

## POSSIBILITIES AND CONSTRAINTS ON THE DEVELOPMENT OF ENTREPRENEURSHIP IN THE COUNTRIES IN TRANSITION

### MOGUĆNOSTI I OGRANIČENJA RAZVOJA PODUZETNIŠTVA U ZEMLJAMA U TRANZICIJI

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**Abstract:** *The subject in the research are small and medium-sized enterprises comprised activities of gathering and processing information about the developmental level of entrepreneurship and initiative including the Republic of Serbia, AR of Vojvodina and selected municipalities in Vojvodina. In research a careful attention has been devoted to the European Charter on small-sized enterprises i.e. how well it has been adapted to suit the established framework which has been precisely defined in terms of tenpoint plan. The survey is both retrospective and perspective, i.e. it aims to investigate the achieved results and propose an action plan for the following 12 months. The stated framework sets out the conditions for researching abilities and constraints on the development of small-sized enterprises.*

**Key words:** *small and medium sized enterprises, European Charts, transition*

**Sažetak:** *Predmet istraživanja su mala i srednja poduzeća i obuhvaća aktivnosti prikupljanja i obrade podataka o stupnju razvoja poduzetništva i inicijativi u Republici Srbiji, AP Vojvodini i nekoliko općina u Vojvodini. U istraživanju smo posvetili pažnju Europskoj povelji o malim i srednjim poduzećima, to jest kako je ona prilagođena da odgovara postojećem okviru koji je točno definiran u sklopu plana od deset točaka. Istraživanje je retrospektivno i perspektivno jer nastoji ispitati postignute rezultate i predložiti plan djelovanja u slijedećih dvanaest mjeseci. Spomenuti okvir određuje uvjete za ispitivanje i mogućnosti i ograničenja u razvoju malih i srednjih poduzeća.*

**Ključne riječi:** *mala i srednja poduzeća, Europska povelja, tranzicija*



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## **1. Introduction**

The structure of the world economy has changed drastically since the beginning of the 20<sup>th</sup> century. Radical changes occur during and after industrial revolution.

The subject of investigation was small and medium sized enterprises that are vehicles of economic development and entrepreneur initiative in the Autonomous Region of Vojvodina. In the presented investigation, a special attention was given to the European Charter for small enterprises, i.e. the degree to which it is adjusted to the framework it represents in form of 10 precisely defined points.

The European Charter for small enterprises is a political framework which enables the countries obliged by the goals of the Charter to systematically follow, assess and compare the progress towards the achievement of these goals on an annual, cyclic base.

The Charter indicates the open method of coordination that comprises four different elements of political cooperation on European level: directions, exchange of "good practice", comparative overview and application of indicators and benchmarks.

Within this context, a questionnaire has been developed, covering all the significant segments of the European Charter for small enterprises, which were required from every municipality to describe the situation in the field of small enterprises, that would enable the identification of "good practice", and the ranking of domains of the Charter according to different criteria.

The precise definition of developmental needs, "strengths and weaknesses" of the municipalities, and their interconnection, provides the synergy of effects and propose a comparative overview of development of small enterprises within the selected municipalities.

According to the data, processed by software package SPSS ver. 13, quantitative and qualitative results were obtained that may serve as a data base for launching new initiatives and create conditions to intensify the entrepreneurship, i.e. the development of small enterprises in the investigated municipalities (Bački Petrovac, Novi Bečej, Zrenjanin, Bačka Palanka, Vrbas, Žabalj, Temerin, Indija, Subotica, Sombor and Novi Sad).

## **2. Small and medium sized enterprises in the countries in transition**

The term "countries in transition" (CIT) denotes the countries that transform their society towards the market economy. Creation of private sector, development of entrepreneurship, and the creation of small and medium sized enterprises are in the core of political and economical transformation of any country in transition. They are considered as the main impulse of economical development.

At the beginning and during the process of transition, the governments of many countries in transition were faced with the social problem of increased unemployment. Transition was accompanied by the liberalisation of economy, restructuring industry and change of the proprietary structure. From the very beginning of the process, many of the countries in transition, especially from the

Central European region, recognised the importance of small and medium sized enterprises in restructuring industry.

Most of the countries in transition accepted the European Charter for small and medium sized enterprises. From the aspect of entrepreneurship development and sector of small and medium sized enterprises, and harmonisation with the EU standards, the Charter seems to be very important and thus, indispensable for association to the European Union.

In order to stimulate the development of entrepreneurship, the Charter emphasizes ten areas of importance to advance the business environment which needs to be improved and adjusted by the governments of the countries in transition. These are: education and training in entrepreneurship, more beneficial and faster business start-up, better legislature and regulations, available skills, improvement of on-line approach, improvement of business dealings of small and medium sized enterprises on both domestic and foreign markets, tax and financial issues, strengthening technological capacities in small enterprises, models of successful electronic business dealings and first-class support to small business, and development of a stronger and more efficient representation of interests of small and medium sized enterprises on the professional and national level.

In most of the countries in transition a supporting infrastructure to the small and medium sized enterprises has been created, developed and stabilised. These are mainly national development agencies for small and medium sized enterprises (SMEDA – SME Development Agencies) facilitating their creation and indicating the development and growth of existing and newly created organisations.

### **3. Investigation of the level of implementation of the European charter on selected sample**

#### *3.1. Sample of investigation*

There were nine municipalities under investigation, that were representative according to the characteristics investigated (Bački Petrovac, Novi Bečej, Zrenjanin, Bačka Palanka, Vrbas, Žabalj, Temerin, Indija, Subotica, Sombor and Novi Sad).

#### *3.2 Data processing*

Data were processed by means of standard statistical procedures: monovariance (analysis of frequencies, rankings, arithmetical averages, one-way analysis of variance) and multivariate methods (factor analysis, Varimax rotation).

Data from these investigations were entered to the Excel software, and data processing itself was carried out by the SPSS 13.0 software.

#### *3.3 Instruments of investigation*

The investigation was carried out by the means of a questionnaire, specially drawn up for this occasion, consisting of 16 questions of open type and an appendix consisting of a 4 x 9 matrix with the rows representing the areas of the European Charts for small and medium sized enterprises, and columns representing the operational definition of activities according to the areas of the Charter.

#### **4. Identification of obstacles and possibilities for development of small and medium sized enterprises**

Based on the investigations, we may say that the business operation of small and medium sized enterprises is under a heavy burden of numerous problems, but they differ according to the stage of lifecycle of the enterprise. In the beginning, entrepreneurs are often inadequately prepared to start the operation and get insight in all the problems they will face.

On the other hand, the unreadiness of banks to fund the "start-up" activities of future entrepreneurs is evident. In their growing and developing stage, small enterprises are faced with new and different problems.

Besides undeniable advancements in creating a more stimulative business environment, all the obstacles to develop the sector of small and medium sized enterprises, increase its competitiveness and inventiveness has not been removed yet. This applies specially to large fiscal intakes, unfair competition recruited from the grey economy, late payment of debts, inaccessibility of public acquisitions, monopolies, proceedings of tax and supervisory bodies, complicated, slow and expensive procedures of procurement of building and utility licenses and approvals to connect to the infrastructure network, municipal taxes and so on.

#### **5. Conclusion**

The contemporary approach to the development of small and medium sized enterprises is based on the advancements in the most important elements of their business environment, which have been confirmed through the international political platform of this area, as the European charter for small enterprises and the Bologna Charter on SME policies.

One of the main results of this investigation is the conclusion that solutions for economical problems shaking the economies of the countries in transition lie in the development of small and medium sized enterprises, i.e. of entrepreneurial economy based on inventive and innovative people, free entrepreneurs. It is concluded on the experience of well developed countries and the countries that successfully transformed they economies into market economy, that the sector of small and medium sized enterprises is a very important component of an economical system and that their development does not represent merely a tactical gesture in the actual economic moment, but above all, it is an important requirement of efficient economical development and answer to many social problems.

It is concluded that over the period of transition the entrepreneur's initiative substantially increases, which is confirmed by a large number of new enterprises. The great majority of entrepreneurs opted for trading, hospitality, craftsmanship and other business, mainly in the sector of providing services.

The most important categories have been identified which need the greatest attention both on the local, regional and state level. These are: support in development of business plan, assistance in the domain of legal services (registration of enterprises, contracts and other legal services, marketing services (market information, market

research, trading contacts, advices and contact in distribution, business facilities, manufacturing equipment, etc.), finance and assistance in initial stage of development of the enterprise, entrepreneurial and managerial training, connecting with the other sectors of small enterprises and internationalisation of business activities.

Based on these investigations, the following development indices of small enterprises in the investigated municipalities of Vojvodina have been derived (the development index for small enterprises in Serbia in 2007 was 2.47, and based on the investigation in nine municipalities of Vojvodina, it is 3.04).

Based on this investigation, the application of the model of concentrated network is recommended, where the capital of family enterprises is joined. Every participant, for example ten enterprises, reaches agreement with ten other enterprises, which in turn find another ten interested firms each forming a network of 10x10x10 participants, investing \$ 2000-3000 each. These assets of \$ 2-3 millions make the funds of a credit society, or even a bank, from which the business development within, or even outside the investors network is funded.

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