

SMALL AND MEDIUM ENTERPRISES AS A BASE FOR RESTRUCTURING SERBIAN ECONOMY

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Abstract. *The paper shows different theoretical and business approaches to the company's size as well as the fact that the company's cost efficiency is a more important parameter of the companies' differentiation (with respect to the size and/or success) than the property or the achieved business results. Then the paper presents the nature of financial innovativeness of small and medium enterprises. Finally, our managers are suggested to asses continually their production, technological, information and other advantages as well as shortcomings of small and medium enterprises in order to optimize their size and their contribution to the structural transformation of Serbian economy.*

Key Words: *Small Enterprise, Medium Enterprise, Cost Efficiency, Financial Innovativeness, Economy Restructuring*

INTRODUCTION

Small and medium enterprises (which have a relatively small range of income per a year, a low value of property and a small number of employees) as the most common form of enterprises in many countries are very significant for the development of their market economies. They are adapted at the request of buyers very quickly. They are the main creators of the new working places and they present a vital core of the market economy.

Both the management theory and practice in the world at large deal with large enterprises in a big range (first of all, multinational ones). However, it is evident that, with an increase of the property value and real profit in addition to the expansion of technologies and innovations, as well as with market globalization, the average enterprise size has also increased. That is why in the theory and business practice a criteria spectrum for differencing enterprises, according to size and success, is getting wider.

The sector of small and medium enterprises in Serbia shows both advantages and failures. Managers have to animate small and medium enterprises, to invest, to innovate business processes, strategies and offers, and to make them capable of fulfilling their obligations towards workers, suppliers, banks and tax institutions.

Managers of small and medium enterprises must be proactive; they should show financial innovativeness. Without market-acceptable financial innovativeness small and medium enterprises can bankrupt and thus become a burden for both economy and the whole society.

1. CONCEPTUAL-BUSINESS TREATMENT OF THE ENTERPRISE SIZE

The well-known sayings state that "big fishes swallow small ones" and that "mice ate dinosaurs" thus showing that big and small enterprises have both advantages and failures. From these two quoted maxims, the third is made stating that "It is better to be smaller" thus stressing the advantages of big and small enterprises. Independent of different theoretic approaches to the enterprise size interpretation, there is no debate concerning the fact that the most wanted size of an enterprise is the best one. In this case, the enterprise is regarded as the most efficient regarding its costs, that is, if it has minimal costs per product.

A success is not a mark of only small or big enterprises. Experiences of many developed countries show that in some market conditions big enterprises have an advantage and, in different market conditions, small enterprises have the advantage. However, the advantages of big and small enterprises are not constant. The size of enterprises must be well controlled, in order to use its advantages efficiently or/and to adapt the size according to changes at the market. If the size of an enterprise is not controlled well (on the base of it) advantages are transformed into failures, and the enterprise works with losses.

In the business world, an expanding enterprise is always in fashion. At the beginning of the 20th century, the Ford Company emphasized advantages of mass production so that, in a given period, it decided to produce only black "T" cars. However, such a strategy of the Ford production was based on a wrong supposition stating that all customers had the same requests and taste. The Ford profit was decreasing due to such a production strategy as well as because of an enormous diversification of accompanying activities (building india-rubber plantations, building the railway, petrol-stations, car services, and others) as operating costs were increasing faster than the growth of its incomes (1, p. 38). It can be concluded that the owners of an extremely large enterprise did not like it, regardless of a possible extreme increase.

In the twentieth century some theorists were interested in the size of an enterprise. In 1932, Ronald Coase, Nobel-prize winner, wrote papers about the nature of associations of small producers in different industries because of the scale economy. Then R. Coase concluded that the association of producing units, which had been producing large quantities, was a wrong step, just as with the enterprise increased profits on the base of the enterprising function can become decreasing ones.

While, at the beginning of the 20th century, the enterprises were increasing by means of diversification, at the beginning of the 21st century they based their growth on the increase of production range in core business. At the beginning of the 21st century, the mes-

sage of the business world is the same as it was at the beginning. "Have a controlled growth and become great". The maxim "It is better to be greater" (2) is real, in the sense that bigger enterprises can give higher salaries and better conditions to their workers in order to make progress. The maxim "The smaller is nicer" concerns the people who see a perspective in the autonomy of work and decision-making and small enterprises, first of all, give a chance for it.

Managers should pass the test of the cost efficiency before the investors. Enterprises of an optimal size have the highest cost efficiency. In such enterprises costs per product are the lowest.

The size of an enterprise is in connection with a character of a product. Producers of airplanes, ships and cars must be large, as they can decrease costs per a product unit together with an increasing production range and they can increase competitiveness. However, small enterprises can also be more efficient as for costs. It is the case with medical services, watch-making production and similar goods and services.

In an era of global business the firms that offer a higher value to consumers get a job. Consumers, not competitors, eliminate costs inefficient producers from the market. Market transactions between purchasers and an enterprise determine its size in every industry and on every market segment (3, pp. 40-41). Only managers, who know advantages and failures of small and medium enterprises can manage their size efficiently. The aim of managers, investors, consumers and a community is the optimal (the most efficient as for costs) size of enterprise.

2. HETEROGENEITY OF CRITERIA DETERMINING THE ENTERPRISE'S SIZE

The size of enterprise is determined on the basis of many criteria. The most frequently used are: 1) size of assets that is available (shown naturally or as a worth), 2) size of realized results and 3) costs efficiency. Sometimes, the size of an enterprise is determined by a range of factors, which determine its size and the most important among them are market products features and the nature of the business.

The size of an enterprise asset is expressed by different criteria. The more important are the number of employees, installed capacities and size of business rooms.

The criterion of cost-efficiency is obtained from the relation between the value of engaged property and the realized results. This criterion eliminates the dilemma if a big enterprise is the one that has a big available asset or big realized results. In practice, there are enterprises with big available assets, but with low realized results (there are also opposite cases). The enterprise which engages a property of high value (a big enterprise) and which realizes results (a small enterprise) is cost-inefficient for investors, consumers and community. Therefore, it is, in fact, a small enterprise, taking into account that it is of slight importance for main stakeholders.

The market features of products, which an enterprise produces, and the nature of business have dominant effects on the enterprise's size. Big enterprises realize big profits because of their enormous participation in the market and range-economy, they are cost-efficient and their workers have higher salaries. They are capable to take the most qualified employees from the labor market and to keep them for themselves. Such people give their contribution to the quality of working process and profit height. However, the

autonomy of employees in operation is small because of formalizing the managing courses. In small enterprises of the same branch the situation is opposite. As for the nature of job, big enterprises, because of the job complexity, employ qualified workers who require higher salaries. Sophisticated capabilities of the employees decrease costs to the enterprise (supervision costs, wasted time, range of damaged material and equipment and the like). Opposite to that, small enterprises often cannot pay qualified experts and that why they face increasing lost sale costs.

According to the Federal Accounting Law small enterprises should fulfill two of the following criteria: 1) average number of workers, on the base of working hours, should be up to 50; 2) annual income should be lower than 8.000 average gross salaries per a month of the employed workers in FRY; 3) average value of assets (at the beginning and at the end of business year) should be lower than 6.000 average gross salaries of people who were employed in FRY. However, although formally, our Federal Accounting Law followed the EU Standards in the sense of taking over the financial criterions for classification of enterprises according to their size. However, if we compare them with the standards of the countries which are the members of OECD, we see that our big firms are "small business" and, as a rule, they realize an income under five millions of dollars per a year.

Similar criteria are used to define small and medium enterprises in other European countries. Czechoslovakia is the most interesting. It uses standards of the European Commission (which are recommended by the European Investment Bank and the European Investment Fund) to define small and medium enterprises. The criteria which small and medium enterprises in Czechoslovakia must fulfill are the following: 1) number of employed people, 2) return, 3) sum of accountant balance (balance of accounts), 4) degree of certainty, 5) and degree of independence. The property of big enterprises in a small or medium enterprise must not be higher than 25%.

3. FINANCIAL INNOVATIVENESS OF SMALL AND MEDIUM ENTERPRISES

Financial innovativeness is a process in which a manager operates on some new concepts of a financial problem to build his own financial capacities and to achieve competitive advantages, first of all, at the financial market (7, pp. 50-54). Financial innovativeness is in a strong connection with financial creativity that implies a free, imaginative and non-standard opinion about alternative financial sources and placement of resources.

The risk of financial management with an enterprise is connected with control of possibility or a chance to be exposed for a monetary loss. Financial innovativeness of management lowers the risk of financial management with the enterprise.

An innovative approach in the transition conditions is, for example, that small and medium enterprises, to the extent of their rapid growth, should support, slightly, the credit sources; besides, they should get into alliances better prepared than they are, in fact, now. This approach increases the market value of small and medium enterprises and it also increases the probability of finding funds for development by share emission.

A financial innovation in the transition conditions could be also an association of small and medium enterprises to make a collective approach to the shares market. It would make the development of these enterprises easier and to allocate the risk to more

owners. The solving of financial problems in the range of small and medium enterprises should take into account that there is no entrepreneurship without innovations and creativity.

The steps to be taken are the following: financial problems should be defined, financial assumptions developed, financial information collected, data analyzed, brainstorming and decision-making concerning the solution completed and, finally, the actions undertaken in order to solve some financial problems of the enterprise. The probability of financial problem solution depends on the manager's abilities to invent innovative financial products at the same time, to use the available financial resources efficiently and to adapt themselves to surrounding changes faster than the competitors. Jack Welch says that, if the surrounding changes happen faster than in the enterprise, then its end is very near (8, p. 26).

Innovativeness in the financial management of small and medium enterprises is limited by: insufficiency of adequate financial infrastructure, insufficiency of suitable means for firm foundation, insufficiency of law solutions, monopoly presence and insufficiency of skills and knowledge in financial management.

Porter considers that financial innovations output is measured by: 1) a value of invested managers or risk capital (venture capital) and 2) a number of new public actions emissions (7, p. 53). In any case, innovations in financial management are directly in a function of growth and development of small and medium enterprises. However, the research that was financed by the CARE International Yugoslavia (7, p. 51), in which 70 small enterprises were included, showed that none of these enterprises did attract managing capital. Neither did it plan any shares emission in the future, as a result of its growth. It shows that our managers in these firms do not learn and do not innovate enough.

Unfortunately, the ambience in which small and medium enterprises operated, in 2004, was not stimulating enough for any innovations. There are numerous reasons for such conditions in this sector. Firstly, besides positive estimations of economic reforms (in the region of international reintegration of the country and support of foreign financial institutions, liberalization of one part of the market, stabilization of the *dinar* course, inflation decreasing, budget decreasing and so on) from abroad, no deeper structural changes were made in the sector, namely those that would affect the growth of investments, employment and export. Secondly, the import lobby was stronger than the exporting one. This was evident in the relations showing that export is worse than import (external trade deficit, in 2004, was \$ 5,7 billion). Thirdly, regardless of the stimulating conditions for purchasing the majority part of the social enterprises, only a small number of them were sold under those favorable conditions. Fourthly, the market behavior of the managers of the state-owned enterprises has not changed essentially; neither has it their relation towards the state. Fifthly, numerous social-state enterprises continued to produce losses and to increase debts, but they were fighting strongly to give salaries to their employees. Sixthly, managers of some social enterprises accepted privatization gladly, as the country accepted their obligations (internal and external ones).

4. ADVANTAGES AND SHORTCOMINGS OF SMALL AND MEDIUM ENTERPRISES IN SERBIA

Small and medium enterprises show a specific kind of enterprising and operating in comparison with "standard" firms. However, the opposite logic that principles, strategy and practice of corporate management apply to small and medium enterprises and that they generate their faster development is not in effect here.

The owners of small and medium enterprises are very often their managers too. The creditors always try to get right information about their operating (whether they realize everything via bank account, their plans of development, whether they realize obligations toward state, etc.) in order to affirm their long-term orientation and liquidity. On the other hand, the managers of small and medium enterprises want to sell and collect payment for demands to customers as soon as possible, in order to animate a new business cycle.

Practice shows that many small and medium enterprises in Serbia use their bank accounts only to compensate municipal travel expenses, nourishment expenses and similar miniature expenses. Such accounting positions enable accountants to simply compose and present their accounting registers to the Accounting and Payment Institute at the end of a year. The managers of small and medium enterprises present to future investors the Annual Accounting Reports. It happens very often that at the investor's demand the owners of these organizations must deliver evidence of the paid revenues and taxes (income tax, service tax, property tax, excise tax, municipal taxes and so on).

According to some research projects, majority of the owners of small and medium enterprises are not experts at accounting and finance and their computer skills and knowledge of computer technology are poor (6). Hardly can they identify the requirements for managers, investments and management information.

Accounting evidence and reports of small and medium enterprises very often satisfy requirements of governmental agency only literally. Accounting is not prompt, authentic and realistic. Because of that the accounting registers (sets of balance) are not objective; they do not give a true picture of the real state of their property and dealing results. Managers cannot always base their business decisions on such accounting registers.

The most important preferences of small and medium enterprises in Serbia are flexibility, innovation and creativeness. Nevertheless, small and medium enterprises in Serbia are known for little financial strength, lack of managing capabilities, a complicated approach to formal loan resources and to distribution paths, impossibility for developing new technologies and their appliance in practice.

Small and medium enterprises in Serbia are known for:

- Shortage of clearly defined long-term business objectives,
- The use of profit and redemption as a resource of finances (mostly for new resources recovering),
- Financing of business activities mostly from their own resources,
- The use of financial lease as a form of external funds resources,
- Dependence on suppliers' financing who offer their products on credit and without discount,
- Very little use of company services for factoring and forfeiting,
- Preferring to pay in cash,
- Shortage of financial plans for more than a period of one year,
- Insufficient use of program for support of enterprising activities,

- Inadequate accomplishment of managers,
- The use of accounting mostly for inspection of tax obligations, and very rarely for making business decisions,
- Avoidance of an operative evidence and insufficient use of accounting systems,
- Rare arrangement of costs on fixed and variable,
- Fixing products prices and services on the bases of expenses, that is to say, without serious respect of competitors' prices and performances of demand.

Small and medium enterprises in Serbia base their own development on their own resources. The admission to long-term bank and other loans has been reduced while only government-conducted programs are still on. Almost one third of bank loans are classified in problematic investments of capital because the enterprises are not capable of refunding them. Very often enterprises do not have profitable projects. The main resources of small and medium enterprises financial problems are a low level of competitive offering, ineffective technology, low productivity of work and incapability to develop and use management skills in an efficient way.

The condition for granting bank loans to small and medium enterprises in Serbia means to review their credit capability, purpose, conditions of using and payment of a loan. Loans are intended for a specific restricted assignment and banks confirm the rationality of the loan funds usage. Banks establish an interest rate for every client according to the interest of the National Bank of Serbia, according to its own business politics and business relationship with applicant of a credit.

Some Serbian banks give priority to the large firms, because they have bigger profit in credit transaction with them. Bank credits are hardly available to small and medium enterprises; they are followed by more administration and restricted by serious external guarantees.

CONCLUSION

The experiences of well-developed countries show that the sector of small and medium enterprises is a basic link to the growth and development of their public economy. Disregarding the different criteria for classifying enterprises according to their proportion and accomplishment that could be seen in most popular university textbooks, the assumption that not only large but also small enterprises can be successful. Accordingly, the opinion of some Serbian economists that particularly and exclusively only little enterprises can be successful is wrong. It can be rather claimed that in some market conditions large enterprises do have the potential advantages and in the other market conditions little enterprises have them. However, the approaches to the management of large enterprises cannot be applied to small and medium enterprises at once.

The enterprising climate in Serbia is not inclined to small and medium enterprises. Managers concentrate their attention on survival of small and medium enterprises, not on market investigation and implementation of the up-to-date technologies. Moreover, the management shows insufficient financial innovation in the sector of small and medium enterprises in Serbia. This shows, on the top of all, that we can expect the radical transformations to be done in this sector in future.

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MALA I SREDNJA PREDUZEĆA KAO OSNOVA ZA RESTRUKTURIRANJE PRIVREDE SRBIJE

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U radu se ukazuje na različit teorijsko-poslovni tretman veličine preduzeća kao i na činjenicu da je troškovna efikasnost preduzeća važniji parametar za njihovo diferenciranje (prema veličini i/ili uspehu) od veličine imovine i rezultata poslovanja koji ostvaruju. Zatim se prezentira priroda finansijske inovativnosti malih i srednjih preduzeća. Konačno, našim menadžerima se sugeriše da stalno ocenjuju proizvodne, tehnološke, informacione i dr. prednosti i nedostatke malih i srednjih preduzeća, kako bi optimizirali njihovu veličinu i njihov doprinos strukturnoj transformaciji srpske privrede.

Ključne reči: *veličina preduzeća, troškovna efikasnost, finansijska inovativnost.*