

## **SMALL BUSINESS ACT - TOOL FOR BUSINESS IMPROVEMENT AND REGIONAL DEVELOPMENT OF INDUSTRY \***

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**Abstract.** *The issue of regional development is very complex and very important both for economically developed countries and countries in transition, or today already, posttransitional countries. There are various factors that are important for strengthening local and regional economic development and consequently various support programmes, which are created by public authorities. Economic policy makers in the EU adopted the Small Business Act as special instrument in order to support the development of small and medium sized enterprises. The Act aims to encourage balanced regional development of industry and improvement and revitalization of economic life in EU member countries, as well as in the potential candidate countries.*

**Key Words:** *SMEs policy, industry, Small Business Act, regional development, business environment.*

### INTRODUCTION

1. There are various measures to strengthen and maintain competitiveness of small and medium sized enterprises that industrial developed countries implement in their strategies, however, these measures differ. They are being implemented through state authorities (national, regional and local development agencies and centers for SMEs development), local organizations, NGOs and private organizations including universities, that support SMEs directly.

2. Small Business Act is a document issued by European Commission that represents a document of high political will shown by high EU authorities.

3. Business Environment Programmes are specific tools to strengthen SMEs development and consequently to enhance regional and industrial development and employment.

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### I. SMALL AND MEDIUM SIZED ENTERPRISES - GENERATORS OF ECONOMIC GROWTH AND REGIONAL DEVELOPMENT

Tendencies in the development of SMEs in the world show that their number is growing. Innovation, inventiveness and creativity, are some of their characteristics and activities. Experiences show that the main innovations do not come from the old, large business systems and organization, but the flexible, small companies. Small businesses, thanks to their adaptability, are most rational, capable of exploiting available resources and adapt to the requirements of the particular and constantly changing market. [13]

SMEs constitute the dominant part of the economic structure of developed countries. In European Union countries, the number of small and medium enterprises exceeds the figure of 95% of the total number of enterprises. Similar situation is in the U.S. and Japan. These companies employ over  $\frac{3}{4}$  (i.e. 75.3%) of the total number of employees in European Union countries, and large enterprises only  $\frac{1}{4}$  i.e. 24.7%.

In periods of recession, such as the present economic crises, small businesses absorb economic shocks better than large business. SMEs bring significant advantages in economy of the state, such as:

- SMEs are labor intensive, thus employ more people,
- there are less people employed in administration of SMEs,
- better and more efficient usage of labor, with regards to the small number of employees, provides better control over productivity,
- SMEs are flexible and can quickly be transformed by programme, market, technology, and in organization,
- characterized by relatively small investments in equipment and technology and low investment per employee,
- quick (and effective) changes in accordance with market needs,
- SMEs development facilitate regional development and the prevention of unwanted migration from rural to urban areas,
- SMEs contribute to faster industrialization and diversification of village industries,
- in some cases, SMEs provide inputs for large companies, thereby affecting the reduction of imports and improve the trade balance,
- SMEs are generally more profitable than large - labor and capital are used efficiently, and produce goods and offer services at competitive prices,
- SMEs become a significant source of foreign currencies that are provided through exports,
- SMEs management is simpler and more rational, and creates conditions that is most time effective and productive,
- SMEs, therefore, profit on the maximum and effective use of time and other resources, and you realize better results,
- SMEs feature better motivation and desire for success - due to expectations of greater personal benefit, the greater the interest and labor productivity,
- large companies show hostility towards innovation and change, which stems from their bureaucratic structures, lack of interest to identify problems, etc.

The formation of SMEs requires less investment than, for example, the attempt of reconstruction of existing enterprises and economic reconstruction. SME could be formed in various areas and for different purposes. It may be an enterprise that follows big com-

panies, an enterprise that will have production programme with smaller series and specific programs that do not require large companies. In addition, it may deliver service to large industrial enterprises (suitable for self-employment) and particularly small firms in agricultural production.

SMEs can be important factor of the rational use of energy and environmental protection. Therefore, special programs should be financed for SMEs whose technology is based on a smaller energy consumption per unit and the preservation of human life and working environment, or technology that contribute to energy savings and the environment (new materials, innovated solutions, etc.). It is particularly important to fund programs which promote the production and export of organic food and beverages and enrich the tourist offer in those areas that are ecologically clean and attractive for tourism.

SMEs support programmes are very important tools for regional development policy as well. Regional dimension recognizes the co-called 'learning firms' and 'learning regions' as key factors for regional development policy makers. Coherent portfolio of policy instruments should involve both characteristics of the given region and SMEs needs. Specific tools could be business incubators and clusters creation. This kind of networking in both innovative, social and cultural dimension brings economic change as well. Regional differences call for original solutions. The main role of regional policy is to recognize specific environment as well as specific needs and to develop original programmes. [14]

## 2. BUSINESS ENVIRONMENTS PROGRAMMES – A TOOL FOR REGIONAL AND INDUSTRIAL DEVELOPMENT

The business environment in which private enterprises in general and small and medium-sized enterprises in particular operate is often not conducive to their growth and competitiveness. A policy framework and regulatory regime on the one hand, typically coupled with lacking or inappropriate institutional support systems and mechanisms on the other hand have for long been identified as key factors preventing private sector SMEs from fully mobilizing their development potential. Problems regularly arise from policies that do not take into account specific constraints of SMEs, putting them at a disadvantage compared to large enterprises, and from overly complex regulatory set-ups that represent a disproportionate burden (market entry and exit constraints, high transaction costs, etc). Inefficient SMEs support institutions and/or business development service markets or providers constitute further obstacles to enterprise growth.

The nature of SME-related policies and institutions with a potential to accelerate small business development is reflected in the range of services that national or local authorities could provide. Such services in the recent past have placed emphasis on:

- design and implementation of SMEs-supportive legal and regulatory systems;
- facilitation and moderation of public-private sector dialogue for policy formulation and implementation;
- appropriate institutional arrangements for the implementation and monitoring of SMEs policy measures and support programmes;
- capacity-building of business membership organizations, in particular chambers of commerce and business associations;
- business services offered by private and public institutions that are specially designed for SMEs of particular region;

- specific policies for SMEs development to facilitate access to crucial resources such as finance and information, and to stimulate regional and more balanced distribution of business activities within the country.

Many aspects of the business environment are determined nationally (and some globally). For globally competitive firms to develop within a region, the region's business environment must:

- provide access to adequate human, natural, physical and financial capital;
- expose firms to competitive pressures;
- be stable enough that firms are able to plan; and
- be made up for firms that collectively have sufficient desire and aspiration to grow.

There are factors that determine whether a region's business environment is able to meet these conditions. The factors listed below vary in their influence in different regions and industrial sectors. The assessment of one region's business environment has to be conducted in order to determine which factors are most important or needed for business development.

Foundations for effective business environment programmes are also factors that form the basis of an effective business environment and include: solid infrastructure i.e. transport and communications infrastructure; sound education and training system; adequate capital base; sound governance, regulatory and political institutions; social cohesion; access to other markets; and adequate natural endowments.

There are also so-called drivers that represent as well the factors that build upon and co-ordinate the foundations to create a high-performing business environment that include: well functioning innovation system; strong leadership or strategic decision making capacity; critical mass in industries or value chains of strength; and a quality of industrial, urban and living environment.

As it could be seen, all these factors include the development of SMEs that are seen as major driving force of economic and regional development, as well as industrial development. A broad-based regional economic development strategy will consider all of the above factors (both foundations and drivers).

### 3. SMALL BUSINESS ACT AS SMEs DEVELOPMENT TOOL IN EU

Small Business Act (SBA) reflects the European Commission's political will to recognize the central role of SMEs in the EU economy and for the first time puts into place a comprehensive SME policy framework for the EU and its member states. It aims to improve the overall approach to entrepreneurship, to irreversibly anchor the "think small first" principle in policy making from regulation to public service, and to promote SMEs' growth by helping them tackle the remaining problems which hamper their development. The Small Business Act for Europe applies to all companies which are independent and have fewer than 250 employees: 99% of all European businesses. [12]

The symbolic name of an "Act" given to this initiative underlines the political will to recognize the central role of SMEs in the EU economy and to put in place for the first time a comprehensive policy framework for the EU and its member states through:

- a set of ten principles to guide the conception and implementation of policies both at EU and Member State level. These principles outlined in detail in chapter 4 are es-

essential to bring added value at EU level, create a level playing field for SMEs and improve the legal and administrative environment throughout the EU.

- a set of new legislative proposals which are guided by the "Think Small First" principle. [12]

A set of ten principles consists of:

1. create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded,
2. ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance,
3. design rules according to the "think small first" principle,
4. make public administrations responsive to SMEs needs,
5. adapt public policy tools to SMEs' needs: facilitate SMEs' participation in public procurement and better use state aid possibilities for SMEs,
6. facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payment in commercial transactions,
7. help SMEs to benefit more from opportunities offered by the single market,
8. promote the upgrading of skills in SMEs and all forms of innovation,
9. enable SMEs to turn the environmental challenges into opportunities, and
10. encourage and support SMEs to benefit from growth of markets.

Small Business Act is a sort of guideline for policy makers both on national and local level for how to create and implement different measures in order to support SMEs on their territories. For budgetary period 2007-2013 European Commission targets 27 billion euro for projects intended for small and medium enterprises through funds that support SMEs. This funding is provided through the Cohesion Fund and projects designed for research and development, such as Competitiveness and Innovation Enterprise programme (CIP).

The intention is also to support and to facilitate market access through European Enterprise Network. It is the network that offers support and advice to businesses across Europe and helps them make the most of the opportunities in the European Union. The services are specifically designed for small and medium enterprises (SMEs) but are also available to all businesses, research centers and universities across Europe. The new integrated Network offers a "one-stop shop" to meet all the information needs of SMEs and companies in Europe. [15]

There is also regional dimension of the Network because it offers easy access and proximity to local services for SMEs, thus creating regional business gateways. Regional consortia cooperate to create a coherent support structure for local companies, boosting the region's profile and its competitiveness.

The Small Business Act points out the fact that 15% of SMEs in EU each year face bankruptcy. There are also issues of environmental protection that should be incorporated in their daily activities.

Some conclusions could be drawn as follows:

- the embracement of SMEs as major driving force of economy of EU and regional development policy,
- Small Business Act is an appropriate tool for achieving regional policy goals,
- political support is the first crucial point for the success of all SMEs and regional development support programmes,

- communication is second crucial point for the success of these programmes. The web site of SBA is created in order to facilitate communication between entrepreneurs and EU authorities.

Lessons and best practice could be recognised and transposed into potential candidate countries such as Serbia. It is foreseen for candidate countries to be involved in these programmes through specific channels such as chambers of commerce and agencies for SMEs development.

#### CONCLUSIONS

1. In developed market economies favoring small and medium sized enterprises is being achieved indirectly - by creating the general conditions for ensuring equal competition.

There are, however, specially designed support programmes that involve both SMEs and regional dimension of economic development. SMEs support programmes are very important as sort of tool for regional development policy as well. Regional dimension recognize co-called 'learning firms' and 'learning regions' as key factors for regional development policy makers.

2. A broad-based regional economic development strategy must consider all of the factors important for the regional development of industry. Business environment programmes are one of the tools for providing successful SMEs network both on national and regional level.

3. Small Business Act (SBA) reflects the European Commission's political will to recognize the central role of SMEs in the EU economy and for the first time puts into place a comprehensive SME policy framework for the EU and its Member States, as well as potential candidate countries.

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## **AKT O MALOM BIZNISU - SREDSTVO ZA UNAPREĐENJE POSLOVANJA I REGIONALNOG RAZVOJA INDUSTRIJE**

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*Pitanje regionalnog razvoja jako je složeno i podjednako važno kako za ekonomski razvijene zemlje, tako i za zemlje u tranziciji, ili danas već, posttranzicione zemlje. Postoje razni faktori koji su od značaja za jačanje lokalnog i regionalnog ekonomskog razvoja i različiti programi za podršku, koji se kreiraju od strane javnih vlasti. Kreatori ekonomske politike u EU usvojili su Akt o malom biznisu, kao poseban instrument u cilju podrške razvoju malih i srednjih preduzeća. Ovaj akt ima za cilj podsticanje ravnomernijeg regionalnog razvoja industrije i unapređenje i revitalizaciju ekonomskog života, kako u zemljama članicama, tako i u zemljama potencijalnim kandidatima.*

*Ključne reči: politika malih i srednjih preduzeća, industrija, Akt o malom biznisu, regionalni razvoj, poslovno okruženje*