe the activities associated with the reverse flow of goods back from the customer. The Return process includes the identification of the need for a return, the disposition decision making, the scheduling of the return, and the shipment and receipt of the returned goods. (Repair, recycling, refurbishment, and remanufacturing processes are not described using Return process elements).

The supply chain can be seen as a number of processes that extend across organizational boundaries. The focal firm is embedded within the chain, and its operational processes must coordinate with others that are part of the same chain. Materials flow from left (upstream, or “buy side”) to right (downstream, or “supply side”). If everything is as orderly as it seems, then only the end-customer (to the extreme right of the chain) is free to place orders when he or she likes: after that, the system takes over.

Supply chain management thus appears as the “end to end” management of the network as a whole and of the relationship between the various links. The terms “supply chain” and “supply network” both attempt to describe the way in which buyers and suppliers are linked together to serve the end-customer. “Network” describes a more complex structure, where organizations can be cross-linked and there are two way exchanges between them; chain describes a simpler, sequential set of links [2, p.15].

Figure 2. A network of organizations

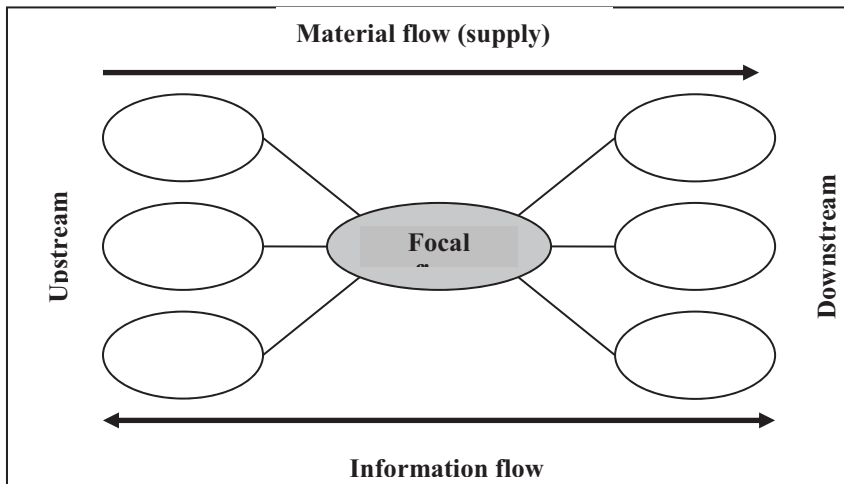


Figure 2. takes a basic view of the network, with a focal firm linked to three upstream suppliers and three downstream customers. Material flows from primary manufacture through various stages of the network to end-customer. Material flow represents the supply of product through the network in response to demand from the next (succeeding) organizations. Information flow broadcasts demand from the end-customer to preceding organizations in the network.

A firm plays a focal role (and can be labeled a “focal firm”) when it consistently operates value adding processes on both sides of the focal point within a chain, i.e. both in production and in marketing/distribution. In many industries, focal firms are in most cases well recognized as major or global players listed on stock markets. Small and medium enterprises, as partners of large companies, have significant role in supply chain. Most of the global supply chains involve long-lasting interactions between larger enterprises and SMEs. In most cases these interactions extend beyond a textbook type of market transaction (from alliances or partnerships to outsourcing).

2. SMALL AND MEDIUM ENTERPRISES

An enterprise is defined as the smallest combination of legal units that is an organizational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. It is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes in particular, self-employed persons

and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity. According to a World Bank Study, there are more than 60 definitions of SMEs used in 75 countries surveyed. Currently small and medium sized enterprises are defined by their size. An enterprise is considered to be an SME if it has not more [4, p.5]:

- than 250 employees,
- than 50 million euro turnover resp. a balance sheet total of less than 43 million euro,
- and if not more than 25% of the shares of such an enterprise are in the ownership of another enterprise.

However in many business registers enterprise groups links are still not fully implemented and thus when a legal unit is part of an enterprise or when an enterprise is controlled by another enterprise and has for e.g. less than 250 employees. There are exceptions to this 25% threshold for public investment corporations, venture capital companies, etc. European SME statistics assigns such units to the group of small and medium sized enterprises. Main problem of such a politics is not only that legal units are counted as enterprises but also that enterprises are treated equal even if they have completely different types of ownership and arising from that are of completely different character.

In USA, the number of employees is the main indicator for enterprise classification. The limits are 500 employees (cigarettes and clothing production), 750 (production of engineering machines, radio and television sets), 1000 (computer and car production) and 1500 workers (oil refineries and air transportation). However, in some economy sectors, the annual turnover is also used as an important indicator.

Table 1. Enterprises by size classes of turnover in the USA

Economy sector	Turnover (million \$)
Agriculture production	0,75
Car retail	26,5
Consumer goods retail	25
Clothes retail	8
Mail services	6,5
Hunting and fishing	4

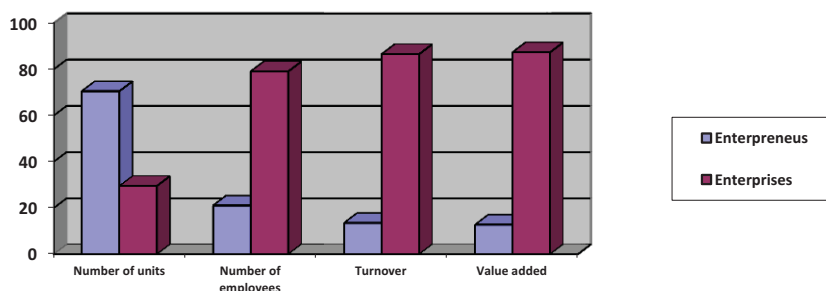
In Serbia, the results of the total number of enterprises, by size classes (classes are defined according to the number of persons employed), shows that most of them (84,9%) belong to micro enterprises (0-9 persons employed), 11,5% to small (10-49 persons employed), 2,9% to medium (50-250 persons employed) and 0,7% belong to large enterprises (250 persons employed and more). These figures refer to year 2008 [5,p.20].

Table 2. Number of enterprises and persons employed in non-financial business economy, by size classes of employment, 2008

	Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250 or more)	Total
Number of units	69235	9423	2372	537	81567
Number of persons employed	203027	193125	249300	436137	108589

Small and medium enterprises in Serbia rest upon entrepreneurship. Entrepreneurs are individuals (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets. In 2008, the share of entrepreneurs (70,5%) was almost three times larger than the number of enterprises. However, the share of enterprises in the total number of employees was 79,0%, their contribution to the total turnover was 86,5% and to the value added at factor costs 87,3% (figure 3.).

Figure 3. Enterprises and entrepreneurs in non-financial business economy, 2008.



Small and Medium Enterprises (SMEs) occupy an important position in any country's economy and contribute immensely to the industrial development, exports and forex earnings, creation of employment opportunities etc. They constitute as high as around 90% of enterprises in most countries worldwide. SMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy. Also their contribution to poverty reduction and wider distribution of wealth in developing economies cannot be undermined. On the "static" front, SMEs contribute to output and to the creation of "decent" jobs; on the dynamic front they are a nursery for the larger firms of

the future; are the next (and important) step up for expanding micro enterprises; they contribute directly and significantly to aggregate savings and investment, and they are involved in the development of appropriate technology. A continuous growth and development of the companies in this segment ensures a balanced growth of the economy and acts as a facilitator towards entrepreneurial development, employment generation business ownership and related wealth creation.

3. SMES IN SUPPLY CHAIN

Global supply chains are not static, as they are sequences of value adding activities that may change due to external factors such as new technology or regulation. They may also evolve because of internal changes such as strategies to outsource or abandon certain activities to partners. In most well established global supply chain structures, SMEs have to face focal firms, for whom the stronghold in the chain is a strategic asset. These firms devote considerable resources to mastermind the critical portions of the chain and to streamline it so as to optimize their own economic performance. They are able to manage critical knowledge, technologies and intellectual property assets on a global scale. Moreover, many focal firms have financial liquidity necessary to quickly acquire “interesting” SMEs. Symmetrically, SMEs have control of the basic knowledge of individual processes and local clients and they are quick at exploring niches, but lack the overall understanding of chain structure and of key assets. As a result, they often end up in a weak negotiating position when confronting focal firms. Even when SMEs do have a comparative advantage, they may have difficulties defending it in terms of their share in total value added generated by the chain.

However, small businesses are vital links in the supply chains in which they participate. By virtue of their size, flexibility and expertise they possess advantages that they can use to benefit their supply chain and strengthen their own businesses. Technology is increasingly affordable and available to help SMEs take advantage of supply chain strategies. Because of the competitive pressures facing small businesses it is critical for them to use supply chain perspectives and associated strategies to create synergies with supply chain partners in order to succeed in the global competitive environment [7,p.34]. SMEs can take advantage of the supply chain management strategy for various reasons [7, p.31]:

- SMEs are critical links in many supply chains.
- SMEs are very flexible. Many SMEs are still young and developing and it is therefore easier for them to re-engineer existing business processes and adopt a supply chain management approach than for large

organizations with a long-standing organizational structure and culture. The integrated approach is inherently part and parcel of SMEs.

- SMEs follow an integrated approach by nature. Various business functions are usually performed by one or a few persons working together.
- Computer software programmes are more SME friendly. IBM, for example, started the service Smart Start, which allows SMEs to use IBM's expertise with information systems along with their own business expertise to find and implement ERP system solutions that work for their business.
- SMEs can also benefit from global competition. Supply chain management provides a method of addressing the competitive challenges facing business today.

Enterprises in the EU-27 are distributed unevenly over sectors of industry. The three sectors of industry with the largest number of enterprises are typical small scaled sectors in terms of average firm size. In some sectors there is a trend of declining enterprise size, as a result of recent privatizations. As can be seen from Table 3, trade and real estate, renting and business activities are the largest sectors of industry in terms of the number of enterprises; also the number of occupied persons per enterprises (the average firm size) is less than the non-financial business economy average [8, p.17]. Other typical small scale sectors are construction and hotels and restaurants. On the other side of the spectrum, electricity, mining, manufacturing industry and transport/communication are large scaled sectors in the sense that the average number of occupied persons per enterprise is well above the average of the non financial business economy.

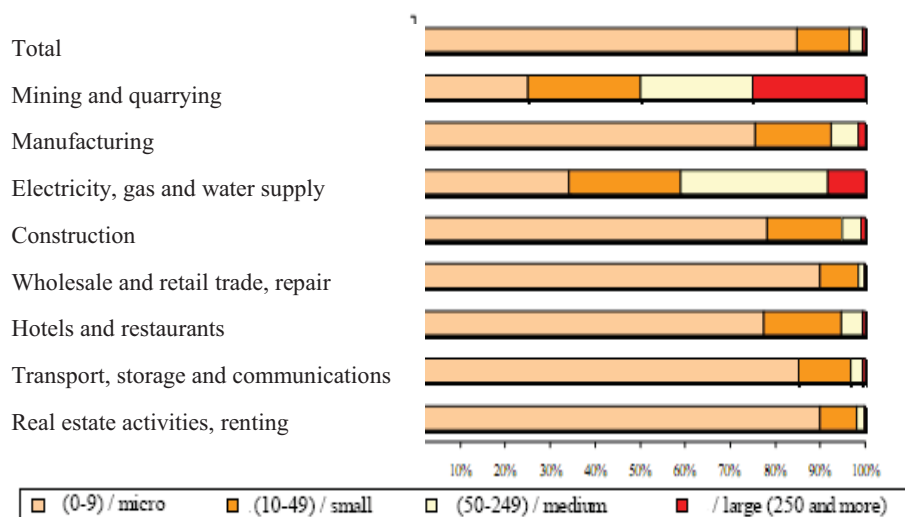
Table 3. Number of enterprises in non-financial business economy, by size classes, EU-27, 2008.

	<i>SME</i>	<i>Large</i>	<i>Total</i>	<i>Occupied persons per enterprise</i>
<i>Mining and quarrying</i>	<i>21000</i>	<i>240</i>	<i>21240</i>	<i>36.0</i>
<i>Manufacturing</i>	<i>2348000</i>	<i>19000</i>	<i>2367000</i>	<i>14.9</i>
<i>Electricity, gas and water supply</i>	<i>31000</i>	<i>1000</i>	<i>32000</i>	<i>51.1</i>
<i>Construction</i>	<i>2993000</i>	<i>3000</i>	<i>2996000</i>	<i>4.9</i>
<i>Wholesale and retail</i>	<i>6524000</i>	<i>7000</i>	<i>6531000</i>	<i>5.0</i>

<i>trade, repair</i>				
<i>Hotels and restaurants</i>	<i>1724000</i>	<i>1000</i>	<i>1725000</i>	<i>5.5</i>
<i>Transport, storage and communications</i>	<i>1241000</i>	<i>4000</i>	<i>1245000</i>	<i>9.8</i>
<i>Real estate activities, renting</i>	<i>5827000</i>	<i>9000</i>	<i>5836000</i>	<i>4.6</i>
<i>Total</i>	<i>20709000</i>	<i>43000</i>	<i>20752000</i>	<i>6.4</i>

In Serbia, in 2008. the biggest share in the total number of micro enterprises was that in wholesale and retail trade (46,4%), manufacturing (20,1%), as well as real estate activities, renting (16,9%). Alike with micro-enterprises, small enterprises participated significantly in manufacturing with 33,1%, in wholesale and retail trade with 32,8%, and in real estate activities, renting with 11,5% and construction with 10,6%. Based on the results for medium and large enterprises, it is evident that the share of enterprises from service activities decreased, while the share of enterprises from industrial activities increased. In the class of medium enterprises, the biggest share was in manufacturing (46,3%), then in wholesale and retail trade, repair (19,3%) and construction (10,5%). manufacturing (54,0%), then wholesale and retail trade, repair (12,7%) and construction (11,5%) dominated in the class of large enterprises [5, p.21].

Figure 4. Number of enterprises in non-financial business economy, by size classes of employment, 2008.



But, the place and role that SMEs actually play or could play in supply chains depends on the role and strength of focal firms and the prevalence of the global value chain structure. In the production segment, the situation is more open since focal firms in each chain configuration are, at least to a certain extent, either dependent on efficient suppliers (especially knowledge and innovations suppliers) or prone to competition by new entrants. This is the case for the medical and scientific equipment industry, in software, in cinema and above all in tourism. In the distribution segment, if the chain structure is firmly structured around strong focal firms the role left to SMEs is limited to “mass distribution”, to customization as in the case of software, or to provision of additional services like in the case of automobiles.

Most of the global supply chains involve long-lasting interactions between larger enterprises and SMEs. In most cases these interactions extend beyond a textbook type of market transaction. Many different wordings have been used in literature extending from alliances or partnerships to outsourcing. However, none of these terms is sharp enough to capture the ambivalent issue of trust, power, negotiation, reciprocity and in some cases even solidarity among enterprises co-operating within a global value chain. Despite the fact that these aspects extend beyond the accepted field of economic expertise, they are vital to understand the actual and potential roles of SMEs.

3.1. Strategy for an SME in Supply Chain

A majority of the prevalent strategies in supply chain management focus on large businesses. These companies, more often than not, have been the pioneers in embracing the concept of SCM. However, with the fact that SMEs constitute as high as around 90% of all industries in any country, their place and role in supply chain is very important. They have to face many challenges on strategic, tactical and operational levels.

On strategic level, SMEs consider issues connected with [9, p.3]:

- diversification or specialization - In the manufacturing sector, small business management must address the issues of raising capital, hiring competent qualified personnel, investing on industrial and administrative premises and building a reliable business plan. A key factor influencing these strategic decisions is the choice of products and markets, with two possible trends: diversification or specialization. Diversification offers the advantages of flexibility and adaptability of human resources and equipments, with the counterpart of higher costs and forecasts with shorter term. On the other end, a well chosen

specialization may reduce costs by relying on dedicated equipment, specialized personnel and large series. Well targeted products and low costs are determinant factors for taking part in global supply chains and penetrating large markets. However, the risks implied by a sharp specialization are very important: competition and changes in the market may cause the break of a contract, which generally leads to bankruptcy. Various remedies can help specialized SMEs to overcome the risks of specialization. Better competence and a better capacity of adaptation of human resources can be achieved through continuing education programs and rotation of assignments to jobs and workstations.

- competition between suppliers of a dominant retail - Retailers often face random variations both on the demand and the supply side. For them it is generally more profitable to procure from several suppliers rather than to use a single one. An increase of wholesale prices for smaller delivered quantities could balance this trend. Except that wholesale price increase is often very limited, in particular if the retailer is in a dominant position or if there is a strong competition between suppliers. Many large retail companies, such as Wall Mart and Tesco, establish long term relations with their suppliers. A possible response in this situation would be an attempt to become a dominant partner, which is particularly difficult for small enterprises facing larger ones.
- supportive business environment - One of the main problems of SMEs is the lack of capital and investments. In some cases, the investments in expensive equipments can be shared between the SME and its partners in the supply chain, in particular its customer company or the SC dominant enterprise. Another possibility is the use of government supporting programs. *Governments are responsible for establishing an environment conducive to the development of SME competitiveness. They generate policy that impacts the trading environment. They also play a critical role in promoting conformity with global market requirements by building their capacity to supervise the implementation of international quality standards.* In that way, they play a valuable role in the integration of SMEs into the international supply chain by creating small business administrations that have the responsibility of assisting SMEs; business associations can be encouraged to accept some of this responsibility. Two priorities of these administrations include the facilitation of access to market information and the support of shortcuts to the internationalization process. The ability to access information allows companies to comply with international trade regulations and to learn about new technologies and efficient operating practices (The Serbian Agency for the Development of SMEs and Entrepreneurs provides one such example).

Tactical planning mainly deals with decisions on manufacturing and inventory policies, resource assignment and product flows with partner firms. SMEs experiencing integration in a supply chain must drastically change their planning tools, to meet the partners' requirements with limited increases in costs [9, p. 4].

A typical tactical concern for supply chains is the organization of exchanges between adjacent firms. By convenience of terminology, the downstream firm will be called "the retailer" and the upstream firm "the supplier". Through their activity of transformation, assembly or sales, both firms contribute to the increase of the value chain. A key issue for this pair of firms is distribution of cost, profit and risk among them. It is directly related to decisions on wholesale and retail prices, dedicated capacity for production and storage, order and production lot sizes, costs of backorders and lost sales. Such decisions require agreements obtained through negotiation stages, in which partners elaborate contracts defining their commitments and terms of trade. In a supply chain, an SME is often associated with a larger enterprise that has a dominant position. The "leader" acts first by choosing a strategy among the set of possible ones. Then, the second player, "the follower", is informed of this choice and selects one of the possible strategies. In is not fair relation in favor of the leader because by playing the first one, the leader can impose the equilibrium point which is ultimately reached, called. If the supplier is the leader, he decides of the wholesale price and the retailer (the follower), who faces a random demand, orders the quantity that maximizes its expected profit.

Table 4. Strategic Comparison of Large firms and SMEs

Category	SCM by large firms	SCM by SMEs
Competitive priority	Sustain large market share	Market niches
Key strategies	Exert influences in SCM, form alliances	Build unique competencies
External control structure	Command and control toward small suppliers	Accept command and control
Internal control structure	decentralized	Focus on decision making
Goal of SCM	Multiple performance outcomes	Focused performance outcome

However, one of the most frequent status of an SME in a supply chain is to be a supplier of a dominant retailer. Each firm manages its local production/inventory control system while attempting to maximize its own steady state expected profit per time unit. Under the assumed based-stock policy, the main operational decision at each stage is the base-stock level. It is shown that under the resulting contract, the two-stage supply chain reaches

globally optimal running conditions with the maximal possible profit obtained by the retailer and the smallest acceptable profit obtained by the supplier. The terms of the contracts between an SME and the leading partners of a supply chain are essential to guarantee minimal revenue in the supply chain. The actual profit level will not generally exceed this minimal level. Comparison of Large firms and SMEs is presented in Table 4 [10, p.15].

The drastic changes implied by the embedding of an SME in a supply chain network should be based on improved operational practice. Placed in the position of a supplier within a supply chain, an SME should improve its efficiency and reactivity to conform to market requirements of response time, quantity and quality. For most SMEs, reductions in costs and improvements in quality require better methods and a better technology in finance, administration, design and manufacturing. Supply chains are characterized by a complex decentralized decisional organization but a highly integrated operational system. Because supply chains depend on huge quantities of real-time information, it is essential that this information can be seamlessly transmitted across organizations. Such a strong integration has become possible within modern information and communication networks through the emergence of standards for the exchange of product model data, progresses in business process management based on workflow, and in process deployment methods using agents, business objects and business processes.

3.2. SMEs Supply Chain Challenges

When small and medium enterprises consider implementing supply chain management initiatives, they often find themselves facing a unique set of challenges that larger companies typically do not face. While these challenges should not deter companies from implementing supply chain management, SMEs should be aware of them and formulate tactics for responding to them. The most common challenges faced by SMEs are as follows:

- Decentralized supply chain management - SMEs often are not large enough to justify centralized organizations for supply chain management involving large corporate staffs in the various business functions. The result is a focus on individual facilities and, therefore, on a decentralized supply chain organization. Consequently, SMEs can miss out on lower total corporate costs and higher overall efficiencies. And even as SMEs grow and expand their number of facilities, they often continue to focus on the individual plant/distribution centre instead of the entire corporation. To create a more centralized view, SMEs should construct an appropriate “to be” organizational chart with current positions, proposed positions and the timing, and criteria used to install the new roles [11, p.1].

- Limited training and skill development - SMEs often don't have personnel who have knowledge of sophisticated supply chain strategy and operations. Most of them recruit people with strong operational distribution and logistics skills rather than those with a broader supply chain perspective and experience.
- Lack of significant capital for investment - As the SME sector emerges to be the nation's economic growth engine, raising finance to power that growth remains an impediment for sustained expansion. SME companies typically don't have the same breadth or depth of corporate finance options as large companies do. This can limit their comparative ability to fund large investments. Government should take various measures to improve the delivery of credit to SMEs..
- Increased technology demands - Most of the supply chain software packages, historically, have been developed for large enterprise clients — both in terms of functionality and pricing. Therefore, from a cost-conscious SME's point of view, purchasing an SCM software only relevant to its specific requirements makes sense. SMEs can in deed benefit from some of the generic SCM capabilities —such as order processing, inventory reconciliation, warehouse management, and transportation management. Therefore, instead of going in for a monolithic SCM implementation, SMEs should look at a more customized approach. SMEs can make a good start in this regard by looking at the amount of manual processing currently required to complete the tasks in each area. Plus, they should adopt a 'follow-the-leader' approach while selecting appropriate technology for their needs. This makes more sense for SMEs as they can not afford to take chances on huge capital investments in new technologies or applications unlike the big firms. This can help SMEs to let any glitches in the new technology to get worked out. Plus, pricing typically drops over time.
- Lack of economies of scale - Because they often cannot offer large volumes of business to suppliers, SMEs often have to pay higher costs per unit. Moreover, while big suppliers vie for the business of large enterprises, SMEs sometimes have to "sell" themselves to potential suppliers and be "better partners" just to get business. Their smaller volumes don't help either, in terms of simply securing capacity or supply. For example, initial volumes for SMEs foraying into outside manufacturing often aren't large enough to secure competitive pricing or, in some cases, even to get the attention of the large contract manufacturers. Therefore, SME companies have to pay more for initial smaller volumes. One way to do this is to continually speak with current and potential vendors about volume, price, and service needs and to periodically open up bids to additional vendors. This dialogue provides the SME with a market snapshot to compare against current vendors while opening up the possibility for new service and pricing options.

For example, in transportation and procurement, volumes across facilities can begin to be leveraged as growth occurs [11, p.1].

Also, SMEs do not implement SCM as deeply as large firms and because of that receive fewer advantages from the partnership. SMEs do not emphasize strategic focus areas (product development, quality) to engage in SCM. They typically create processes “site by site” with an emphasis on internal local efficiency.

CONCLUSIONS

Supply chains consist of a number of different parties and include the end customer. It is dynamic and involves the constant flow of information, product and funds between different stages. It can also be represented as a network of autonomous production units connected through a communication network for information flows and a logistic network for product flows. Joining a supply chain network as a minor partner, small and medium enterprise (SME) contributes to bridging gaps between different stages.

Small and Medium Enterprises (SMEs) occupy an important position in any country's economy and contribute immensely to the industrial development, exports and forex earnings, creation of employment opportunities etc. They constitute as high as around 90% of enterprises in most countries worldwide. SMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy.

Strategic changes can be enacted faster in SMEs than in large businesses. SMEs just have to use this flexibility to their advantage. Despite all the challenges that face a SME, the opportunities to capitalize on the potential of supply chain management are great. SMEs can make great strides in both cost reduction and operating efficiency by fully leveraging supply chain concepts. This results in a localized approach, with a focus on local efficiencies rather than on cross-enterprise opportunities.

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**FIRM SIZE AND COMPETITIVE INDICATORS: THE
ITALIAN CASE**

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Abstract

The article is based on an econometric analysis, using a cross- section sectorial and dimensional approach, in the period 2003-2008, for Italian firms. The aim is to identify consistent correlations between firm dimension, productive sector and competitiveness indicators (specifically, value-added, turnover, labour cost, investments, productivity, profit share on value-added, % of export value on turnover) in order to determine the competitive advantage of firm dimension . The enquiry “Structure and competitiveness of industrial and services firm system”, of Italian statistical agency (ISTAT) will be used as data base. When significant correlations between firm size and competitiveness indicators will be found, some conclusion will be drawn on the Italian productive model and its competitive advantage, especially in the light of the structural changes the recent economic crisis has brought, especially to Smes.

Keywords: Econometric estimation, competitiveness, firms dimensions, sectors

JEL codes: C31, D22, D24, L2, L5, L6, L7

INTRODUCTION

Italian economy is based on SMEs. The smallest enterprises, below 10 employed persons, represent, in 2008, 94,7% of the total number of firms. SMEs (those that do not have more than 249 employed persons) constitute the 99,9% of the overall productive system.

Micro-firms absorb the 47,2% of total private employment, while SMEs employ 81,4% of private workers. Finally, micro-firms produce 33,3% of total value-added, while SMEs value-added represent the 71,3% of national overall value-added.

The particular relevance of SMEs is an Italian specificity. If we look to the EU average, while the share of SMEs in respect to the total number of firms is

similar to Italy (99,8%), their importance, in terms of employed persons and value-added, is slightly smaller (respectively, 67,1% and 57,6%).

Italian economy can, thus, be viewed as a “small scaled economy”, and, especially in the 60ies and 70ies, this specificity has been studied as an Italian competitive advantage. F. Schumacher’s famous expression “small is beautiful” (1973) has been applied as a slogan for a huge literature that studied Italian SMEs and Italian industrial districts of SMEs. G. Fuà (1983), analysing the industrial systems of central and north-eastern Italy, characterized by a continuum of small and medium-sized plants spread all over the territory, defined this model as “industrialisation without fractures”.

The analysis of the causes of this particular productive model goes beyond this paper. Partly, they are rooted in historical traditions. G. Becattini (1979) underlines the historical traditions in craft manufacturing for the development of industrial clusters in some Italian regions. The decentralisation, de-verticalisation and outsourcing process that took place in the 90ies contributed to the diffusion of SMEs in the main productive sectors. The main point is that traditional literature on enterprise size focused on the competitive advantages of being small (high flexibility in the use of productive factors, low level of immobilisations and therefore low incidence of unitary fixed-costs, scope economies, high level of manufacturing skills arising from the productive specialisation, etc.). Additional competitive advantages, in terms of positive local externalities, should come from the geographical concentration of SMEs in local clusters (the so-called “district economies”), so that authors like M. Porter (1998) speak about the importance of local networks as an efficient response to the competitive challenges posed by globalisation.

In the last ten years, increasing crisis signals of the Italian SMEs system have been focused by industrial economists. The industrial districts have been criticized for their characteristic of auto-referential systems, based on short links and a localistic approach, unable to create links with the external world (Brusco, 2008), and therefore unable to incorporate technological innovation, for a lack of “contextualisation” capacity (Bellandi, 1998). The competitive gap between SMEs belonging to industrial districts and SMES not belonging to clusters is progressively reducing (figure 1). According to Iuzzolino (2009) while industrial districts keep an advantage in final market shares, they are losing their capacity to control production costs through the creation of distinctive manufacturing skills, specialisation and reduction of transaction costs.

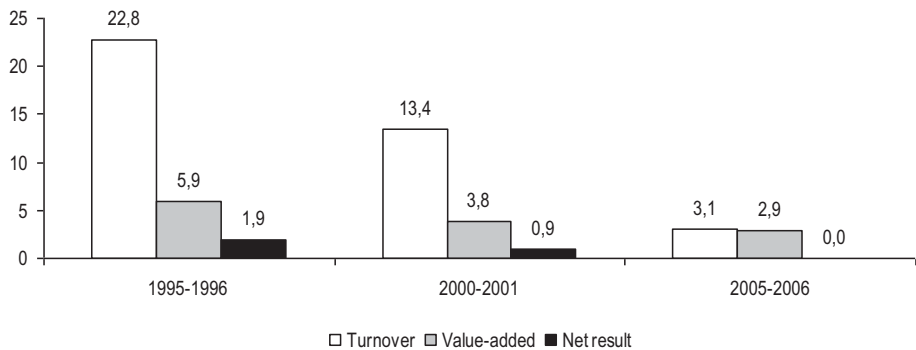
For SMEs as a whole, OBI-SRM report (2010) demonstrates that the smallest firms are particularly affected by the recent global recession, stressing the peculiar fragility of small firms in respect to the macroeconomic cycle. This fragility is due to the under-capitalisation, the difficulties in accessing bank credit, especially for short-term credit, the particular weakness in cash-flow cycles, the difficulty to invest in technological innovation and quality, that

prevents smaller enterprises from adopting a competitive model based on value-added and not merely on production costs control.

On the other hand, Unioncamere-Tagliacarne (2007) discriminates, in the overall group of SMEs, a particular segment, composed by medium-sized firms, coming from a growth process (originally most of them were, at the beginning, small firms, often family-based craft enterprises), generally characterised by dynamic internationalisation and innovation indicators. This class of dynamic medium-sized firms (belonging to the class between 50 and 250 employees), called “medium-class”, seems to be able to overpass successfully also the negative macroeconomic context of the actual recession, constantly exploiting market niches not touched by the general reduction of consumption expenses.

The aim of this paper is to analyse, through an empirical approach, the economic patterns, and some of the underlying structural causes, of Italian industrial system in the last years (for data availability reasons, the analysis will be conducted on the years 2003-2008) for three different firms sizes: the smallest ones (i.e. having less than 10 persons employed), the medium ones (50-249 employees) and, exclusively for comparative reasons, the biggest ones. The purpose is to analyse the different patterns followed by those differently sized firms, and to draw some conclusions about some of the structural reasons behind those patterns.

Figure 1. % differences in economic results between SMEs belonging and not belonging to industrial districts in Italy over time



Source: Iuzzolino (2008)

THE EMPIRICAL ANALYSIS

The Istat enquiry “Structure and Competitiveness of Firms” gives a clear framework of the main economic trends of Italian enterprises, per sector and per size. Final economic results obtained by firms per size can be summarized

through the trends of valued-added and of the share of value-added going to profits.

From table 1, it's possible to see that the smallest group of firms (below 50 workers) had, over the period 2003-2008, the strongest growth in value-added. But this growth is concentrated mainly in the sub period 2003-2006, because in 2006-2008, when the global recession starts to show its effects, the smallest firms are characterized by the fastest reduction in value-added growth rate. On the other side, the biggest companies maintain, more or less, a relatively similar rate of growth of their value-added in the two sub periods considered. Medium enterprises show an intermediate pattern, much more similar to small ones.

In terms of profit share, firms with less than 50 employees seem to suffer the recession's effect in a more dramatic way: although in the period 2003-2006, more favourable in terms of general macroeconomic framework, small firms have quickly increased their profit share, after 2006 the reduction of this indicator is particularly strong, especially for firms with less than 20 employees. The companies with more than 49 workers show a moderate reduction of their profit shares. This moderate reduction in profit ratio is compensated by the growth of value-added that firms with more than 49 workers show in the same period.

From this brief analysis of final economic results of firms, it is therefore clear that, enterprises with no more than 49 employees, show a particular correlation of their economic results to the macroeconomic cycle: when the latter began to sink into a huge depression in 2007-2008, the small firms performances, in terms of value-added and profit shares, were particularly negative. Companies with more than 249 employees showed, on the other hand, a relative stability of their economic trends, while medium firms had an intermediate behaviour: they performed better than big companies in terms of value-added trends, but worse in terms of profit shares. It can be the result of a strategy aimed at defending market shares through the compression of product's final price, and thus of unitary profit margins.

Table 1. %change in value-added and profit shares of Italian firms in industrial and services sector per size-classes

	Value-added per firm			Gross profits over value-added		
	2006/2003	2008/2006	Total	2006/2003	2008/2006	Total
0-9	16,4	1,5	17,9	16,4	-23,9	-7,5
10-19	17,5	-3,2	14,3	11,6	-24,7	-13,2
20-49	16,7	-4,2	12,5	7,2	-20,8	-13,6
50-249	10,2	1,2	11,4	0,9	-11,2	-10,2
250 and more	6,4	3,7	10,2	-1,3	-1,9	-3,2

Source: ISTAT

What are the main structural reasons behind those different final economic results in different size classes? Some answers can be found using an econometric cross-section model, in which the value-added trend in 2003-2008, used as a measure of final economic performances of firms, is correlated to some structural competitive factors.

Generally speaking, the model, for our purposes, can be described with the following equation:

$$Y_{it} = c + \sum_{n=1}^k \beta_n \Pi_{nit} + u_{it}$$

Where Π is a vector of k exogenous variables, β is a vector of k estimated coefficients, n is the number of observations, t is the time, i is the number of panel data for each period of time. Y is the endogenous variable, c the constant coefficient and u the estimation residual.

In our case:

1. VA is the value-added, and is used as endogenous variable, measuring the final economic results of firms in the 2003-2008 period;
2. CL is the labour cost per employee. It is the first explanatory variable, used for measuring the impact on value-added of production-cost competitive models. Especially in traditional sectors, competitive advantage largely depends on the final price advantage over competitors. Price advantage relies on the capacity of maintaining productive costs (first of all, labour costs) low. Indeed, the labour costs advantage has been the main driver of BRIC economies quick expansion in the 80ies and 90ies, while in most recent years those economies seem to be gradually shifting to a competitive model based on innovation and quality investments;
3. INV is the investment per employee, and it reflects the potential of investment function to increase the economic results of the firm, through a better adaptation of its productive, commercial, financial or organizational features to the requirements of competition;
4. PR is the labour productivity (value added per employee). It's an indirect measure of the influence of process and organizational innovation on final value-added levels. Labour productivity is also the complementary measure of labour cost. When unitary labour productivity is higher than unitary labour cost, the use of this productive factor creates net additional value for firms, and it is possible to increase the labour intensity of productive cycles, thus reducing unemployment rates;
5. EXP is the share of turnover coming from exports (or from foreign construction activities for the construction sector). It measures the capacity of firms to increase their economic results through a diversification in non-local markets. This is particularly important for smaller firms, often exploiting only local markets, and renouncing to the commercial opportunities that globalisation brings.

The analysis has been conducted for manufacturing and construction firms, through the 2003-2008 period (thus, $i=2$, $t=6$, $n=6 \times 2=12$) and separately for the following size classes:

19. 0-19 employees;
20. 50-249 employees;
21. 250 employees and more.

The choice of those size classes is aimed at comparing the importance of the previously reminded structural competitive factors in micro-firms (which, as reminded, suffered more from the recession), medium firms (the heart of the previously cited “medium class” that is showing positive economic results also in this difficult macroeconomic phase), and large firms (that, as previously illustrated, managed to maintain relatively stable economic trends also at the beginning of the global crisis).

Data are taken from the ISTAT enquiry “Structure and competitiveness of the firms”, while the value of foreign activity for the construction sector has been estimated from ANCE (2010).

The results of the estimation for those three size-classes are reported below.

Table 2. Estimation results for the smallest class (0-19 employees)

Dependent Variable: VA1?

Method: Pooled Least Squares

Date: 03/09/11 Time: 15:34

Sample: 2003 2008

Included observations: 6

Cross-sections included: 2

Total pool (balanced) observations: 12

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INV1?	471.7137	622.3109	0.758003	0.4702
PR1?	1785.321	232.0361	7.694154	0.0001
CL1?	-835.2545	297.6546	-2.806119	0.0230
EXP1?	-10.62777	100.1489	-0.106120	0.9181
R-squared	0.960087	Mean dependent var		32522.25
Adjusted R-squared	0.945120	S.D. dependent var		5687.960
S.E. of regression	1332.492	Akaike info criterion		17.48869
Sum squared resid	14204277	Schwarz criterion		17.65033
Log likelihood	-100.9321	F-statistic		64.14547
		Prob(F-statistic)		0.000006

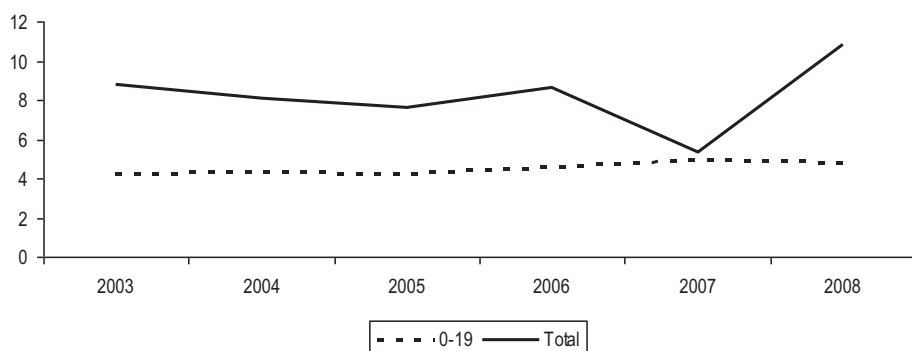
As we can see from the estimation results, the equation is complexively significant (the value of the adjusted R^2 is very close to 1). But, if we take a look to the values of the Student tests of each single explicative variable, we can see that the only variable which is relevant for explaining the small firms economic results is the ratio between labour cost and productivity.

The share of turnover coming from exports is not significant, reflecting the modest internationalisation of micro-firms: for financial reasons, those firms often cannot sustain the investments connected to an international commercial strategy. For cultural reasons, the management of those firms is often unable to imagine “how” they should act in order to diversify their local-based commercial strategies. Those cultural and financial gaps are obviously also the consequence of the failure of the public policies aimed at sustaining the internationalisation of Italian productive system. The tools available for a better knowledge of foreign markets are often used by medium or big companies, while promotional events, for small firms, are open only in certain sectors of particular specialisation/quality (agro-food sector, specialised machinery, textile, etc.).

In a more general way, the internationalisation policies are designed to support firms already willing to internationalise, while very few actions are conducted for stimulating internationalisation in the non-internationalised parts of productive system .

Also the investments are not significant. This result reflects the specific difficulty of small, undercapitalised firms to gain access to bank credit, in order to finance investments programs. Mostly, financial institutions tend to assess credit risk on the basis of the level of patrimonial real guarantees that the firm requesting credit can offer. This behaviour has been strengthened by the Basel II accords. Those accords have, indeed, stressed the importance of mathematical and statistical models for the evaluation of credit risk, partly replacing the commercial relationship based on personal knowledge of the entrepreneur’s liability by the banks, i.e. the social capital that was built, in some area of the country, through a stratification of networks of personal relations (which is the biggest competitive advantage of productive clusters). As a result, the investment trends of small manufacturing firms are systematically lower than the average, although in 2007, probably as a consequence of the general investment depression caused by the crisis, the gap shortens (figure 2).

Figure 2. Trend of investments/employee ratio in manufacturing industry (0-19 employees class and total industry)



Source: ISTAT

On the other hand, the ratio between labour productivity and costs is very significant in determining final economic results of small firms. This fact illustrates a competitive model that, for smallest enterprises, is largely based on productive factors costs control, rather than on product innovation and quality investments. Actually, small firms are often concentrated on traditional, low-tech productive sectors, where competitiveness is based on price (and therefore cost) advantage. While we can observe micro-firms active in sophisticated and “premium price” market niches, the majority of them produces medium/low quality low-tech products, that can be sold only if the price is competitive.

This can be seen by comparing the distribution of small and big firms with Pavitt sectorial framework. Pavitt (1984) divides industrial activities in the following four categories:

6. traditional activities, whose competitive advantage is based mainly on production costs and price control;
7. niche activities, whose competitive advantage is based on product quality and appropriate marketing aimed at acquiring market niches willing to pay a “premium price”;
8. scale-intensive activities, whose competitive advantage is the ability to reach high levels of scale economies, in order to reduce the unitary incidence of fixed costs on final price;
9. high-tech activities, whose competitive advantage is to be always on the most advanced frontier of sectorial product technological innovation.

Table 3 shows that micro-firms are mainly concentrated on traditional sectors, where production costs control is essential (and therefore firms must maximise the ratio between productivity and costs of productive factors) while big industrial companies operate mainly in the high tech and scale intensive sectors.

Table 3. % distribution of manufacturing firms per size class and Pavitt sector, 2008

	0-19	250 and over
Traditional	58,8	29,9
Niche productions	26,5	10,8
Scale intensive	5,1	18,8
High tech	9,6	40,5

Source: estimations from ISTAT (2010) data

Table 4. Estimation results for the medium class (49-250 employees)

Dependent Variable: VA4?

Method: Pooled Least Squares

Date: 03/10/11 Time: 10:18

Sample: 2003 2008

Included observations: 6

Cross-sections included: 2

Total pool (balanced) observations: 12

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10111.80	6230.175	-1.623036	0.1432
PR4?	734.5766	305.4840	2.404632	0.0429
CL4?	-610.8694	435.4711	-1.402778	0.1983
EXP4?	1489.662	74.95305	19.87460	0.0000
R-squared	0.998115	Mean dependent var		31938.42
Adjusted R-squared	0.997408	S.D. dependent var		26999.17
S.E. of regression	1374.634	Akaike info criterion		17.55096
Sum squared resid	15116956	Schwarz criterion		17.71260
Log likelihood	-101.3058	F-statistic		1411.817
Durbin-Watson stat	1.891899	Prob(F-statistic)		0.000000

Also the equation referred to the medium sized firms is significant (the adjusted R^2 value is very close to 1) and the value of the Durbin-Watson test, significantly close to the critical value of 2, shows a substantial absence of autocorrelation in the residuals⁸⁴.

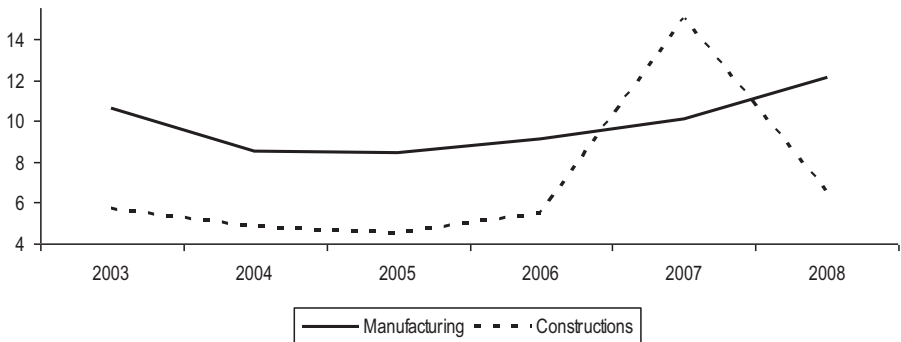
⁸⁴ Durbin-Watson test is significant only if in the equation a constant term is included.

Taking a look to the explicative variables, we see that, in similarity with the case of the small firms, also for the medium-sized ones the investments variable is insignificant and has been eliminated from the estimated equation. Although investments are more intense in the medium-sized firms (in 2008, the investments per employees in manufacturing industry are equal to 12.100 € for the medium-sized firms, and to 4.800 € for the smallest ones) this investment intensity is still statistically uncorrelated to firm's value-added.

The explanation is partly different from the case of small firms. As we can see in image 3, the value of investments per employee showed a moderate growth in the period considered and, even at the beginning of the recession, it was increased both in the manufacturing and construction medium-sized firms. In 2008, this indicator reached higher levels in respect to the pre-crisis period (in manufacturing medium firms, in 2008 the ratio reached 12.100 € per employee, while it was equal to 9.100 €/employee in 2006; in construction medium firms, the values were, respectively, 6.500 €/employee and 5.500 €/employee).

Thus, it is clear why, from a statistical point of view, investments/employee and value added are uncorrelated: the former indicator, in 2007-2008, tends to grow, while the latter diminishes. From an economic point of view, on the other hand, it is clear that medium-sized firms are reacting to the recession through a more intense use of capital assets in respect to labour factor. Medium firms are increasing their capitalisation levels, through an easier access to credit than small firms, and a higher self-financing capacity. The results in terms of value-added and profits will be seen only in the medium term, but it is clear that, compared to small enterprises, medium-sized firms are showing a better capacity to dynamically react to the macroeconomic negative cycle.

Figure 3. Trend of investments/employee ratio in medium-sized manufacturing and construction firms



Source: ISTAT

The main difference with smaller firms is that the contribution of turnover generated in foreign markets is essential to explain the final economic results of medium firms. Also medium sized enterprises of the construction sector are more and more internationalised. According to ANCE, from 2004 to 2009, the foreign production value grew more quickly for the construction firms with an annual turnover not exceeding 50 millions € (+58%) than for the total of the construction sector (+13,8%).

This result confirms other studies made on Italian medium-scale firms. Indeed, it seems that medium firms have the ideal dimension allowing them to exploit at the same time the advantages of being small (flexibility, productive specialisation, deep involvement in territorial networks) and the advantages of being big (a certain level of scale and scope economies can be reached also by medium firms, as well as a certain capacity to invest in innovation,, internationalisation and quality).

Naturally, the labour productivity in respect to its cost continues to be an important competitive variable, also for medium firms.

Table 5. Estimation results for the big companies (more than 250 employees)

Dependent Variable: VA5?

Method: Pooled Least Squares

Date: 03/10/11 Time: 12:03

Sample: 2003 2008

Included observations: 6

Cross-sections included: 2

Total pool (balanced) observations: 12

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14451.12	8758.426	1.649967	0.1333
CL5?	-629.8149	184.8527	-3.407117	0.0078
EXP5?	2886.996	48.76453	59.20279	0.0000
R-squared	0.997608	Mean dependent var		45866.08
Adjusted R-squared	0.997076	S.D. dependent var		44464.76
S.E. of regression	2404.346	Akaike info criterion		18.62026
Sum squared resid	52027901	Schwarz criterion		18.74149
Log likelihood	-108.7216	F-statistic		1876.552
Durbin-Watson stat	2.300566	Prob(F-statistic)		0.000000

In this case, the significance of the equation referred to the big companies is

absorbed mainly by the relevance of the export activity, and by the level of labour cost.

As for medium firms, the investment per employee follows a growing trend after 2006, while value added growth pace decelerates. So, even in the case of big firms, the reaction to the crisis is a higher level of capital/labour ratio, motivated also by the importance of labour cost in determining firms economic results⁸⁵. The result of this additional capitalisation will be measured in the medium term, but, as for the medium sized enterprises, it is a signal of dynamism.

Also labour productivity is not significantly correlated to value-added levels, and it is a difference from small and medium firms. Mainly, the reason is that, while at an aggregated level, labour productivity is actually a problem for Italian productive system⁸⁶, it is not a big problem for the companies with more than 250 employees. The labour productivity of big manufacturing firms is, in 2008, 1,3 times higher than the value registered for medium enterprises, and 2,8 times higher than labour productivity of the smallest ones. Naturally, it is important to keep in mind that big companies represent only the 18,6% of the overall employment in industry and services, and the 28,7% of the value added.

On the other hand, labour cost is a specific problem of big firms. In manufacturing sector, the labour cost per hour of big firms is 1,2 times higher than the value of medium firms, and 2 times higher than the cost per hour of small firms. This is mainly due to the particular importance of qualified labour and mid and high management in the organisational structure of big enterprises. Smaller firms, having a less structured organization chart, do not require the same share of qualified, and relatively well-paid, organisational and directive staff.

CONCLUSIONS

The differences in final economic results of Italian firms per size classes show that smaller firms are particularly dependent on the macroeconomic cycle, thus suffered in a more dramatic way the consequences of the global recession.

An empirical analysis on some of the structural competitive factors that can be considered as drivers of the economic performances (measured through the value-added trends) show that smaller firms (below 20 workers), concentrated mainly in Pavitt traditional sectors, are particularly dependent on a competitive model based on the minimisation of productive factors costs (especially labour costs) in respect to their productivity. This kind of competitive model is likely to produce poor results in global markets, where BRIC economies can rely on a cost-advantage competitiveness largely superior to Italian competitors, thus

⁸⁵ As a matter of fact, in Italy, occupation in big companies of industrial and services sector lost 2,7 points from 2005 to 2010.

⁸⁶ According to the estimations of Confindustria, with an average labour productivity of 0,4 € of real GDP per employee in the period 1997-2007, Italy is in the last position, together with Spain, in the ranking of EU-15 countries, whose average is 1,3 € of real GDP per employee.

isolating a large number of small firms in the exploitation of the local markets, in which local small firms have already a transportation-cost advantage (and in many situations, especially for firms operating inside industrial clusters, the possibility to exploit the positive externalities coming from local networks).

The difficulty to fully integrate the opportunities brought by globalisation puts small firms in a sort of “passive globalisation” situation, in which they must face growing external competition in their traditional local markets. Those local markets, at the same time, are progressively restricted by poorer consumption expenses, due to the global crisis. Furthermore, small and often undercapitalised firms face particular problems in finding financial sources for investments, both on credit and on equity side, that could help them to change their competitive structural factors, and break through this inadequate competitive model based on production costs control.

The difficulty to diversify their market destinations, the reduction of their spaces in traditional local markets, the financial fragility are at the heart of the peculiar correlation between small firms economic results and macroeconomic cycle. Medium-sized firms show, in the contrary, a level of commercial internationalisation that is similar to the exports performances of big companies. Being “not too small and not too big” allows medium-sized firms to exploit competitive advantages typical of small productive units (flexibility, specialisation, networking capacity with local context) and, at the same time, of the big firms (the possibility of reaching a certain level of economies of scale and scope, the ability to invest, and increase their levels of capitalisation and realise strategies of innovation and total quality management). This class of enterprises shows, coherently with its growing importance in literature, a good level of dynamism also in the negative macroeconomic phases. Naturally, also for medium-sized production units, the ratio between labour costs and productivity is still an important competitive parameter.

Finally, big enterprises rely mostly on their export capacity, acting through a fully globalised philosophy. The possibility to implement organisational and productive process innovations that cannot cope with smaller productive scales, allows big firms to escape from the peculiar productivity gap that afflicts, at an aggregate level, Italian economy. On the other hand, the growing organisational and managerial complexity is reflected by a particularly high level of unitary labour cost. Big companies seem to react to this problem through a process of gradual substitution of labour with capital, and/or the persistence of the externalisation process, even though in different forms from those seen in the Nineties (some strategic functions, although not correlated to the firm’s “core competences”- logistics, marketing, etc. -tend to be re-internalised in the last years, while the externalisation, also through delocalisation choices, affects gradually specific parts of the main productive process, starting from the labour intensive phases).

The analysis of the size-specific structural competitive factors, should be the base for a more selective industrial policy, focused on specific factors for

specific size classes. For instance, measures aimed at facilitating credit supply (like public guarantee funds) should be addressed to small firms, while attention should be focused on a better correlation between labour cost and firm's economic results (stimulating, for example, the participation of workers to big companies capital) in the case of big enterprises.

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**INTERNATIONAL SCIENTIFIC CONFERENCE
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**THE THEORETICAL ASPECT OF THE INFLUENCE OF
ENTREPRENEURSHIP ON ECONOMIC GROWTH**

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Abstract

In economic literature concept of economic growth is known as a relevant economic policy goal, as its improvement increases the social welfare of the country. So, it is interesting to determine factors that enhance economic growth to design a strategy that would maintain the process, allowing the social benefits to be enjoyed by economic agents as long as possible. On the other hand, recently, “entrepreneurship” concept has been also considered a relevant factor for this type of analysis. Entrepreneurship shows the capacity and ability to create new business and production activity. It is an activity, not an occupation. Some authors like Schumpeter have analysed its effects on economic growth.

This paper consists of an introductory survey of fundamental questions regarding the link between entrepreneurship and economic growth. Most of them deal with the endogenous relationship between entrepreneurship and growth. In particular, while more

entrepreneurship could mean more economic growth, economic growth in turn could affect the individual arbitrage between different professional occupations (including entrepreneurship) and expected payoffs.

Keywords: entrepreneurship, economic growth, economic development, policy

JEL codes: O12, J23

1. INTRODUCTION

By Chaira's (2008) opinion the role of entrepreneurship inside the economic literature is considered to be particularly relevant across different field of economic analysis. As a matter of fact, the phenomenon has been analyzed under the lenses of the economic development, of the economic growth and even inside the literature of economics of innovation. It reflects that the role of entrepreneurship is multidimensional and that it potentially affects not only developed countries but also transition and developing countries [Chaira, 2008].

Schumpeter's (1911) idea is that entrepreneurship and economic growth are very closely and positively linked together. An increase in the number of entrepreneurs leads to an increase in economic growth. This effect is a result of the concrete expression of their skills, and more precisely, their propensity to innovate. Schumpeter has already described this innovative activity, "the carrying out of new combinations", by distinguishing five cases: "

(1) The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of a good.

(2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.

(3) The opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.

(4) The conquest of a new source of supply of raw materials or half manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.

(5) The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position" (Schumpeter, 1963 (1911), p. 66).

Dejardin (2000) states that through his innovative activity, the Schumpeterian entrepreneur seeks to create new profit opportunities. These opportunities can result from productivity increases, in which case, their relationship to economic growth appears quite clearly. Moreover, the disequilibrium created by the entrepreneur can be propitious for additional innovations and profit opportunities. Therefore, more entrepreneurs means more growth, which in turn leads to more entrepreneurs...[Dejardin, 2000]

2. CLASSIFYING THE THEORIES OF ENTREPRENEURSHIP AND ECONOMIC GROWTH

Classification offered by Wennekers and Thurik (1999) serves a useful tool to identify connections between entrepreneurship and theories of economic growth. They attribute economic growth through entrepreneurship to three main processes or entrepreneurial activities, enhanced competition, innovations, and employment growth through firm start-ups. It should be noted that these processes or activities might be overlapping and not mutually exclusive. From this perspective, the foci of explanation of the different schools of thought are mapped. This is presented in Table 1.

Table 1. Assessment of the role of entrepreneurship, drawn from several fields

<i>Field of literature</i>	<i>Specific domain</i>	<i>Competition</i>	<i>Innovation</i>	<i>Firma start-ups</i>	<i>Importance of entrepreneurship for economic growth</i>
Historical views	Schumpeter/Baumol	++	+++	+	++
	Neo-classicals	++	+	0	+
	Austrians	++	+	0	++
Endogenous growth theory		+	+++	0	+
Economic history		++	+++	+	+++
Management literature		+	+++	++	++
Industrial economics		+++	+++	++	+++
Evolutionary economics		+++	+++	+++	+++
0	Not present in the writings				
+	Implicitly present in the writings				
++	Explicitly present in the writings				
+++	Pivotal element in the writings				

Source: Wennekers and Thurik 1999, p. 50

While the assessment offered by Wennekers and Thurik can be questioned (or at least discussed) on some accounts, this systematization is used throughout the paper, as it appears to be a useful tool in identifying links between entrepreneurship and economic growth. In addition to the various schools of growth theory presented in the table, the model and theory of recombinant growth could be included. This model was initially proposed by Weitzman (1998) and further developed by Olsson and Frey (2002). The focus of the model concerns innovation. Management literature perspectives on entrepreneurship are, however, omitted in this study.

3. DEFINITIONS OF ENTREPRENEURSHIP

In general, the theoretical definitions are wide, covering a number of entrepreneurial activities, whereas the operationalized definitions cover a singular aspect. Glancey and McQuaid (2000) mention five definitions of entrepreneurship, while Wennekers and Thurik (1999) mention thirteen.

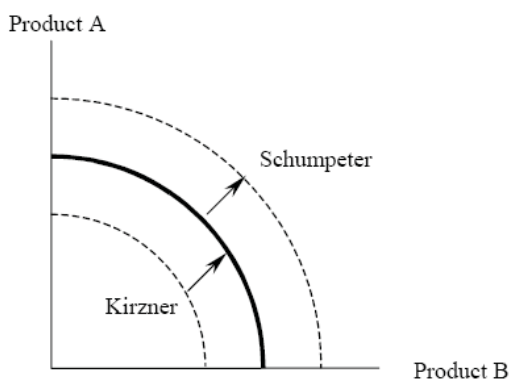
For example, entrepreneurship could imply an economic function, as a bearer of uncertainty, a resource allocator, or an innovator. It could also refer to particular behavior, intrinsic characteristics, the creation of new organizations, or the role of an owner-manager of a company. Baumol (1993), and subsequently Dejardin (2000), stress that entrepreneurial activities can also range from being productive to society at large to searching for surplus profits with negative consequences, all depending on the structure of incentives and possibilities. In this paper, there is a focus on the economic aspects of entrepreneurship, the entrepreneur in economic theory as well as on recent empirical evidence of the economic impact of entrepreneurship on economic growth.

The economic definition of entrepreneurship can be viewed from a theoretical and an operational context. Among the early theoretical definitions, Cantillon (1755) claims that “*Undertakers*” are a class of economic agents, making decisions on market transactions in the face of uncertainty. Knight (1921) defines entrepreneurship as dealing with uncertainty, making a distinction between risk, which can be calculated, and uncertainty, which cannot. Schumpeter (1934) describes the entrepreneur as the bearer of the mechanism for change and economic development, and entrepreneurship as the undertaking of new ideas and new combinations, i.e. innovations. He makes the distinction between five different manifestations of entrepreneurship (Schumpeter, 1934, p. 66), a new good, a new method of production, a new market, a new source of supply of intermediate goods, and a new organization. The role of the entrepreneur in a competitive market process is stressed by Kirzner (1973, p. 16-17):

“The ‘pure’ entrepreneur observes the opportunity to sell something at a higher price than that at which he can buy it. It follows that anyone is a potential entrepreneur, since the purely entrepreneurial role presupposes no special good fortune in the form of valuable assets. [...] The entrepreneur’s activity is essentially competitive. And thus competition is inherent in the nature of the entrepreneurial market process. Or, to put it the other way around, entrepreneurship is inherent in the competitive market process.”

This definition is very wide and would imply that every agent on the market, every firm, making a profitable business is an entrepreneur. Yu (1997) argues that Schumpeter’s entrepreneur, the creative destructor, prevents the economy from reaching a stationary equilibrium, while Kirzner’s entrepreneur is the one bringing the economy into equilibrium by spotting and profiting from disequilibria. Landström (1999) illustrates the difference between the Schumpeterian and the Kirzner entrepreneur on a production possibility curve, as shown in Figure 1.

Figure 1. A production possibility curve illustrating the difference between Schumpeter and Kirzner’s view on the function of the entrepreneur.



Source: Landström, 1999, p. 49

Holcombe (1998) claims that the actions of the Kirznerian and Schumpeterian entrepreneurs are no different. Both take advantage of unexploited profit opportunities and the actions undertaken by any of them will alter the future market environment. One way of identifying unexploited profit opportunities is suggested by Runge (2000, p. 38):

“Entrepreneurship involves inter alia exploitation of differences between market-determined values and private value. Successful entrepreneurship

involves demonstrating to someone else (the 'market') that the value attached to some private capital exceeds the value that has hitherto been appreciated."

A further implication of the Kirzner entrepreneur is that, without the presence of a Schumpeter creative destroyer, the role of the entrepreneur as an engine of economic growth would cease as the economy reaches equilibrium.

In what appears as a synthesis of the previous suggested definitions, Wennemers and Thurik (1999, pp. 46-47) suggest the definition:

"Entrepreneurship is the manifest ability and willingness of individuals, on their own, in teams, within and outside existing organizations, to: perceive and create new economic opportunities (new products, new production methods, new organizational schemes and new product-market combinations) and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions."

This definition might include many of the aspects of entrepreneurship but it is not operationally applicable. Most of the aspects are hard to identify and isolate, leading to various functional definitions describing individual aspects of the concept. Quantitative studies of entrepreneurship often focus on business start-ups or innovation in small enterprises.

There are numerous, at times even contradictory, definitions of entrepreneurship. Broadly, these definitions can be divided into two subcategories; those that are generally more encompassing theoretically and the more narrow operational ones. Thus, one conclusion is that it might be more fruitful to talk about entrepreneurial activities, at least from an operational point of view. The operational definitions, such as start-ups or innovative activities, each cover a limited range of entrepreneurial activities but might yield a more profound coverage in combination [Karlsson, Friis & Paulsson, 2004, p. 4].

4. ENTREPRENEURSHIP AND ECONOMIC GROWTH

From entrepreneurship point of view, in general terms their activity has positive effect on economic growth because it is necessary the existence of a group of persons that must be interested to assume risk, using their funds to generate new firms and business. This is the best way to achieve a sustainable economic growth [Galindo-Martin & Mendez Picazo, 2009, p. 12].

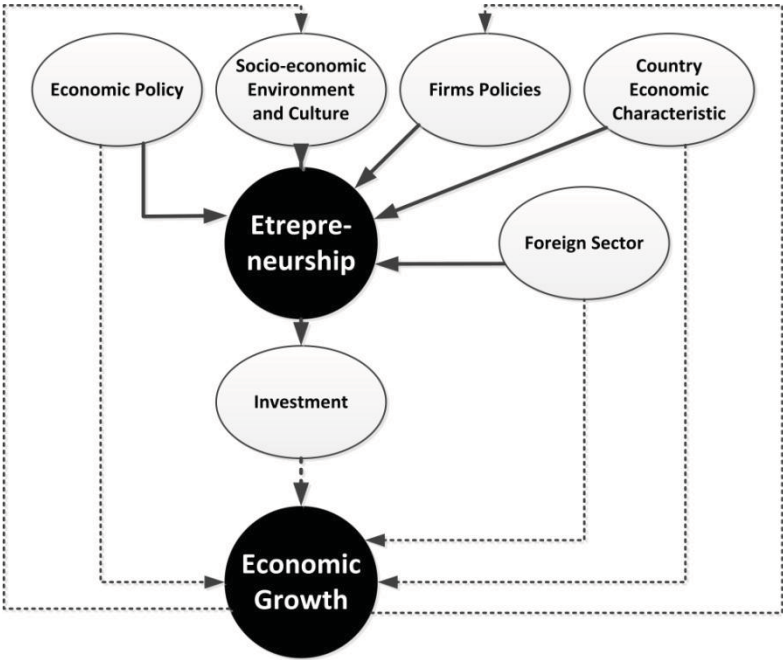
However, it is also necessary to take into account the indirect effect showed by Holcombe (1998). From his point of view, the behavior of a certain entrepreneurship not only enhances to other entrepreneurs to follow his/her

example but also creates new opportunities that can take into advantage by third persons. [Holcombe, 1998, p. 45-62]

Obviously, it is necessary an adequate environment or climate to facilitate the activity and favors the achievement of the process described in Figure - 1. In this sense, “rule of law”, the private property protection, level of liberty, trade agreements, among others, are necessary requisites to create such environment [Harper, 1998, p. 241-275; North, 1994, p: 359-368, Olson, 1996, p. 3-24].

Galindo Martin & Mendez Picazo (2009) states that it must also take into account the existence of a possible feed-back effect in the relationship between entrepreneurship and economic growth, as it is shown in Figure - 2. As it is observed in the figure, socio-economic circumstances, culture and country evolution have influence on entrepreneurship activity.

Figure 2: Relationship between entrepreneurship and economic growth



Source: Authors adapted (from the views of Galindo - Martin & Mendez – Picazo, p.12)

1. Favorable entrepreneur environment, that from a historical perspectives, has sometimes not existed. Some literature, economic and non-economic, has showed entrepreneur as an individual that is only profit seeking, acting in his own self-interest. He/she only tried to achieve his/her personal profit not being

interested about the consequences of his/her activity on the rest of economic agents. In such adverse environment it is quite difficult to incentive the entrepreneur activity. As Solomon (2002) states, entrepreneurs need use their ingenious to develop their task and doesn't mean that they lie or try to take into advantage of other people.

2. *The environment of the own entrepreneurship.* His/her training, education,..., favor or not the entrepreneurship activity. A higher education doesn't not necessary incentive this activity. In some countries, universities students prefer a remunerated job instead of create a new business, because they avoid risk and consider that their wage is guaranteed.

3. *Culture.* It facilitates not only the assimilation and introduction of technological advances but also confronts to modifications in the economic environment in a more effective way. However, culture could also have a negative effect form the workers point of view. An education improvement could increase wages and, as it has previously been stated, to discourage the entrepreneur activity, preferring to be wage-earnings instead of entrepreneurs.

4. *Expectations on economic activity.* Positive expectations on economic results and economic growth could enhance individuals to create their own business. In that situation new market opportunities appear being a good opportunity to obtain relevant profits. So, the introduction of a new technology as well as the demographic and institutional behavior creates new opportunities on the demand side that the entrepreneurs could take into advantage. The final result will depend on the individual capabilities.

On the other hand, by fostering economic growth, entrepreneurship affects the whole economy. Particularly hard to ignore are its effects on labor markets. More growth might, on one hand, signify an increase in profit opportunities for potential entrepreneurs. On the other hand, it could lead to inflationary pressures on wages. It must be noted that raises in wage cannot necessarily be derived as the result of disequilibrium on the labor markets. In fact, raises in wage may indeed be the consequence of the application of profit-sharing schemes within the firms.

5. - *Foreign Sector.* External sector would have a positive and negative effect on entrepreneurship. From positive perspective, free trade implies the free circulation of persons and goods, increasing the business volume and facilitating the hiring of the most qualified workers. But on the opposite way, new and competitiveness firms are introduced in the domestic economy, increasing the competitiveness and doing more complicate the small firms activity. The technology is introduced by foreign industries and the more restrictive monetary

policy trying to reduce inflation, will reduce the possibilities for new entrepreneurships [Galindo, 2005] .

6. - *Firms concentration.* Some entrepreneurship activity, thanks to the innovation process developed by some foreign industries, would be able generate undesirable firms concentration. For this reason, sometimes a more active fiscal policy to help small firms is defended. However, together the positive effects of such instrument, it is also necessary to take into account the negative one derived from its financing and its “crowding-out” effect.

All at all, there several channels through the relationship between entrepreneurship and economic growth could be studied. Some of them show positive relations, but there are also indirect negative effects that must be considered. And in this filed, institutions play a relevant role, because they give the resources, mainly monetary, that they need to develop the activity, they create the adequate social environment and create the rules that defend the property rights.

However this is not the end of the story. There is a feed back effect that must be also considered, that is, economic growth process would have effect on entrepreneurship. In effect, economic growth process supposes culture and social changes that modify the entrepreneurship perspectives and his/her view on future. A more prosperous society increases the propensity to consume, facilitating the appearance of new market opportunities. New technology gives the opportunity to satisfy new and higher necessities create by the consumption society. The innovation process facilitates the creation of new products that make obsoletes the existing ones.

The individual knowledge and human capital are also relevant to develop entrepreneurship activity. Marketing is the most use system to present new products and convince individuals to buy them. But, as it has been showed before, it is necessary a certain economic growth and progress to encourage individuals to buy the new goods and services. There is a circle: entrepreneurship, technology, competitiveness, economic growth, consumption, appearance of the entrepreneurships [Galindo, 2005]

5. CONCLUSIONS

The role of entrepreneurship in fostering economic growth has not bee clearly detected up to now, but only mixed results have been found. This is due to the fact the underlying dimensions of entrepreneurship have not been singled out.

How is entrepreneurship good for economic growth? This question would seem to have a simple answer: Entrepreneurs create new businesses, and new businesses in turn create jobs, intensify competition, and may even increase productivity through technological change. High measured levels of entrepreneurship will thus translate directly into high levels of economic growth. However, the reality is more complicated. If, by entrepreneurship, one allows inclusion of any type of informal self-employment, then high levels of entrepreneurship may actually mean either that there are substantial bureaucratic barriers to formally creating a new business, or simply that the economy is creating too few conventional wage-earning job opportunities. Under these circumstances, we might reasonably hypothesize that high levels of entrepreneurship would correlate with slow economic growth and lagging development.

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**INTERNATIONAL SCIENTIFIC CONFERENCE
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International University of Novi Pazar, UDC 334.713(1-773)

**MEASURES FOR INCITEMENT OF SMALL AND MEDIUM
ENTREPRENEURSHIP IN UNDERDEVELOPED AREAS**

Ivan Pavlović⁸⁷, Edina Hamidović⁸⁸, Mehdića Ćosović⁸⁹

Abstract:

For many decades the delay in the volume of investment has left Serbia as adverse effects on economic structure and achieved territorial division of labor that can be considered as a serious long-term development of the country. This is mainly resulted in the selection of investment decisions were not based on economic but on political and parcijlanim interesima. Takav long way of development throughout the Republic led to the uneven development and under-developed areas, which are not considered as part of overall socio-economic development. Constantly avoided the fact that these areas have their own regional and development dimension, whose resources remain untapped. In a new development policy are also important measures that are reduced to small and medium size businesses. In this context, the primary objective of investment policy is making new investment decisions that would foster sustainable development.

Key words: variation, regional development, sustainability, undeveloped areas, investment, entrepreneurship.

JEL codes: O18, H54, O25

1. INTRODUCTION

For many decades the delay in the volume of investment has left Serbia as adverse effects on economic structure and achieved territorial division of labor that can be considered as a serious long-term development of the country. This is mainly resulted in the selection of investment decisions were not based on economic but on political and partial interests. Such a long way of development throughout the Republic led to the creation of regional disparities, the problem, which is not considered as part of overall socio-economic development. Constantly avoided the fact that these regions and underdeveloped

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regions have its regional and development dimension, whose resources remain untapped. In a new, regular, politics are also important investments that reduce the removal and mitigation of developmental delay with which they are vulnerable enough undeveloped areas. In this context, the primary objective of investment policy is making new investment decisions that would foster sustainable development in the region.

2. REGIONAL DISPARITIES

A regional reality in Serbia is characterized by strong disparities. The causes of such regional development in our country many years, numerous and quite complex. Manifested primarily in territorial imbalances expressed levels of development, structural imbalances, financial constraints, imperfect institutional solutions, reducing the investment climate and unfavorable demographic trends.

The causes are numerous. However, they can be reduced to two basic. First, it is the consequences of the accelerated process of socialist industrialization and urbanization For the last period, characterized by extensive development with some autarhičnim characteristics, not only at the level of region but also local communities [9, p. 18]. Second, large disparities are caused by the absence of necessary institutional framework for balanced regional development. Serbia until recently did not have a defined strategy of regional development, which is starting sporovođenje weakened global economic crisis, does not even exist in sufficiently specialized regional financial institutions as well as the developed regional agencies.

Economic trends over the past few years with extremely negative consequences indicate the major regional development issues faced by our country. "The high decrease in the social unfinished process of transition to market economy, high unemployment rate and potentially new unemployment and lack of investment, indicating the need adoption of incentive measures to mitigate existing problems and to accelerate the process of transition and recovery of the economy "[6, p. 29].

Based on these reasons there has been a very nepovoljnih forms: regional disparities, demographic trends, increasing poverty, unemployment, regional infrastructure and weakened and frozen the development of less developed areas. More will be displayed to display only certain forms:

Regional disparities are one of the largest in Europe and are in the range 1:7 to 1:3 and the level of municipalities at the district level [11]. At the district level, regional imbalance is less pronounced - almost three times higher level of development of the City of Belgrade in relation to the Jablanica district and 2.5 in respect of Raska. The capital is by all indicators ranked in the top of the scale, say 2.6 times the economic strength of the relations of Peinjski, and almost two times compared to the Pirot district. Clearly indicate discrepancies developed North and the South Repiblik weakened.

As for demographic trends in Serbia during the last decade, characterized by a population regression taking into account the reduction in the

total population, low birth rate, increased levels of mortality, population concentration in urban areas and discharge of underdeveloped areas and particularly demographic aging of the population. Particularly karakteristično negative migrations from underdeveloped areas by applying pressure on the cities, a drastic fall in employment also in rural areas, further departures from the country maldih and professional people in the developed countries of Europe and America.

Investociona activity causes uneven and unbalanced activity of the population. While most employees are concentrated in two districts (Belgrade and South Backa District) which in total employment in Serbia accounted for 41.6%, the problem of high unemployment rates (for 25% of its value against the national average), a feature of the central and district Southern Serbia, which are composed of underdeveloped municipalities with extremely low economic and social capacities.

Poverty rate, reflecting the demographic, economic and social gap between regions, especially between urban and rural areas within them. Depopulation trend in most municipalities months regarding the largest number of poor (23.3%) in the southern and eastern Serbia. Significant and sustained economic growth, rising wages, pensions and other social transfers and other income of the population, led to a number of poor people in Serbia by, however, the regional component of the poor and still refers to the population in rural and underdeveloped areas.

3. INVESTMENT IN UNDERDEVELOPED AREAS

Investment in underdeveloped areas, primarily include investments in fixed assets, new facilities, reconstruction, modernization, upgrading, expansion, and investments to maintain existing capacity. Total investments in fixed assets, [7, p.151] by municipalities, or by insufficient razvijemim areas where it is stated that these are areas whose level of development does not exceed 60% below the republic average, in our country there are forty. As for the previous investment in these areas the situation has changed very slightly. For many years these areas, with their way of investing, do not exceed an average that meets a sufficient level of development. By volume of total investment, given the statistical analysis, the most endangered Black Grass and municipalities in the south of Targovishte, no less lag Žitoradja, Lebane, Merosina, Rekovac, Vladicin Han, Rekovac, Bosilegrad and Žagubica. In more favorable position as Surdo, Vlasotince and Vitez.

The fact is that Serbia is divided into the more developed north and underdeveloped south, but the volume of investment and development within the region, the average of the most endangered areas in southern parts. The former method is not much investment has contributed to sustainable development in these areas. It is necessary to go for quality in the quantity of investment and the establishment of adequate investment policy but still take into account the sustainability of the developed regions.

4. INVESTMENT POLICY

The Constitution of the Republic of Serbia special attention was devoted to regional development, required the state to take care of balanced regional development (Article 94), primarily on the development of underdeveloped areas. Thus, the Republic of Serbia regulates and provides the "Development of Serbia, policies and measures to encourage balanced development of particular areas of the Republic of Serbia, including the development of underdeveloped areas" (Article 97, item 12), [2, p. 1].

It is almost impossible to talk about achieving optimal economic effects and coordinated economic development and at the same time does not acknowledge that the regional aspect and the aspect of underdeveloped areas. To reduce disparities in the districts and encourage the development of less developed areas can be achieved implementaciom investment policy by setting priorities and their realizations through measures.

4.1. Objectives

The main objectives of investment policy, in addition to sustainable development as a specific objective, which guarantees the welfare of living increase to the economic and social as well as of components of the environment were set some other goals, such as: Raising the competitiveness of less developed areas at the district level, reducing poverty, stopping negative demographic trends, unemployment reduction, development of entrepreneurship at improving infrastructure and continued decentralization.

The first goal, increasing competitiveness of underdeveloped municipalities at the district level. This objective involves the activation of human, natural and material capacities, which would lead to faster development of the private sector and the arrival of more foreign capital. Competitiveness also includes the strengthening of institutions and legal system to achieve the level of competitiveness in developed counties, as well as the whole economy.

The objectives of the measures to be taken in addressing poverty is to reduce its level of provision or material and any other prerequisites that each provide as strong a chance to secure existence. The poverty rate in rural areas than is found in southeastern Serbia, with 22.7%, 14.4% then the western and central Srbjiji 13.2% [8, p.154] where they are located under-developed areas. The fight against poverty ruralnig essentially includes all activities aimed at stimulating employment in these areas, infrastructure development, raising levels of health, education and social services, and other actions to prevent its further spread [5, p.75].

One of the objectives of this policy is to reduce the unfavorable demographic trends. According to the latest development of the population in these areas are characterized by negative tendencies, characterized by political and economic instability that led to negative trends between regions and by going abroad. "There is a expatriate labor force, indicating an inability to absorb the large number of our people, and have been on the job market or are in the process of privatization of their jobs" (1, str.98). Characterized by a population decline: the territory of Grass, Babusnica, Gađin Han, while the opposite near Novi Pazar, Tutin, Bujanovac, where he recorded the highest birth rate and emigration and work abroad. Investments could significantly reduce the negative demographic and the other would come to a cheaper labor force.

The next goal is to reduce high unemployment rates, job creation and strengthening of labor market institutions then invest in small and medium enterprises as a first step in reducing unemployment and providing subsidies for new employment, favorable loans for job creation, approval of funds for mid-career training, retraining and upgrading.

Entrepreneurship development. The aim is to remove the restrictions as being incomplete and the legal and administrative regulations, undeveloped institutional infrastructure and limited opportunities for financial support then a more intense involvement and better mutual cooperation of local governments in creating enabling environment for entrepreneurship development. It is necessary to achieve new jobs in the sector Private ones (better utilization of natural and human resources, capital inflows and a more intensive investment activity).

The construction of good road networks, electricity, water, sewage, a primary goal of building the infrastructure that are a prerequisite for bringing investors as well as decentralization and decision making at the level of application.

4.2. Measures

For the realization of the goals of sustainable development in underdeveloped areas have been set up following measures: encouraging foreign direct investment, investing in small and medium enterprises, investment in economic infrastructure, institution building, encouragement of investment in agriculture and some extra incentives.

Encouraging foreign direct investment-the entire economy of Serbia must transform of <factors led> to <investment dragged> the economy while at the same time obtaining sustainable development. [4, str. 198] creating an favorable environment for foreign direct investment should be directed to

underdeveloped areas, as it is known that such investments are mainly developed and moving to more advanced areas, leading to low interest in investing in municipalities where there are no positive experience of foreign investors. For these reasons, it is important for each municipality to form the department in charge of local economic development. The department would deal with facilitating implementation of the necessary administrative procedures and policies Stimulation of foreign direct investment, the proposals on tax cuts and other concessions. Incentives that local governments alone can provide to investors are as follows: exemption from payment of land rent, utility costs, faster and simpler operation of institutions, simple documentation for the construction of buildings etc.. It is necessary to take measures on the macro level: creating a positive macroeconomic climate for attracting foreign direct investments, providing guarantees to foreign investors, simplification of procedures to obtain certain permits, creating a better measure of market capital and the country's European integration.

Investments in small and medium enterprises (SMEs) - this measure is going primarily to the development of the entrepreneurial economy that will contribute to higher living standards in these areas. Investing in SMEs need to: create an investment climate and the degree of investor protection, promotion of partnership between the banking sector and SMEs, greater availability of medium-and long-term loans and other banking products, more efficient tax administration and reducing tax rates, improving knowledge of financial management and promote awareness the importance of financing from equity. It is necessary that local governments contribute to the strengthening of institutional capacity and reducing administrative barriers to SME business. The government has adopted a strategy of development of competitive and innovative small and medium enterprises. "The strategy takes into account the needs of the SME sector and recognizes the need to be implemented through project financing from the budget of the Republic of Serbia." [7, p. 10].

Investment in economic infrastructure - Special attention should be paid to improving and maintaining existing road infrastructure, which would prevent the rapid deterioration of roads and preserve invested capital. To improve the management and maintenance planning of roads it is necessary to improve: organizational structure, funding, information systems, technical standards, implementation of new rational and efficient technologies in the maintenance of roads [2, p.128]. Given that road transport still have an important role especially in developing and less developed areas, greater attention should be paid to the modernization, rehabilitation and maintenance of regional and local infrastructure.

Development institutions-The development of institutional capacities in less developed areas is relatively low, despite the evident of growing awareness of the need for strengthening them. The underdevelopment of the institutional

framework has a direct impact on the limited access of the population: physical capital, financial and other services, technologies and markets. For more efficient investment at the local level, they provide: adequate legal framework for interaction among all partners, with equal access to resources and information for all key stakeholders and the trust between the partners.

Agricultural activities-Underdeveloped područja represent an abundance of favorable locations for attracting investments in agriculture. For sustainable rural development in these areas will be the Investment policies focus on: better conditions for funding, better infrastructure, modern machinery, education of the population. Then it is necessary to provide: planning agricultural production, agricultural associations to establish and bulking properties.

Additional investment incentives for sustainable development [2, p.110-111]:

- Accelerated depreciation is a form of special depreciation regime, which provides a tax incentive to taxpayers in the form of suspension of taxes through the method of initial approval, early amortization, accelerated depreciation;
- Subsidies for the formation of productive capacity in less developed regions for small and medium enterprises and shops (a percentage of total investments). Grants are for projects that are financed from funds other than loans;
- Interest bonuses for companies that invest in these movements, so they get bonuses, loans, loans and debentures to finance investment in industrial equipment, buildings, research and personnel;
- Co-payments of the state and other levels of government enterprises to the NDP. This contribution could be up to 50% of the capital of the company or a certain percentage of participation in the cost of construction or purchase of investment equipment.

5. CONCLUSION

Only appropriate the Investment Policy can be reduced, as a regional variation as well as the development of underdeveloped areas. These areas have been bypassed for many years, investment ventures, due to the difficult political and economic past period, which are not able to achieve sustainable development. Now, in the period of transition to market economy and the development of new institutions, these areas get new chances for new investment and long-term sustainable development.

Realizations of investment policy in those segments that contribute to the faster development of underdeveloped areas, can significantly change the level

of development than the average of the Republic. In addition to better utilization of economic potential of these areas, investment will be achieved faster economic growth and development of the entire ekonmije, but not only that, but it will be a reduction in unemployment, poverty, negative demographic trends, as well as creating a suitable ground for new investments.

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**PAPER WASTE MANAGEMENT ON UNIVERSITY OF
NOVI PAZAR AND REGION**

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Abstract

With further European integration of Serbia, issues of ecology and especially domains of renewable (alternative) fuels and recycling and environmental protection with a strong emphasis on sustainable development, it will become increasingly topical.

In that process especially will be behind the areas infrastructure left undeveloped, such as the Sandzak region. University of Novi Pazar, as leader in launching local initiatives and projects, should pool their resources to focus on these issues, not only ready to welcome the entry into the EU but also to create a better climate for attracting investors, raising public awareness and environmental protection.

With this paper we will show how the University of Novi Pazar can easily run paper waste management project in the local and wider region.

We will show how the entire University project and linkages with SMEs in the field of recycling of paper, could affect on better results of SMEs on market, through the campaign of raising public awareness, through collaboration with other institutions or through direct involvement in gathering (sale) of raw materials (paper) to such

companies, and one of the most important indirect effects of this project is certainly, increasing the number of employed persons who work in those enterprises.

Keywords: paper, recycling, sustainable development, EU integration, the University, raising public awareness, cooperation with SMEs in the field of recycling, increasing the number of employees

1. INTRODUCTION

Problems that were caused by earthquakes and tsunami in Japan, throw the damage to nuclear reactors in Fukujima in 2011 year, again put to the first issues environmental awareness and the need for environmental action. The economy and the biggest companies are, as the most people consider, “the worst reasons” of many social and economic problems, which are on the other side directly influenced on creating movements and initiatives of citizens so that “guilty ones” will be put under control. Two movements are most evident in the social activities. First, consumerism (consumer - consumerism), the second, more important for this topic is a movement to preserve the environment (environment - environmentalism), which is essentially organized movement of citizens and government agencies in order to protect and improve the environment.

The movement of preserving the environment has undergone three waves. The first wave was initiated by agencies and research centers to monitor and preserve the environment. The second wave was carried out by government agencies and state adoption of regulations and taxes, which the company forced them to devote more attention to environmental protection. As environmental protection is a frequent subject of both theoretical and scientific considerations and practices in various economic sectors, sustainable development is increasingly imposed as a necessary condition for further economic development. The session of the UN held the 1992 in Rio de Janeiro, first used the term “sustainable development” but it was interpreted that “sustainable development” should not be a brake to economic growth. It must be an integral part and that the balance between them is possible and necessary. [1, p. 246]

Just then the first two waves merged into one, new one - the third wave, called environmental sustainability. Then a number of companies realized that instead of opposing the regulations and legal solutions, they all need to influence the environment better and more considerate treatment. In response to this holistic marketing concept arises to replace the traditional marketing approach. [2, p. 17] This concept requires managers to consider the role they have or you might have and to understand that “socially responsible business practices become a source of competitive advantage.” [3, p. 24]

The main problem is inconsistency in the application of holistic marketing approach, primarily in the field of socially responsible marketing. It lies in the potential collision of economic and social objectives of the reason that these activities often conflict with the strategic goals of the company.

Viewed through the prism of two methodological views on one side neoclassical (neoliberal) and on others side intervention, the problem affect on the environment takes an interesting dimension. "Let us take the „externality” concept for a start. Any entrepreneurial decision that takes monetary costs and incomes into account also incorporates a side effect that is not a part of these calculations and that concerns third parties. The construction of a factory inflicts harm on the environment and the population...The impact of a new railroad or highway that makes profitable those enterprises that happen to be in their vicinity can be classified as positive externalities. Nevertheless, the negative effects of the market economy proved to be the most threatening, especially when they extended to parties, phenomena, and objects in „no man's land,” when there was no one against whom a claim for damages could be filed. The massive impact of spontaneous industrialization on the environment, on ecological equilibrium, and finally on the biological stability and adaptability of man himself have gradually become among the most acute, difficult to resolve global problems confronting mankind. These problems demand organized intervention in the spontaneous market process. But is it always possible to clearly differentiate between market and nonmarket side-effects with regard to their impact on the environment and on man? It has gradually become clear that even entirely deliberate, planned measures can have remote and immediate impacts which in their negative effect exceed a measure's apparent benefit to society. Therefore, the problem of monitoring and regulating external impacts of human activity on earth has taken national and global character.” [4, p. 19-20]

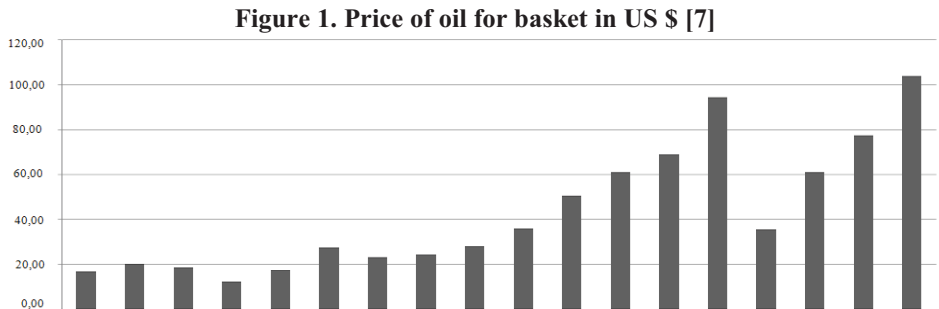
So, one of the major drawbacks and the most common criticism of neoclassical and neo-liberal vision in which the market using leverage supply and demand “can be absolutely everything to self-regulate” refers to the inability of companies to independently and voluntarily take steps to solve social problems and in particular to reduce pollution. Therefore, striving for more interventionism, or making a set of strict legal solutions to corporations, whether global or local, are forced to understand the importance of “sustainable development”. [5, p. 70-71] Much of the industry which is the first target of such legal provisions is not certainly paper industry because it is self forced to act on this way.

2. WASTE PAPER INDUSTRY IN WORLD

A valuable contribution to sustainable development in all parts of the world is given by forestry, but progress towards sustainable forest management has been

uneven. Statistic says: The world has just 4 billion ha under of forest, covering about 30% of the world's land area. From 1990 to 2005, the world lost 3% of its total forest area, an average decrease of some 0.2% per year. [6, p. 58]

Paper is made from different kind of tree or from others plant, so first for that reason it is good to think on ecological way, so that sustainability development and future development of paper industry could go in same way. Second reason is price of oil as critical energy in production of paper. Figure 1 is shows trend of rising price of oil on international market.



Except goods are recycled, they become waste after consumption and of course waste accumulates over time unless decomposed in the ecosystem or recycled. An urgent problem in many countries is that the amount of waste is increasing. There are several methods to solve this problem such as unit pricing, a recycling subsidy, an advance disposal fee, and a producer take-back requirement system.

In two major categories the problem with waste can be classified depending on the way it is generated. The first category make those types of waste that are generated as by-products in the production process, waste from the very beginning like: waste gas, waste water, toxic materials, and sludge. On the other hand, any economic good is potentially doomed to become waste after it has lost its economic value. The examples for the second category and this type of waste are old paper, discarded consumer and product which end life. Waste of this category is fundamentally different from that of the first category in that when it was originally produced it possessed a positive economic value. [8, p. 134]

Main determinants of inter-country differences in waste paper management are waste recovery and utilization rates. Recovery rate (RR) is Waste paper recovery divided by paper and board consumption (%). Utilization rate (UR) is Wastepaper consumption divided by paper and board production (%). [9, p. 442]

The waste paper Recovery rate is the fraction of total domestic paper consumption entering the waste paper market. The relation of recovered waste paper input to the total amount of paper produced is called the recovered paper utilization rate. In 1996 the average global waste paper recovery and utilization

rates were both around 40 percent. Table 1 summarizes recovery and utilization rates in some selected countries worldwide. Substantial inter-country differences exist, especially with respect to utilization rates. These vary from 6 percent in Finland to 100 percent in Hong Kong. The recovery rates vary less between countries but the differences are still substantial. In 1996 Algeria recovered 21 percent of its used paper and board products, while the corresponding figure for Germany was as high as 71 percent. It is also the case that high recovery rates do not necessarily imply high utilization rates. In Sweden, for example, the recovery rate of 52 percent is fairly high by international standards, but the utilization rate is “only” 17 percent.

Table 1. Waste paper utilization and recovery rates in selected countries [9, p. 443]

Country (1996)	UR (%)	RR (%)
Germany	60	71
Hong Kong	100	61
Sweden	17	52
USA	39	45
Canada	24	43
United Kingdom	69	40
Finland	6	34
Argentina	44	31
Algeria	71	21
Israel	78	24

It is important to understand the main determinants of these rates, because waste paper recovery and utilization rates have become important policy targets. A number of plausible determinants, beginning with those that are likely to affect recovery rates. The general conclusions can be drawn from the analysis, that both economic and political factors affect recovery and utilization rates. Rich countries tend to experience high recovery rates, and in a “rich” country a given increase in income will lead to a greater impact on recovery behavior than is the case in a “middle-income” country. As higher recovery rates imply higher waste paper availability, this will in turn positively affect utilization rates.

3. WASTE PAPER INDUSTRY IN GERMANY

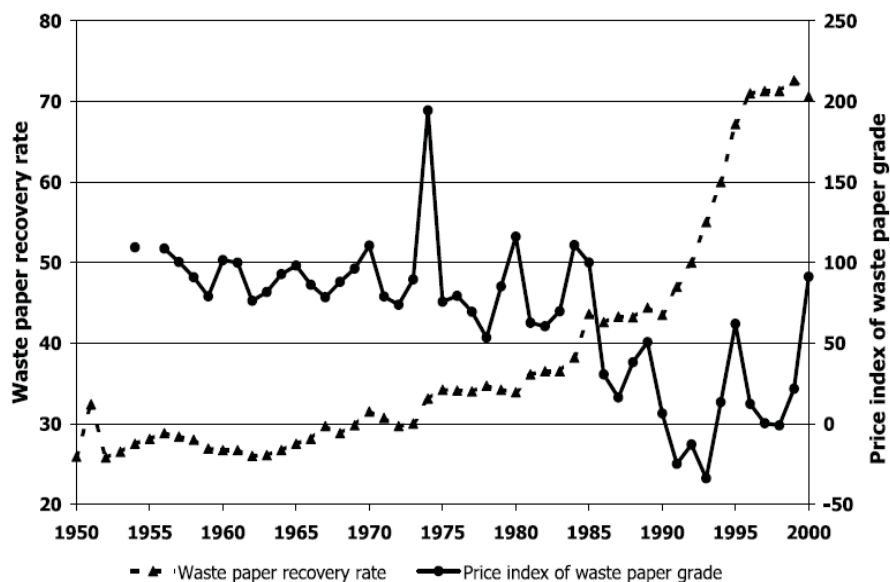
Some one would expect the price for secondary resources to be generally positive. In the first half of the 1990s, in contrast to this expectation the price turned negative on the German market for low quality waste paper. In that situation the recycling and disposal industry had to pay the paper industry for accepting waste paper, which uses waste paper as productive input. Since then the price for low quality waste paper oscillates that it is at times positive and at times negative. Question like whether waste paper should be recycled or incinerated is discuss in recent publications. Such an example where a raw material gave “almost free” we have at the local level when it comes to the use

of refined oil for purposes of heating buildings, up to 5 years ago the demand for this energy source has been almost negligible so that the users (industry) has give free nearly this oil to consumers. However with the increase of users, the raw material is received and the market price and has become a “required resource”, note is that the price of recycled materials can become negative in certain periods or for large quantity of offer or due to lack of demand.

Form paper waste is getting the recycled part, a secondary resource for paper production and is called waste paper, which is disposed by dumping in landfills with cost (up to 230 € per ton) or incineration (up to 255 € per ton). The utilization of waste paper in the production of new paper has a tradition of 200 years in Germany. It is bounded that about 80% as a part of the papers produced is fixed in durable goods, such as books, or is disposed of as sanitary papers through sewage and cannot be recovered. [10, p. 184]

German paper mills (135 company) used 11.0 million tons of waste paper for the production of 18.1 million tons of new paper and board in 2000. In same year German recycling and disposal industry has collected, sorted and sold 13.5 million tons of waste paper. But transportation costs can cut profits dramatically in waste paper industry if waste paper is transported over long distances. Therefore, in Germany the recycling and disposal industry commits 50–90% of their waste paper by contract to nearby paper mills. The rest is sold on spot markets or is exported. From 1950 to 2000 both waste paper supply and domestic waste paper demand increased more than 20-fold. From 25.9% in 1950 to over 70% in 2000 the waste paper recovery rate is increased (Figure 1).

Figure 2. Price index of waste paper grade (base year 1985) and waste paper recovery rate in Germany in%. [10, p. 188]



The development of the German waste paper market splits in two phases: In the first phase, the waste paper supply followed the development of domestic waste paper demand, that was years up to and including 1984. In the second phase, which covers the years since 1985, waste paper supply and waste paper demand decoupled and since then waste paper supply grew at a higher rate than waste paper demand by the domestic paper industry for the reason of changing law in Germany and oblige for collecting paper (see figure 1).

Table 2. Development of paper market and waste paper market in millions of tons [10, p. 188-189]

	Development of paper market				Development of waste paper market			
	Supply	Consumption	Import	Export	Supply	Consumption	Import	Export
1950	1,6	1,6	0,1	0,1	0,4	0,5	0,1	0
1960	3,4	4,4	1,1	0,1	1,2	1,3	0,2	0
1970	5,5	7,6	2,7	0,6	2,4	2,5	0,3	0,2
1980	7,6	9,7	3,8	1,7	3,3	3,2	0,4	0,5
1985	9,3	10,8	4,3	2,9	4,7	4,3	0,6	0,9
1990	12,8	15,5	6,9	4,2	6,8	6,2	0,8	1,4
1995	14,8	15,8	7,2	6,2	10,7	8,6	1,1	3,2
2000	18,2	19,1	9,8	8,9	13,7	11	1,4	4

Foreign trade played a minor role on the German waste paper market before 1985 (table 2), due to the growing waste paper excess supply. Waste paper exports have increase since 1985. In 2000 the exports of waste paper reached a

level of about 4 million tons, which corresponds to an 8-fold increase in only 15 years. Despite the domestic waste paper excess supply the waste paper imports have also increased because of the heterogeneity of waste paper, and because of that Germany exports mainly low quality grades and imports medium and high quality grades of waste paper. With a tripling of imports between 1985 and 2000 the import growth could not keep up with the development of waste paper exports. Germany's exports in the Western European region are very likely to decline and exports to Asia will increase. Region who could develop into an interesting waste paper consumer is also Eastern Europe. [10, p. 194]

4. WASTE PAPER INDUSTRY IN SERBIA AND REGION OF SANDZAK

Recycling is a new industry that is still in development in the Republic of Serbia and therefore the region of Sandzak. The dynamics of this sector is the fact that the number of companies processing waste in the past three years increased from 115 to 258 in the period from 2003 - 2006 and of which 19 are engaged in collecting and recycling paper. [11]

The ministry, which is responsible for these tasks, is increasingly dedicated to creating a better climate for attracting investors. The company is a leader in the field of recycling paper Joint-stock company "Umka" from Umka, in which the return on investment for a period of 1 - 2.5 years. [12]

If we look at Table 3 obtained from the statistical yearbooks we can find out the state from year to year improve in the paper industry and recycling, of the total share in GDP, increase in average wages to increase exports, but there are negative processes in the reduction of employed labor, as result of the actual process of modernization of production.

**Table 3. Paper industry in Serbia, according to Statistical Yearbook's 1999- 2010
[13, p. 188-189]**

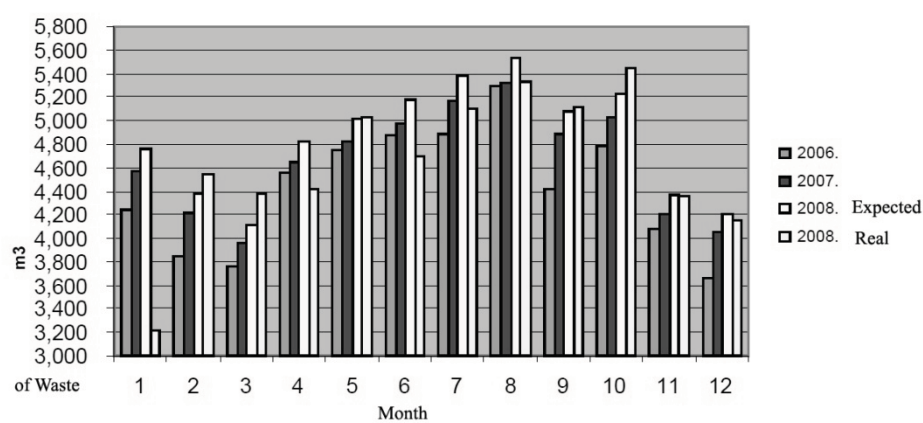
		Value	1999	2000	2001	2002	2003	2004
Average gross and net Salaries	Average gross Salaries	RSD	/	3317	10131	12963	14782	16144
	Average net Salaries	RSD	/	/	/	9038	10352	11297
Indices of industrial production by activities in paper industry		Indices	77,9	129,1	101,9	102,9	86,9	102,6
Produced Industrial products	Paper and cardboard	Tons	/	/	49688	49996	106993	106647
	Corrugated paper and cardboard	Tons	/	/	2249	26278	45033	46093
Waste	Waste paper and cardboard	Tons	/	/	/	/	/	/
Gross domestic product	Total	mill. RSD	3516,6	3583,4	3687,3	3204,3	3287,6	6874,5
Employees in paper industry		Worker	/	/	13166	12307	10713	10285
Export and import by sections Pulp, paper and paper products	Import	mill. RSD	/	/	/	/	/	20580
	Export		/	/	/	/	/	5877
Total gross investment in fixed assets		RSD	/	/	/	251337	141131	/

		Value	2005	2006	2007	2008	2009	2010
Average gross and net Salaries	Average gross Salaries	RSD	16144	17738	20208	22556	35674	36132
	Average net Salaries	RSD	11297	12409	14186	18744	26277	26578
Indices of industrial production by activities in paper industry		Indices	102,6	92,6	96,1	111,7	101,6	93,9
Produced Industrial products	Paper and cardboard	Tons	106647	102565	92263	95153	120846	101025
	Corrugated paper and cardboard	Tons	46093	44274	48360	51536	53423	39345
Waste	Waste paper and cardboard	Tons	/	36956	35093	42667	50167	36344
Gross domestic product	Total	mill. RSD	6874,5	7998,9	8130,9	9998,9	/	/
Employees in paper industry		Worker	10285	9389	8637	7885	7044	6431
Export and import by sections Pulp, paper and paper products	Import	mill. RSD	20580	25641	29782	30257	32694	33838
	Export		5877	8823	11769	14567	16611	18130
Total gross investment in fixed assets		RSD	/	/	2640749	3147506	3147506	5334277

In February 2008, in the area of Novi Pazar and Sandzak was organized by the PUC Clean (Čistoća) and Tourist Organization of Novi Pazar, under sponsor of

Italian NGO organization COOPI (<http://www.coopi.org>). They started the project “To make things clear,” affecting the separation of cardboard and paper in Novi Pazar. This phase involves the deployment of “paper-cardboard” blue container, capacity 1.1 m3 to about 50-80 sites in the wider area of the city and to the “sources” of this waste, close to shops, warehouses, factories and so on. The implementation of this pilot project was completed and the next phase which involves the provision of collection center that houses press for compacting and baling cardboard and paper collected. Optimistic assessment of the effects of this pilot project was saying that in this way together and separated from other, will be collected up to 60% of the total quantity of waste paper and cardboard in the city.

Figure 3. The amount of waste disposed at landfill of Novi Pazar – “Golo Brdo” – 20 Km from city [14, p. 15]



The positive effect of the pilot project COOPI can be seen from Figure 3 The analysis of the presented data. It can be concluded that the implementation of this project that the amount of waste is deposited 2008th at the dump “Golo Brdo” for 4% less than the expected amount for that year, which can be attributed to a reduced deposit of paper and cardboard to landfill or recycling it.

Key lack of cooperation with PUC Clean in this field is that there is no financial benefit from mutual cooperation, not through a cash incentive, or for example through reduction of prices of public utilities – PUC Clean does not pay for raw materials (paper) that they take.

However, the area of Novi Pazar, Sandzak, is opening the first private company in cooperation with foreign partners (very possible in German). About the project nobody does not know much because they keep that as a strict business secret, but we confirmed that is possible to make cooperation, and that company would collect the paper and pay 4 RSD per kg of white A4 paper or higher amount link to curse of EUR and RSD.

5. MANAGEMENT OF WASTE PAPER ON NATIONAL UNIVERSITY SINGAPORE

The National University of Singapore, in Asia, in 2009 start project who was conducted under the name “Start your engine, we are going green.” Faculty of Engineering has formed a Green Committee, which was composed of administrative staff and laboratory technicians, headed by the deputy dean Lim Chung Seh. Green Committee has conducted a pilot project for recycling paper. The pilot project lasted from 4 - 17 August 2009. The entire faculty block EA participated in the pilot project. To each individual was given “green box” A4 paper format sheets. They informed all employees about the necessity of adherence to the principles of the project (the boxes are only for their paper waste) and the importance of the project. Collection of paper in offices exercised daily, and paper from the Green Box is packed in transparent bags. Waste paper was stored in the faculty for sending to a recycling center. Waste collected in this manner is transported to recycling centers.. The project was extended to other parts of the University. The project itself, were also included students, teachers and all staff at the Faculty. [15, p. 4]

6. PROJECT

The idea of establishing the project “Save the trees Think before print” was created at the International University of Novi Pazar. Of course, it's a logical sequence of actions that should underpin future sustainable economic development at the Sandzak region and in Republic of Serbia, through active participation in various pilot projects and in particular those related to environmental protection. In the Republic of Serbia, and especially in the Sandzak region had already come a period of appearance of private and public companies involved in recycling. The main problem consists in addition to undeveloped infrastructure and inadequate public awareness about environmental issues.

The main objectives are to: a) Raising awareness among employees of the University, students and especially the citizens, which direct benefit will see present and future recycling centers in the region; b) Promotion of the University as socially responsible actors in the Sandzak region and beyond; c) savings in paper and ink cartridges (toner) for printing; d) self-financing in the later stages - the project will cover itself in the amount, from one to two years.

Picture 2. Official Logo of Project



7. STEPS IN THE PROJECT

1. Making label for boxes and set box. Papers on the University are coming in packages as shown. The idea of this project is that the cardboard boxes with A4 paper arrives at the college used for collecting paper. In each office would contain such a box, a bucket for other wastes, as shown. The box would also be modified for the Save the trees Think before print”, so it would be plastered with stickers as shown.

Picture 2. Looks of stickers boxes for collecting paper



2. Coordination activities should be provided to establish the rule that certain days of staff in charge of hygiene at the University, purchase the display case (specifically designed for paper) paper. So collected paper, should be disposed in a defined place or in the near University building with easy access of transportation. Also in this regard it has to be done and sorted by quality.

3. Set up posters of action and informing employees about the necessity of adherence to the principles of the project and the importance of the project. Coordination around the collection and storage of paper should be done.

Informing staff and students is done by:

- putting posters in key locations,
- sending separate internal mail with this
- SMS

4. Supply and installation at least two “shredder” machine - the destruction of internal documents and legal acts

5. Creating a special web site for project

6. Set up a link and logo of the Project Site to the site of the University and to all parties and student services web site of the University and e-mail signatures.

7. Set the Logo and Slogan project in Bosnian / Serbian and English languages in all the acts of the University Memoranda (internal and external) in the footer of the same in a miniature form - like the all leading companies in the world do.

8. Communications through newspaper.

9. Informing the public about the project through TV and radio operators.
10. Total creation of the atmosphere for the start of the project further separation of PET, glass, metals and other organic waste from the territory of Novi Pazar and beyond - which of course should be started at the University.
11. Effective monitoring of input paper and toner to the University. By developing of special IT applications it would be followed in and out of paper and toner from the University - which could easily be monitored and evaluated in the project. Application arranges a service that supplies paper right in the application enters the system, how the paper come to the University, at what price which is weight in grams of paper format (A4, A3, cardboard, folder, etc.). Entering as a toner quantity per model and the important characteristics and values entered the university. It is necessary to give an account of IT services to develop and program additional such application.
12. Promotion and adoption of commitments duplex materials, acts, decisions, tasks for the tests and the like by all departments and employees at the University. Negativity of the adoption, such as a decision, is slowing down the printing of documents and other things but the benefits are savings in the consumption of paper
13. Promoting less pronounced printing, the students with the key emphasis is also on duty during the two-sided printing:
 - a) The preparation of seminar work papers and essays – seminar work papers are printed in the form of up to 25 pages-one sided printing. Obligation to accept the two-side printing of the paper seminar works would be reduced to only 13-14 pages.
 - b) Graduation students - graduate works are published in the form of up to 50 pages of one side printing in 7 specimens. The minimum is 350 pages printing or copying. Duplex obligation to accept the thesis, diploma thesis would be reduced to only 26-27 pages x 7 copies. The minimum is 182 pages printing or copying. Saving for students is about 50%. Savings for the environment are invaluable.
14. Proposal: reducing liability items 7 theses. The aim of this project is considered to be reduced from seven to four copies (three graduate work for the commission, one for the library, but the other 2 samples (Student Affairs Office and the Rector's Office) to be found in electronic form (Pdf and Word 2007 format) to 2x CD's). The decision is on the students whether to print a copy for themselves. Results: Savings to the student 100 sheets A4 format without adopting step 15 or results: Savings to the student 220 sheets of A4 format with the adoption of step 16 and the adoption of step 15 by University. In average yearly graduate about 450 students in all units of the University. Adoption and application of point 15 and 16 Students would graduate instead: 157.500,00 sheets for graduate should be spent: 58.500,00 sheets of A4 paper. Savings in quantity of students: 99.000,00 (80 g/m²) sheets of A4 paper per year. Savings amount for students: 247 500,00 RSD per year. Save paper for the environment:

495 kg (0.495 tons) of paper per year. Savings for the environment are about 8.5 trees per year.

15. Proposal adopted 14th should be given order to the IT services to create an electronic database for seminar, diploma, master and doctoral theses. This will create conditions to introduce a system of electronic verification of work and eliminating the use of “copy / paste” techniques by the students - or negligently and conscientious abuse of copyright and intellectual property rights of other authors.

16. Initiation (rules) that each student is required to once a semester pass a script or a photocopy of something that he no longer needs in order to recycle the paper.

17. Cooperation with other educational, public and religious institutions is necessary for the expansion of the project and creating a positive attitude towards the need for recycling.

8. SWOT ANALISE OF PROJECT

STRENGTH	WEAKNESS
<ul style="list-style-type: none">• Raising awareness among employees• Promote the University as socially responsible actors• Unique information system• Human resources and motives• Savings in the consumption of paper consumption and cartridge (toner) for printing• Savings in electricity consumption• Instructions for managing paper waste compactors• Instructions for obtaining the “green” behavior• Seminars, training, retraining	<ul style="list-style-type: none">• Lack of awareness on environmental protection• Insufficient information• The current lack of information system• No annual environmental report

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Achieving the status of Regional Ecological Centre and the opening of private and public recycling centers • The possibility of population education on environmental protection • The presence of the electronic and print media • The publication of informative content • Establishment of a regional alliance with recycling centers 	<ul style="list-style-type: none"> • Weak demand for paper • Inadequately waste management • Low level of knowledge of population on environment • Lack of motivation • Vandalism and lack of understanding of the population - especially young • The irresponsibility of people towards the environment • Legislation • Lack of knowledge

9. CONCLUSION

Benefits of the explain project, that runs the International University of Novi Pazar, as leader in the wider regional and national space in launching innovative and above all, useful projects, are to achieve the main goals with little financial investment on which we distinguish between: a) Indirect (financial) benefit of the University of Novi Pazar, through an indirect process of prevention (savings), promotion; b) direct financial benefit through the collection of materials for recycling. There are also external benefits of conscious and purposeful action in terms of helping to reduce unemployment from the current 51% in city of Novi Pazar, according to official statistics. But on the other side it is useful that the University should be imposed from the beginning as a partner and controller of processes, in terms of the monitoring process of the recycling throw its publications and to on the time pointed problems such as possible “dirty” technology or oversupply which may affect the price and etc.

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