

## STUDY ON DYNAMICS AND CONSTRAINTS OF THE EMPLOYMENT IN THE SERBIAN SMEs DURING A CRISIS

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**Abstract:** Small and medium sized-enterprises (SMEs) are often seen as a sector important for job creation. About 2/3 of the overall employment is provided by this sector, both in the EU and in the Republic of Serbia. There is evidence that SMEs are responsible for the most part of the net employment growth. The SMEs sector in Serbia is identified as sector which can absorb a part of the unemployment generated by the large scale enterprises' (LSEs) restructuring and privatization. Today, the unemployment rate in Serbia is high above the average unemployment rate in the EU. The question is whether the SMEs sector can absorb that unemployment, or is this sector more influenced by the crisis, relative to the LSEs. The aim of this paper is to examine the employment contribution of the SMEs in the Republic of Serbia. Furthermore, the paper will deal with the impact of the crisis on the SMEs' employment, efficiency and their investment activities. The problems that are identified by SMEs, and that lead to rising unemployment in this sector over the past few years will be considered and analyzed.

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## 1. Introduction

Sector of small and medium-sized enterprises (SMEs), among other things, can be an indicator of the state and of the level of a particular economic system's development (Fida 2008). As key participants in the process of creative destruction that are characterized by a higher level of flexibility, these companies are seen as the engine of the economic growth and development (Acs, Morck, Shaver i Yeung 1997; Fida 2008). One of the most frequently analyzed characteristics of these companies, which determine their contribution to the growth and development of the economy, is their innovation activity. A higher level of innovation is one of the main sources of business competitiveness and these companies' potential to contribute to the overall national competitiveness of a country. In their study, Acs and Audretsch (1988) show that small businesses are more innovative than large ones, and that these companies are more successful innovators. The results of this study indicate that innovations are more likely to happen in the industries dominated by large companies, but at the same time, in these industries small businesses are more often playing the role of the innovators. Therefore, small companies are innovators in innovative industries (ibid.).

Aside from the contribution to the national competitiveness, exports and innovation, the participation in a process of gross value added creation, in the investment activities, and so on, the importance of the SMEs sector is often viewed in the context of their contribution to the employment (Harvie and Lee 2002). These companies are to a larger extent present in the labor-intensive industries by which they directly contribute to the employment growth (Cook and Nixon 2000). By employing and providing the opportunities to achieve earnings, these enterprises make a contribution to the achievement of the wider social objectives such are poverty reduction and assimilation of the economic and social differences in one society (Cook and Nixon 2000; Fida 2008). SMEs create more jobs and contribute to the net employment growth (Kok, Vroonhof, Verhoeven, Timmermans, Kwaak, Snijders and Festhof 2011). When large companies move their production and therefore reduce the employment, the SMEs sector is the one that prevents the decline in net employment, and even contributes to its growth. Therefore, it is essential, in addition to the static, to follow the so-called dynamic contribution of the SMEs to the employment, that is the contribution to the employment growth. Thus, over the 2002-2007 period, the SMEs sector contributed to the employment growth of 80% in the EU (Audretsch, van der Horst, Kwaak and Thurik 2009; Eurostat 2009). The EU *Report on the Implementation of the Charter for Small and Medium Sized-Enterprises in the Western Balkans* also indicates that the SMEs are the net creators of jobs (The European Commission 2007). In the 2001-2004 period, despite the decrease in the total employment, the employment in the Serbian SMEs increased by 8.6%. Thus, it is evident that the SMEs are a kind of buffer

for decline in the employment, which in the case of Serbia, unfortunately, is not the result of large companies moving or outsourcing their production, but of their restructuring, privatization and/or liquidation.

Given the importance of the SMEs for the employment, there is a clear need for an analysis of the impact that crisis has on the employment trends in this sector. Greater impact of the crisis on the employment reduction in the SMEs sector (Kok et al. 2011) leads to the fact that these companies, from the net generator of jobs, become the sector that, to a greater extent, contribute to the growth of the unemployment rate. Therefore, an analysis of the employment trends in the SMEs sector becomes particularly important in an environment in which the key economic and broader social issue is that of the unemployment.

## **2. The Employment in the Serbian Small and Medium-Sized Enterprises – State and Problems**

The contribution of the SMEs sector to the employment, especially to the net employment, is evident today. These companies are often seen as the main generators of new jobs that can significantly contribute to solving the problem of the unemployment. This SMEs' feature becomes particularly relevant and necessary in the systems where high unemployment rate is one of the key macroeconomic indicators. However, during the period of crisis, the employment in this sector can be largely affected by it, particularly due to the characteristics of the SMEs – primarily because of their dominant orientation to the local markets, limited access to finance and low bargaining power in dealing with the problems related to the collection of the receivables. These trends certainly make an additional negative pressure on the growing unemployment in the Serbian economy. Therefore, this paper presents the analysis of the state of the employment in the SMEs, and of the basic problems that these companies are faced with in doing business.

### **2.1. Methodology**

Analysis of the impact of the crisis on business, with a focus on the impact on the employment in the small and medium-sized enterprises, but on the efficiency indicators, investments, and the key challenges of the Serbian SMEs as well, is conducted on the basis of secondary data available in the official reports of the Statistical Office of the Republic of Serbia and in the documents of the relevant ministries and government agencies. Bearing in mind the availability of the data and the publishing dynamics of the used data sources, the unemployment rate is followed for the 2008-2012 period, the dynamics of the total employment and employment in companies of different size and the efficiency indicators were analyzed for the 2009-2011 period, the level of investments were followed during 2009 and 2010, while the analysis of the

subjective assessment of SMEs owners and entrepreneurs about the impact of the crisis on their businesses, the key problems and possible solutions is given for the 2009-2012 period. Although the periods in which these issues are analyzed are not identical, such time scope covers the years which are seen as the years of the most visible manifestations of the crisis in Serbia (when measured by the dynamics of the gross domestic product) – 2009, 2010 and 2011 (Statistical Office of the Republic of Serbia, 2013b).

In order to evaluate the impact of the crisis on business, and in particular on the employment in the SMEs sector, the synthesis and the quantitative processing of the available secondary data were done. By analyzing the quantitative indicators in a dynamic context, certain qualitative conclusions about the impact of the crisis on the SMEs business were made. In order to provide a higher level of comparison, the unemployment rate in Serbia is defined as the ratio of the number of unemployed individuals and the number of active population aged over 15 years. The unemployment rate in the EU is measured as the share of the unemployed in the total labor force aged 15-74 years. The dynamics of the number of employees is shown as the absolute and as the relative change in successive years of the period, as well as changes realized in the last compared to the starting year of the period. For the insight into the intra-sectoral employment trends, disaggregation of the dynamics of the employment in micro, small and medium enterprises was made.

The methodology of quantifying the state and the dynamics of the other variables – indicators of efficiency, the level of investment, business challenges – can be seen in the referenced sources in a more detailed manner.

## **2.2. The Analysis of the Results**

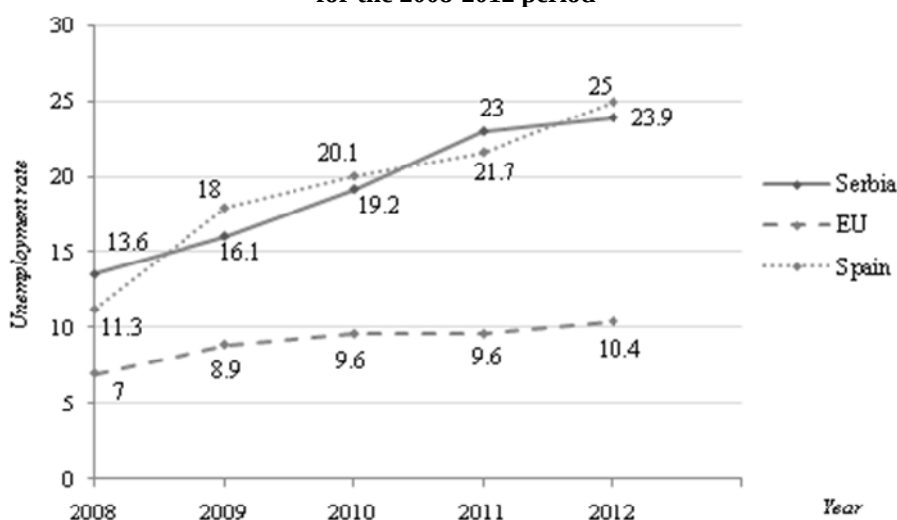
### **2.2.1. Employment Dynamics of SMEs in Serbia during the Period of Crisis**

High unemployment rate is a major problem of the Serbian economy. During the period from 2008 to 2012, the average unemployment rate in Serbia amounted to 19.6% (Statistical Office of the Republic of Serbia 2009a, 2010a, 2011a, 2012a, 2013a). Recording a constant growth during this period, the unemployment rate in Serbia is significantly higher than the average unemployment rate in the EU27 (Figure 1). State and dynamics of the unemployment rate in Serbia are comparable to the state and dynamics of the unemployment rate in Spain – an EU member state with the highest unemployment rate in the analyzed period.

The fact that in the past five years, on average one out of five active citizens over 15 years old in Serbia was unemployed, which highlights the importance of solving the unemployment problem in the Republic. One of the initial steps in this direction is to analyze the extent to which the current crisis has caused

the employment reduction in certain sectors of the economic system of the country. In that sense, the identification of the level and the direction of the exposure of companies of a different size to the impact of the crisis could point to the possible existence and to the magnitude of different contribution of companies of various sizes to the growing unemployment in the country. Identifying the sectors that are more vulnerable to the impact of the crisis on the number of employees should lead to finding the reasons, and therefore the solutions for such a position.

**Figure 1. The unemployment rate in Serbia, Spain and in EU27 for the 2008-2012 period**

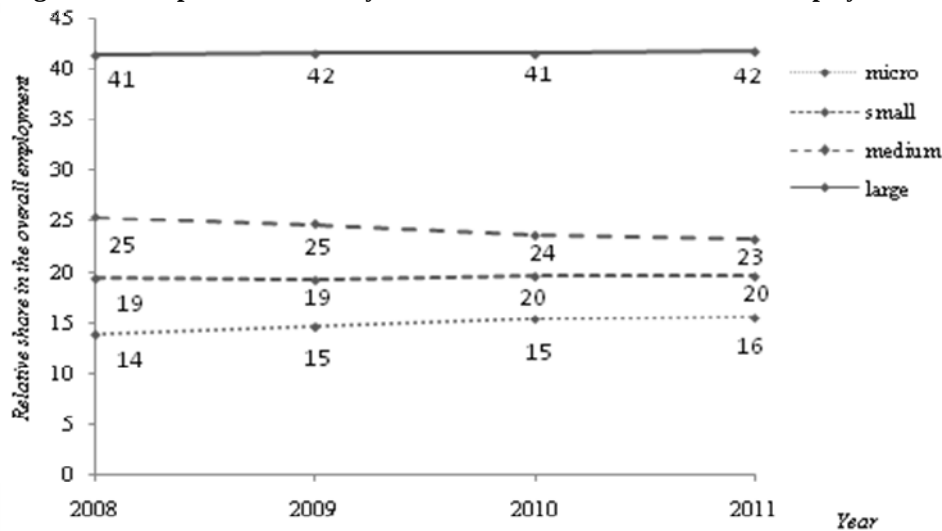


Source: Statistical Office of the Republic of Serbia, EUROSTAT

On average, 58% of all employees in the country were employed in the SMEs during the 2008-2011 period (Statistical Office of the Republic of Serbia 2009b, 2010b, 2011b, 2012b). The micro and small enterprises<sup>1</sup> contributed 34% to the total employment in the Republic, while in the medium-sized enterprises one in four employees worked, on average during this period. The relative shares of the employment in small and micro enterprises at the end of the analyzed period, i.e. in the 2011 were above those at the beginning of the period, that is in 2008 (Figure 2). On the other hand, the share of employees in the medium-sized enterprises in the total employment over the period declined by 2%.

<sup>1</sup> According to the Statistical Office of the Republic of Serbia methodology, the micro enterprises are those which employ 0-9 persons, small ones employ 10-49, while medium-sized companies are the companies that employ 50-250 people.

Figure 2. Enterprises in Serbia by size and relative share in the overall employment



Source: Statistical Office of the Republic of Serbia

Table 1: Changes in the Number of Employees in the Republic of Serbia, Total and in Enterprises of a Different Size, for the 2009-2011 Period

|        | Annual changes of the number of the employees ( $t_{n+1}:t_n$ ) |       |           |       |           |       | $t_{n+3}:t_n$ |        |
|--------|-----------------------------------------------------------------|-------|-----------|-------|-----------|-------|---------------|--------|
|        | 2009:2008                                                       |       | 2010:2009 |       | 2011:2010 |       | 2011:2008     |        |
|        | aps.                                                            | %     | aps.      | %     | aps.      | %     | aps.          | %      |
| Total  | -59.222                                                         | -5,34 | -53.533   | -5,10 | 6.382     | 0,64  | -106.373      | -9,60  |
| Large  | -22.811                                                         | -4,97 | -22.785   | -5,23 | 5.438     | 1,32  | -40.158       | -8,76  |
| SMEs   | -36.411                                                         | -5,61 | -30.748   | -5,01 | 944       | 0,16  | -66.215       | -10,19 |
| Micro  | -493                                                            | -0,32 | 190       | 0,12  | 2.208     | 1,44  | 1.905         | 1,24   |
| Small  | -13.182                                                         | -6,16 | -6.504    | -3,24 | 1.152     | 0,59  | -18.534       | -8,66  |
| Medium | -22.736                                                         | -8,07 | -24.434   | -9,43 | -2.416    | -1,03 | -49.586       | -17,59 |

Source: calculations of the authors based on Statistical Office of the Republic of Serbia 2009b, 2010b, 2011b, 2012b

Analysis of the dynamics of the employment in successive years during the period indicates that in each analyzed sector a decline in the number of employees is recorded, both in absolute and in relative terms (Table 1). The exception is micro enterprises with an employment decrement only in the second year of the analyzed period, after which an employment increment is registered in these companies. Further, the exception of the trend of decline in the number of employees is the year of 2011 in which all the analyzed sectors

(except for the group of medium-sized enterprises) recorded a slight increase in the number of employees<sup>2</sup>. In the years of the recorded decline in the number of employees, this trend is more pronounced in the SMEs sector, both in absolute and relative terms. These results are consistent with the results at the EU27 level (Kok et al. 2011). On the other hand, in 2011, the year of the employment growth, the growth is more pronounced in the large enterprises.

Looking at the relation between the number of the employees at the end of the analyzed period and the number of the employees at the beginning of the period, it can be stated that the total number of employees in the 2011 was lower than the number of them in the 2008. This kind of relation is evident both in large, and in the SMEs sector. The exception is the sub group of the SMEs sector, that is the micro-enterprises. Thus, the available data indicate that the SMEs sector is to a greater extent affected by employment downsizing. Approximately 2/3 of the total employment decrement refers to the reduction in the SMEs sector. Alongside with a greater absolute reduction in the number of employees in the SMEs sector, a more pronounced relative decrease of the number of employees is recorded in these enterprises (10.19%) – both relative to the total average reduction (9.60%), and in relation to the reduction in the group of large enterprises (8.76%). Within the SMEs sector, as much as 75% of the reduction in the number of employees is related to the reduction in the medium-sized enterprises. Further, these companies record the most prominent relative decrement, since the number of employees in this enterprises was approximately 17% lower in 2011 compared to the number of them who worked in this enterprises in 2008. Every third employee who lost his/her job worked in small enterprises. In the internal structure of the SMEs sector, only micro enterprises recorded a slight increase in the number of employees. However, since it represents only 2.9% of the number of employees who lost their jobs in the SMEs sector, or the 1.8% of total employment decrement, this increase in the micro-enterprises' employment do not contribute significantly to the improvement of the employment both in the SMEs sector and in the system as a whole.

Impact of the crisis on the SMEs sector is especially strong in the area of the employment in these enterprises. The number of employees in the SMEs in 2011 decreased by 66,215 compared to 2008 (Statistical Office of the Republic of Serbia 2009b, 2012b). Relative to the period before the crisis (2004-2008), this negative dynamics of the SMEs employment broke the trend of job creation by these companies. Namely, during the 2004-2008 period, SMEs and entrepreneurs registered an increase in the number of employees by 187,000. This increment of the employment in the SMEs and entrepreneurial sector

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<sup>2</sup> If the employment in the SMEs is joined by one in the entrepreneurial sector, there is a decrement in the employment of 3.4%, in the 2011 compared to the 2010 (Ministry of Finance and Economy, Ministry of Regional Development and Local Self-Government, National Agency for Regional Development 2012).

absorbed the decline of the number of employees in large companies caused by the restructuring of large systems – a reduction of 164,000 employees (Ministry of Finance and Economy, Ministry of Regional Development and Local Self-Government, National Agency for Regional Development 2012).

### 2.2.2. Efficiency Indicators and Investment Dynamics of the Serbian SMEs

Beside the employment dynamics, the dynamics of various indicators of efficiency and volume of investments as well show the scope of the effects of the crisis on the small and medium-sized enterprises. All this movements taken together can further worsen the employment level in the small and medium-sized enterprises in the Republic of Serbia. Parallel with the decrease in the employment in the sector of small and medium sized-enterprises, during the crisis years, i.e. 2009, 2010 and 2011 it comes to a decline in the SMEs' efficiency indicators - turnover, gross value added and profit (Ministry of Economy and Regional Development, Republic Development Bureau, National Agency for Regional Development 2010; Ministry of Economy and Regional Development, National Agency for Regional Development, 2011; Ministry of Finance and Economy Ministry of Regional Development and Local Self-Government National Agency for Regional Development, 2012). The negative dynamics of these indicators was especially noticeable during 2009, the year in which a greater decrease of the employment in small and medium sized-enterprises was recorded (Table 2).

**Table 2: The Dynamics of the Efficiency Indicators and the Investment Activity of the Serbian SMEs for the 2009-2011 Period**

| Indicator         | Annual changes ( $t_{n+1}:t_n$ ) |           |           |
|-------------------|----------------------------------|-----------|-----------|
|                   | 2009:2008                        | 2010:2009 | 2011:2010 |
| Turnover          | -14.7%                           | 0,3       | 0,2       |
| Gross value added | -11.2%                           | -1,4%     | -3,2%     |
| Profit            | -15.5%                           | 8,6       | -3,2%     |
| Investments       | -7.6%                            | -0,3%     | n/a       |

*Source:* Ministry of Economy and Regional Development, Republic Development Bureau, National Agency for Regional Development 2010; Ministry of Economy and Regional Development, National Agency for Regional Development, 2011; Ministry of Finance and Economy Ministry of Regional Development and Local Self-Government National Agency for Regional Development, 2012

Turnover in the sector of small and medium-sized enterprises in 2009 declined by 14.7% in real, or 6% in nominal terms, relative to 2008. Lower turnover was registered in each of the subgroups of companies within this

sector, which interrupted the growth trend of the SMEs' turnover, the trend recorded in these enterprises since 2005. During 2010 there was a slight increase in the turnover in small and medium-sized enterprises (0.3%), but even so, the indicators of the efficiency levels in this year were below those registered in 2006. Similar, small increase (0.2%) of the small and medium-sized enterprises turnover was registered in 2011. Once again, this was not enough to compensate the negative dynamics during the previous period. During 2009, small and medium enterprises generated 11.2% less gross value added compared to the year before. Although during the same period gross value added generated in large enterprises declined also, a reduction in the small and medium-sized enterprises is twice higher. Although less pronounced, small and medium-sized enterprises created less gross value added in the 2010, that is 1.4% less compared to 2009. On the other hand, the gross value added generated in the large enterprises during this period increased by 3.6%. Negative trend of this indicator continued during the 2011, when the decrease of 3.2% was registered. The fact that the share of gross value added generated by the small and medium-sized enterprises in the structure of the gross value added of non-financial sectors of the Serbian economy is continuously decreasing from the beginning of the crisis, indicates that during the crisis relative position of the small and medium-sized enterprises has worsen. This relative share which was 59.1% in 2008, first recorded decrease in 2009 – when it was 57.4%, and then again in 2010 when this share was 55.9% and in 2011 when the share of the gross value added generated by the small and medium-sized enterprises was 55.2%. In an unfavourable business conditions, the profit of the small and medium-sized enterprises declined during 2009 and was lower by 15.15% relative to the year before. At the same time, the profit of the large scale enterprises increased by 1.8%. Certain encouraging dynamic was shown in 2010, when the profit of the SMEs has increased by 8.6%. Nevertheless, this was only short-time movement, given the fact once again the profit has declined in 2011, when it was below the 2010 level for 3.2%. (Ministry of Economy and Regional Development, Republic Development Bureau, Republic Agency for Development of SME and Entrepreneurship 2009; Ministry of Economy and Regional Development, Republic Development Bureau, National Agency for Regional Development 2010; Ministry of Economy and Regional Development, National Agency for Regional Development, 2011; Ministry of Finance and Economy Ministry of Regional Development and Local Self-Government National Agency for Regional Development, 2012).

Investments are the basis for competitiveness, growth and development and, therefore, the base for generating the new jobs. In a time when the growth of exports, strengthening the industrial sector (i.e. re-industrialization – authors' comment) together with the strengthening of the service sector are the priorities of the economic policy (Ministry of Finance and Economy, the Ministry of Regional Development and Local Government, the National Agency for

Regional Development 2012), an increase in investment, as an additional priority, is also prerequisite to achieve the above-mentioned. In accordance with the dynamics of the volume of the investments of the total non-financial sector, there is a declining investment activity of small and medium-sized enterprises in Serbia (Ministry of Economy and Regional Development, Republic Development Bureau, National Agency for Regional Development 2010; Ministry of Economy and Regional Development, National Agency for Regional Development, 2011). The problems of the threatened liquidity and the challenges of the current operations highlighted by the crisis, refocused the attention of the small and medium-sized enterprises' managers from the strategic to the current and operational issues. This is shown by our results as well. Namely, the above shown negative growth in the gross value added and profits of the SMEs for the analyzed period indicate the causes of the decline in the investment activity. Considering the fact that the growth of the gross value added and profit are generators (drivers) of the investments, their decrease led to the reduced investment activities. The decline in these indicators during the crisis, with increasing business obligations, resulted in a lower tendency to invest (Ministry of Finance and Economy Ministry of Regional Development and Local Self-Government National Agency for Regional Development, 2012). In fact, at a time when the crisis is far from over and when there are problems of maintaining liquidity, Serbian companies are not willing to take the risk of new investments. The reduction in investment activity in the non-financial sector in general, and in the SMEs and entrepreneurs can be seen in Table 3.

**Table 3: Investment Activities of the Non-Financial Sector in Serbia**

|                      | Structure of the investment (%) | Annual growth rate 2010:2009 (%) | Average annual growth rate 2010:2007 (%) |
|----------------------|---------------------------------|----------------------------------|------------------------------------------|
| Non-financial sector | 100,0                           | -5,9                             | -8,0                                     |
| LSEs                 | 44,3                            | -12,1                            | -5,8                                     |
| SMEEs                | 55,7                            | -0,3                             | -9,5                                     |
| Medium               | 30,9                            | 107,7                            | 0,2                                      |
| Small                | 6,7                             | -68,8                            | -29,2                                    |
| Micro                | 8,0                             | -7,6                             | -4,3                                     |
| Entrepreneurs        | 10,1                            | -6,4                             | -15,1                                    |

*Source:* Ministry of Finance and Economy Ministry of Regional Development and Local Self-Government National Agency for Regional Development, 2012 (adapted)

The average low investment indicators in the SMEEs are to a certain degree alleviated by the fact that there is a growth of the investments in the medium-sized enterprises, which are the only ones able to achieve a positive growth rate,

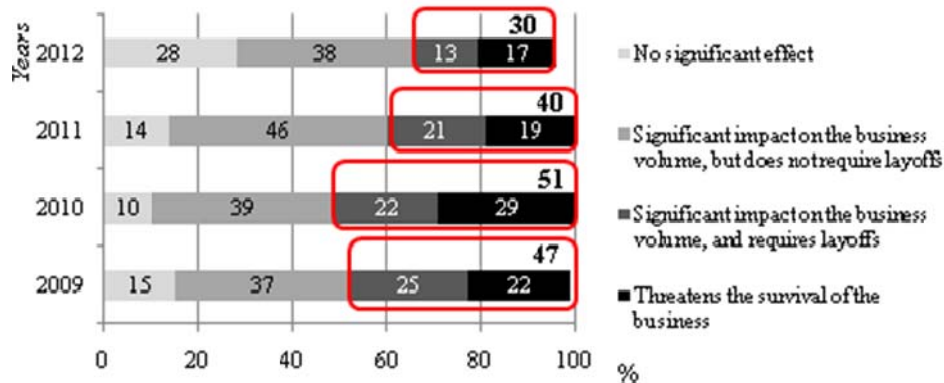
as observed for the entire period, and especially in the 2010 compared to the 2009. In fact, the medium-sized enterprises carried nearly a third of the total investment value of the SMEEs sector, they recorded the highest investment per employee and per company, and the highest share of the investment in the gross value added (59%) (ibid.). However, the rest of the sector, affected by the crisis and the growing illiquidity problems, significantly reduced their investment activities, and this is the most obvious for the small, but for the micro enterprises and the entrepreneurs as well. As we have argued above, small and micro enterprises contribute 34% of the total employment in the Republic of Serbia, with 42% of employees in large companies. Therefore, a decline in the economic and the investment activities in these companies had very negative impact on the dynamics of the total employment. That is, the increase of the investments in the medium-sized enterprises cannot compensate for the overall decline in the investment and business activities in the other non-financial sector companies. In addition, the increased investment in the medium-sized enterprises has not led to an increase in employment due to the fact that only about a third of the investments have been made in the equipment, and nearly two-thirds of the investment refers to the construction (ibid.). We conclude that the crisis and the liquidity problems had the strongest impact on the small businesses that had to reduce their business activity (decrease in the turnover and the gross value added), and/or to discontinue their businesses, which then had a negative impact on the employment in these enterprises. Furthermore, the increase in their investment activities and in their share in the generated gross value added does not necessarily increase the employment if the technical structure of investment is not adequate (investment in the equipment and technology).

Therefore, in addition to the reduced volume of the investment activity, there is a noticeable qualitative change of the technical structure of the investment, that is the decrease in the share of investment in equipment and construction, which also had a negative impact on the business activities and the employment in the Serbian SMEs during the analyzed period.

### *2.2.3. Perception of the Impact of the Crisis and Key Challenges for the Serbian SMEs*

Regarding the subjective attitude of entrepreneurs and the SMEs owners about the impact of the crisis on the overall performance, there is a growing optimism of the respondents (National Agency for Regional Development 2012a). Twice as much entrepreneurs and SMEs owners stated that the current crisis has no significant effects on their business, in 2012 compared to 2011 (Figure 3). Particularly, there is a noticeable increase in the share of those who find that business is not affected by the crisis in 2012 compared to 2010 – increment by 180%.

Figure 3. Impact of the crisis



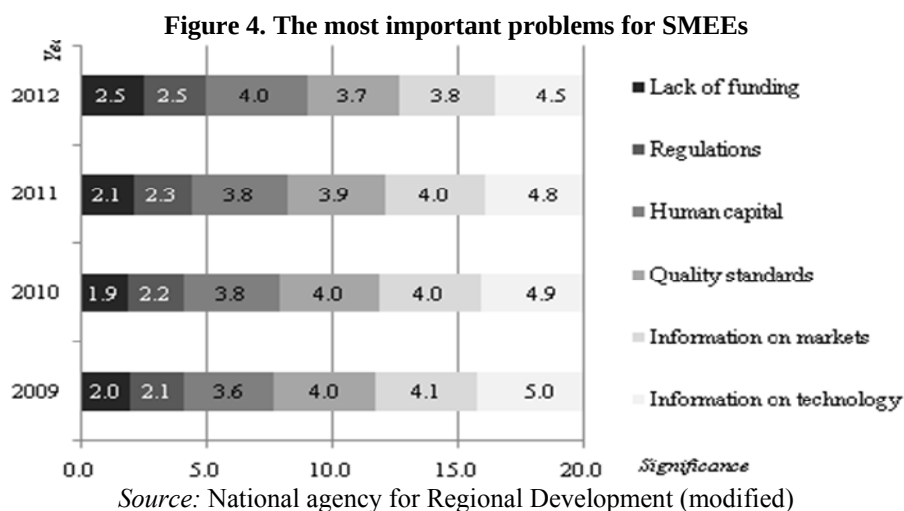
Source: National Agency for Regional Development (modified)

Further, when it comes to the impact of the crisis that respondents see as a direct threat to the employment, certain improvement can be identified. Namely, in 2012, 30% of entrepreneurs and SMEs owners believed that the crisis affects the business in a way to require layoffs or threatens the survival which is directly reflected in the number of employees. While still high, this relative share represents a decrease from the previous years, particularly in comparison to 2010 in which half of the entrepreneurs and SMEs owner assessed that the effects of the crisis are visible in the area of employment.

Lack of favorable sources of financing, inadequate business legislative framework, lack of workers with specific knowledge and skills, the mismatch of business with quality standards and lack of information about markets and technology are the biggest business problems cited by the entrepreneurs and SMEs owners<sup>3</sup> (The National Agency for Regional Development 2012a). Although constantly in the first place, the problem of access to finances loses in importance<sup>4</sup> (Figure 4). Also, a decrease in the intensity of the negative impact of regulations and inadequate human capital is recorded during this period. On the other hand, increases the importance of the problem of non-compliance with the standards of quality and lack of information about markets and technology.

<sup>3</sup> Problems are ranked according to the subjective view of the intensity of their limiting influence, with the lower score indicates a higher intensity of the impact.

<sup>4</sup> Due to the fact that for the 2011 scores of the intensity of the impact of the factors observed are not expressed in the *Report on conditions, needs and problems of SMEs*, these scores are calculated as the average score from the corresponding scores for the years of 2009, 2010 and 2012. Obtained average scores correspond to the range of the individual factors that is shown in the cited report.



In addition to the above, respondents were asked to list other problems that they are faced with. The answers relate to the difficulties in collection of the receivables, unfair competition, monopolistic behavior of the large companies, the problems related to the access to the public procurement and corruption. The constant problem of liquidity is further exacerbated by the crisis. As one of the main forms of manifestation of this crisis on this sector is the problem of collection of the receivables (National Agency for Regional Development 2009, 2010, 2011, 2012a). Reduced demand in the domestic market, which is the main market for the majority of the SMEs and entrepreneurs, was, according to the SMEs owners and entrepreneurs, the most important manifestation of the crisis during 2009, 2010 and 2011. There has been a change in the first place in 2012, because in this year the exchange rate dynamics was the factor with the most important negative impact.

SMEs owners and entrepreneurs in Serbia see the State as an entity with the greatest potential for improving business conditions and overcoming the crises (National Agency for Regional Development, 2009, 2010, 2011, 2012a). Intensification of the government support measures and the decrement of the business restrictions are the most important types of required assistance. The need for financial incentives is more pronounced than the need for the non-financial ones (National Agency for Regional Development, 2012a). After the subsidies for business improvement, the subsidies for job creation are the most needed form of public assistance for SMEs owners and entrepreneurs in Serbia (ibid.). The assumption of the dominant influence of the state financial incentives to the growth and development of the SMEs and, consequently, to the growth of the employment in this sector, is confirmed in the earlier research of the authors (Stefanovic, Djukic-Ivanovic, Jankovic-Milic 2013). This study has shown that state subsidies for the self-employment (especially those provided

by the National Employment Agency) are of the utmost importance for the creation of new jobs and, consequently, for an increase in employment. On the other hand, a significant reduction in the incentives from the start-up loan programs from the Fund for the Development of Republic of Serbia in 2011, accompanied by an increase of the micro enterprises' and entrepreneurs' mortality rates, confirms the importance of the financial support from the state for the growth and development of this sector in Serbia. Therefore, it is necessary to provide them in much greater extent, both at the national and at the local level.

According to Kok et al. (2011), 13% of SMEs and entrepreneurs in Serbia have used some form of state support of the employment. The importance of the public support for preserving jobs during the crisis is indicated by the fact that all EU27 member states developed state programs for employment protection during the crisis (ibid.). An interesting example of measures to help preserve the employment is an example of the Dutch state support which includes subsidizing salaries of employees in companies that are faced with a temporary decline in demand (ibid.). The requirement for the use of this assistance is to organize training programs for the employees during the time that they are not engaged at work (due to a decrease in business activity caused by a temporary decline in demand). In accordance with the expressed needs, most of these measures in Serbia, relate to subsidies for generating new jobs in general, and for providing jobs for more difficult to employ individuals, and especially for vulnerable categories of the unemployed – for people with disabilities, members of the Roma community, for older and younger unemployed (National Agency for Regional Development, 2012b, Ministry of Labour and Social Policy, 2013).

## **Conclusion**

One of the consequences of the current crisis in the Republic of Serbia is an increase in unemployment. Throughout the entire 2008-2012 period, the unemployment rate in the country is constantly growing, recording its maximum level in the final year of the analyzed period. In the Republic of Serbia, as in the EU27, the employment reduction was more pronounced in the SMEs sector as compared to large businesses. Change in this sector's employment during the 2009-2011 period led to the fact that, after a period of contribution to the net employment growth, SMEs became a sector with a net reduction in employment. Six out of ten lost jobs in Serbia are related to those lost in the SMEs. Decrement of the employment is particularly expressed in the medium sized enterprises, while micro enterprises recorded a minimum percentage of reduction, and even an employment increment during the 2011.

In addition to the employment dynamics, the effects of the crisis which begun in 2008, are visible in the indicators of the small and medium-sized enterprises' efficiency and in the level of their investments as well. The level of all analysed efficiency indicators (turnover, gross value added, profit) in the last

year of the period (2011) is lower than their level before the crisis, and compared to the large scale businesses, this dynamics in the small and medium-sized enterprises is relatively more pronounced in a negative direction. As it could be expected, during the crisis and the emphasized liquidity problems, investment activities of the SMEs' declined. Moreover, there is a decrease in the share of investment in equipment and construction. These qualitative changes in the technical structures of the investment could have even more negative long-term effects on the SMEs' competitiveness. Given the fact that the data for the efficiency indicators and for the investments were available for different time series, it was not possible to build a model based on the statistical methods, and to measure the intensity and the direction of impact that these limiting factors had on the employment in the SMEs sector in Serbia during the crisis. It is a kind of a limitation of this study, and therefore it remains a task for future research.

The most pronounced effect of the crisis on the SMEs' businesses and employment is manifested through lower domestic demand. In addition, there is a growing negative impact of the exchange rate dynamics. During the period of a crisis the most important problems of these companies are the same, with a slight shift in the internal structure of the problems – with a reduction in the intensity of inadequate access to finance, regulatory issues and lack of suitably qualified human capital, followed by an increment of the intensity of non-compliance with the standards of quality, lack of information about markets and technology. Judging from the subjective evaluation of the SMEs owners and entrepreneurs, one should expect future improvements in terms of employment in this sector. The majority of SMEs owners and entrepreneurs in Serbia believe that the impact of the crisis in general, and its direct impact on employment is weakening.

During the crisis period, expectations of the economic entities, in terms of contribution of the State to overcoming the business problems, grow. The State is, in fact, seen as the source of most of the problems, but also as an entity with a great potential for employment affirmation. The majority of the SMEs owners and entrepreneurs are interested in State's direct financial support to employment, while non-financial incentives and relieves are to a lesser extent identified as a suitable form of employment support. In accordance with the expectations and needs of SMEs' owners and entrepreneurs, most of the State's measures to support the SMEs' sector relate to the direct financial incentives, through subsidies, for generation of new jobs in general, as well as of new jobs for the vulnerable groups in the labor market.

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## **ISTRAŽIVANJE DINAMIKE I OGRANIČAVAJUĆIH FAKTORA ZAPOSLENOSTI U MALIM I SREDNJIM PREDUZEĆIMA U REPUBLICI SRBIJI U USLOVIMA KRIZE**

**Abstrakt:** Mala i srednja preduzeća (MSP) se često vide kao sektor bitan za kreiranje novih radnih mesta. Ovaj sektor privrede obezbeđuje oko 2/3 svih radnih mesta, kako u Republici Srbiji, tako i u EU. Postoje empirijski dokazi da su mala i srednja preduzeća zaslužna za najveći deo rasta neto zaposlenosti. U Republici Srbiji se ova preduzeća vide kao preduzeća koja mogu da apsorbuju deo nezaposlenosti koja se restrukturiranjem i privatizacijom generiše u sektoru velikih preduzeća. Danas je stopa nezaposlenosti u Srbiji značajno veća od prosečne stope nezaposlenosti na nivou EU. Pitanje je da li sektor MSP može da apsorbuje ovu nezaposlenost, ili su ova preduzeća u većoj meri pogođena krizom, relativno prema velikim preduzećima. Rad ima za cilj da ispita doprinos malih i srednjih preduzeća zaposlenosti u Republici Srbiji. Takođe, u radu se istražuje uticaj krize na zaposlenost u ovom sektoru, na efikasnost i na nivo investicionih aktivnosti malih i srednjih preduzeća. Osnovni problemi za vlasnike malih i srednjih preduzeća koji vode rastućoj nezaposlenosti u ovom sektoru biće razmotreni i analizirani.

**Ključne reči:** MSP, zaposlenost, efikasnost, investicije, kriza