

# The Importance of Small and Medium Enterprise Development for Efficient Global Market Environment

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Small and medium enterprises (SMEs) play an important role in the world economy. Modern trends in the development of small and medium enterprises imply a constant increase in their role in the total income of an economy. For such an approach, it is important to achieve quality organizational and managerial concepts of planning strategy development. In many countries, small businesses dominate in the production of a number of smaller products, higher consumption, and high quality of these products. The concept of a small economy consists of a group of companies that stand out in terms of their characteristics in relation to large companies. In relation to large companies as business systems, SMEs differ based on the concept of their own organization's business, the volume of business, and the availability of resources. Research data show that the main obstacle to efficient continuous business of SMEs in the world is the *procurement and maintenance of business resources*. Ensuring continuity in production is often a problem of lack of resources, which primarily characterizes them in relation to large companies. Small business and entrepreneurship are the main backbone of today's economic development, viewed globally. The purpose of the development of small and medium enterprises in the world is to enable the development of a successful and flexible entrepreneurial climate as an important organizational determinant, which is a prerequisite for progress in the modern world economy. The feature of SME development is the *innovation* of employees that needs to be constantly developed. In that way, conditions are provided for technological development, formation of flexible organizations, and new employment. In practice, small and medium enterprises are the engine of economic development. It is a sector that promotes private property and entrepreneurial skills. According to experts on economic issues, SMEs are today and in the future, not only in Serbia, the Region, but also in the world, a synonym for the private sector—for entrepreneurship. Comparative analysis shows the advantage of SMEs, especially in flexible business, where they can quickly adapt to change and can fully meet market demands.

*Keywords:* Small and medium enterprises, efficiency, market competitiveness, development strategy, global business

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## Introduction

The importance of SME development in the economic environment of countries in the world is dominant in relation to market requirements and flexible business in the market, as well as in relation to customer requirements. For developing countries, including Serbia, the *strategy of small and medium enterprises and entrepreneurship* is aimed at: promoting entrepreneurship and creating a framework for opening a sustainable, internationally competitive and export-oriented sector of small and medium enterprises and entrepreneurship in the long run.

The facts of the research show that the countries of the EU and the Pacific Region have given good examples of encouraging the design and creation of the form and content of small businesses, as important institutions of economic development of national economies and other development economies in the region.

According to the data, small and medium enterprises have a significant role in OECD countries: where they represent over 95% of the total number of enterprises and participate in total employment with 60%-70%.

According to the data, a large number of innovative companies are in the SME sector today. This figure ranges between 30% and 60% of enterprises in the SME sector, and 10% of enterprises can be described as high-tech enterprises.

Practice and science show that small and medium enterprises represent the most important segment of any economy in the world, which significantly determines the development of a national economy.

## Differentiation of Small Economy According to EU Criteria

Basically, the division of small and medium enterprises made on the basis of the criteria of the European Union (EU) is defined as follows (Đorđević, 2001):

- Medium-sized companies include companies with up to 250 employees. It is considered that they are not part of any larger organization or part of a chain with an annual turnover of less than EUR 40 million, or whose balance sheet is less than EUR 27 million (with a guarantee of independence to the extent that allows concerns to own a maximum of 25%);
- Small enterprise means an enterprise with up to 50 employees, up to EUR 7 million annual turnover, and a balance sheet of up to EUR 5 million;
- Micro enterprises include enterprises with up to 10 employees (in accordance with EU criteria).

Determinants of SMEs such as: innovation and flexibility form the backbone of development, market operations, and employment. For example, as research shows:

New jobs were created in the United States in the late 1980s, thanks to the rapid formation of a large number of SME companies, so the entire economy operated in a larger concept of small and medium-sized organizations' strategies. Such a pace of SME establishment quickly spread to the Region of Southeast Asia and Western Europe.

When analyzing the advantages of small and medium enterprises, one comes to the view that they can be divided according to the nature of two important categories: economic and social.

The most significant economic benefits of SMEs include:

- \* high market and technological flexibility,
- \* analysis of strategic market opportunities,

- \* important logistical support to large companies,
- \* faster and easier implementation of modern management techniques,
- \* good mutual business cooperation for economic development, especially at the local and regional level.

The social advantages of SMEs are characterized by:

- more certain increase in employment,
- organized development of entrepreneurial climate and culture,
- good communication and establishing better relations with partners in the business chain,
- greater understanding of employee needs,
- employment of special categories (youth, women, pensioners, disabled, ethnic groups),
- great contribution to the development of the local community, etc.

According to the approaches of science and practice, SMEs are categorized in quantitative terms, through three criteria (New RS Law on Investments, 2017):

- (1) Number of employees,
- (2) Gross income,
- (3) Value of funds.

EU criteria for SMEs are: *Number of employees and Total income.*

Criteria in Serbia for SMEs are: *Number of employees, Gross income, and Value of funds.*

The World Bank's SME criteria are: *Number of Employees, Gross Income, and Value of funds*<sup>1</sup>.

According to the Law on Accounting ("Official Gazette of RS", No. 62/13, 2015), new criteria for classifying SMEs as legal entities have been introduced, as well as new categories of them, namely: micro legal entities, in addition to existing small, medium, and large enterprises. Table 1 shows the criteria and achieved values in micro, small, medium, and large enterprises.

Table 1

*Criteria for Doing Business in Micro and SME Companies According to Three Categories*

Criterion	Micro	Small	Medium	Large
Average number of employees	to 10	10-15	50-250	over 250
Operating income	to 700,000 EUR	700,000-8,800,000 EUR	8,800,000-35,000,000 EUR	over 35,000,000 EUR
Average value of business assets	to 350,000 EUR	350,000-4,400,000 EUR	4,400,000-17,500,000 EUR	Over 17,500,000 EUR

Belonging to one of the mentioned groups of legal entities is achieved if at least two criteria are met. The method of calculating the average number of employees, business income, and the average value of business assets remained the same.

### **Small Business Criteria and Planning Strategy**

Based on statistical data from surveys in the world economy and the Serbian economy, data are obtained on the number of economic entities in the SME sector.

On the examples of world science and practice, according to research data<sup>2</sup>, out of a total of 23 million companies, and about 100 million employees in this sector, as many as there are in the European Union, today as many as 99% are small and medium enterprises. For example, 25 million SMEs operate in the USA, and five million in Japan. The data show that within the small economy, the total gross domestic product of the EU is

<sup>1</sup>www.kapitalmagazin.rs.

<sup>2</sup>www.map.hn/dokumenti, 2017.

realized—GDP of 60% and over 80 million jobs are provided. In the EU, SMEs employ 2/3 of the total number of employees in the private sector, the SME sector.

Official data from statistics in Serbia show that at the end (2017), there were a total of 76,394 companies, of which 75,729 or 99.1% were small and medium enterprises. According to the latest data from the Business Registers Agency, there are currently over 86,000 companies in Serbia that are categorized as small and medium.

For employment within SMEs, according to official statistics, at the end of last year, all companies in Serbia employed a total of 1.138 million people, of which small had 366,516, medium 256,890, and large 514,406 employees. There were 407,819 employees in purely privately owned enterprises, of which 278,264 in small, 71,879 in medium, and 57,694 in large enterprises.

According to statistical reports, the number of private small and medium enterprises at the end of 2017 was 52,441, of which 44,769 with less than 10 employees (the most dominant type of enterprise in Serbia is—a privately owned small enterprise with less than 10 employees).

The practice, both in Serbia and in the European Union, is for governments to pass regulations on supporting small and medium enterprises, as well as stimulating their growth and competitiveness in many key areas, such as education and training of entrepreneurs, and creating more efficient legislation regulations, tax, and financial system. In this way, the importance of small businesses and entrepreneurs for development, competitiveness, and employment in the European Union is fully recognized.

The Government of Serbia has adopted a Strategy to support the development of small and medium enterprises, entrepreneurship, and competitiveness for the period from 2015 to 2020, with an Action Plan in line with relevant EU policy. The strategy conceives<sup>3</sup>:

- improving the business environment,
- improving access to funding sources,
- continuous development of human resources,
- strengthening the sustainability and competitiveness of SMEs,
- improving access to new markets,
- development and promotion of entrepreneurial spirit and
- encouraging entrepreneurship of women, youth, and social entrepreneurship.

### **Marketing in the Function of Successful SME Business**

Successful and quality business of SMEs in the markets of the world cannot be imagined without modern and aggressive advertising. This implies the application of *marketing* for small businesses, i.e. advertising, that a legal entity exists in one country and is recognizable to the general public, because it is not good to know only the internal environment—the company to exist, but others around the world need to know.

Stewart Britt presented such a non-advertising marketing attitude to the general public with the phrase “You know what you’re doing, but others don’t.”

The business is conceived on the basis of key determinants that define the *style* of a given marketing and which aims to successfully create a business framework that will be able to provide a brand—a highly recognizable product. Such a strategy places emphasis on quality management marketing. In the practice of

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<sup>3</sup><http://www.blic.rs/vesti/politika/usvojena-strategija-za-podrsku-razvoja-malih-i-srednjih-preduzeca/eyz4nc1>.

entrepreneurship, cooperation with accredited consulting companies for the quality of products and services is most often achieved, both in one's own country and abroad. The ultimate goal is to obtain a *certificate of product quality*.

A special category of modern business for SMEs is important for business in the function of quality management. The practice of modern market conditions conceives the implementation and development of *Internet marketing as well as a set of other tools in this area*. This justifies the fact that market research, which essentially shows that consumers are more loyal and inclined to companies that are *active online*. It can be seen from the research of entrepreneurial business that this is a good motive for businessmen, and that they need to approach internet marketing with great speed in order to realize its potential.

When it comes to less developed countries, research data show that the state of business of SMEs in these countries is accompanied by many difficulties. The data show that the biggest problems occur due to:

- inefficient conceptions of research projects and,
- poor project management roles.

According to the data, the real state of the business environment of small businesses requires the implementation of the necessary changes dictated by the market, in which project management focuses on the specifics of business conditions in certain areas of industrial development.

New changes in the quality of products, management, and organization can be of special importance and motivation for fundamental management research, as well as for applied research, both in small and medium enterprises, and in large and overall industry.

### **Conclusion**

The business environment of SMEs globally, in defining the basic characteristics of entrepreneurial and managerial business conditions, should conceptualize a certain difference in the global environment and in narrower areas. Namely, the natural and socio-economic factors of a country's business must be taken into account, according to the geographical area in which the companies operate.

When designing the work program of entrepreneurial companies in the field of quality management, care should be taken to improve the underutilized available production potential. Insufficient utilization of natural and human resources can lead to slow growth and development of the entire industry in the economic environment of one country.

The basis of the development plan and project, viewed from the organizational and managerial aspect, includes:

- (1) Development of the entrepreneurial environment through the necessary investments for modern development technologies and personnel.
- (2) Continuous improvement and development of the achieved level of knowledge, training, and education of employees to achieve a high level of quality of products, services, and business as a whole.
- (3) Application of effective methods, measures, and techniques that are incorporated in SMEs in the world of developed countries in the long term and continuously.
- (4) Greater flexibility in adapting industrial enterprises to changes in the environment.
- (5) Greater integration and interaction between science and practice in order to be pragmatic and faster to incorporate knowledge into small businesses.

(6) Application of benchmarking for faster achievement of competitive business on the world market, etc.

According to research, the basic goals of small business development show that business environment strategies are related to faster economic development that is structured through projects. In the whole observed systemic quality development, these are the following strategies, which include:

- significant elements of long-term development,
- concepts of quality improvement through a clear vision and mission of overall production,
- key factors of quality management for the implementation of the development project,
- relevant organizational approaches to work, according to the set goals, by the management as one of the bases of development,
- significant elements related to securing and improving a high competitive position in the global market,
- factors for ensuring product recognition by specific business conditions, services, high quality brands,
- the ability of the economy to be ready and economically able to respond to changes in the environment,
- suitable environments of importance for high quality etc.

The main concept of the approach of successful quality development management within the SME business is the knowledge of the entrepreneurial business environment of companies that operate in the world today through quality product development and the implementation of an efficient project and development plan. This concept should be contained in an effective strategy, business policy and development of product and service quality as key determinants of today's industry and small business.

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