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IMPROVEMENT OF SMES ENVIRONMENTAL SUPPORT PLANNING BASED ON NEW STRUCTURE OF SUPPORT DETERMINATION

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Abstract: *The subject of this paper was prompted by the importance of Suitable Structure of Support (SSS) determination, as one of the support actions that the environment provides to the SME sector – in the case of SMEs in Serbia. (Support can be viewed as a type of service, with a significant share of material resources in that service, i.e. in a specific form of support. Therefore, Structure of Support (SS) is the primary issue in this paper. If support is viewed as a service, it is also important to follow the process of providing that service). It is recognized that structure support planning is the root of successful support to the SME sector, so the subject of this paper is the improvement of the SMEs structure support planning process based on new structure determination (which, therefore, contributes to the suitability of structure support). **Problem:** Weak effect of the environment support to SMEs (not only in Serbia) at the beginning of the 21st century is the problem whose solution this paper is dedicated to. The conducted survey has identified the cause of the problem: the environment provides Low Suitability of Structure Support in relation to SMEs' support needs. Therefore, the ways of structure support planning and, consequently, an inappropriate process of planning and providing support has been recognized as a real problem of insufficient effectiveness of support provided to SMEs. The need for the improvement of the existing SMEs support planning process, as well as the need for innovation in the way support structure is determined, have been identified. **Idea:** (H0): If the planning of structure support that the environment provides to the SME sector achieves higher suitability with the structure envisaged by the owners/management of SMEs, better results of that support are achieved (and also higher SMEs' business performance). Of course, such structured support should and can be incorporated into support plans and, thus, support could be more effective and "supported" SMEs more successful. The presented idea has been tested in the case of providing support to the SME sector in Serbia. **The intention** is to show that the SMEs structure support can be improved (made more suitable for the one needed, or at least for the one that the owners/managers of SMEs want), and that this leads to the improvement of the planning and the overall management of providing support to SMEs, as well as of SMEs' successfulness. **Purpose:** This paper is intended for those who are planning and/or providing support to the SME sector. They are proposed to improve the "Structure of Support" performance (especially the "Suitability of Structure Support" indicator). This would, as an innovation, improve the process (as well as the system) of planning and the overall management of providing support and make it more effective. **Result of the survey/Contribution of the paper:** Based on the "Research on the conditions, needs and problems of SMEs and entrepreneurs" (conducted in 2010 and 2011), it is shown that better results are achieved by those who apply the here proposed method of designing structure support while planning support for the SME sector. This conclusion is derived from the observation that SMEs support is more effective if it is more in accordance with the objective needs of SMEs, or at least with the ones desired by the owners/managers of SMEs. Therefore, the conclusion is that the first step should be to determine the required/desired SMEs structure of support from the environment, and then to plan other support characteristics (such as details on types of support, scopes, periods, methods of delivery, etc.). It is concluded that the new way of designing structure of support and the proposed planning process of providing support leads to the improvement of the SMEs environmental support, which should be "kept permanently open" for improvement.*

Keywords: Small and Medium Enterprises (SME), Support for SMEs, Structure of SMEs support, Suitability of SMEs support, Planning the environmental support for SMEs.

1. INTRODUCTION

Subject of the paper is in the scientific field of Entrepreneurship and SME management. It refers to the improvement of the planning of SMEs' support system (more specifically: the process of planning the Structure of Support - SS). Identification of the actors involved in the support system should be the first step in defining of the suitable SMEs' support. There are two types of actors: the actors who are demanding for support (small and medium enterprises and entrepreneurs - SMEs) and the actors who are providing the support (government and its institutions, international institutions and other organizations that provide

support). The actors who are demanding for support (SMEs) have their needs and form their own expectations (rarely: requirements) for support (which is usually done by the managers/owners of SMEs, but the help of experts would be more reliable). It is shown in practice that the actors who are providing the support are actually trying to help the SMEs. The problem occurs because the SMEs' support that these organizations design is usually independent from the actual needs of the SME sector (but is designed according to their own competence/interest), so the delivered support is not suitable enough with the needs/requirements of SMEs. Support usually doesn't have the suitable structure and other performances.

The authors of the paper provide an answer to the research question: Does the support whose structure is more suitable with the one expected by the managers/owners of SMEs (related to solving problems and satisfying the needs of SMEs) achieve better effects (that have an impact on the overall business of SMEs)? The authors give an answer to the research question in accordance to analysis of the data collected by the Survey¹.

After reminding of the: a) Basic concepts of SMEs, their characteristics, problems and needs and b) SMEs' environment that provide support to the SME sector through the structure, institutions and resources of support (in case of Serbia), it is proceeded to the idea of improvement of the planning SMEs' support (so that SS is in accordance with the desired one). The concept of planning support, presented in this paper, can contribute to higher suitability of the SS with the one required, resulting in increased performance of providing support.

2. SMALL AND MEDIUM ENTERPRISES

Small and medium enterprises - SMEs is the phrase used for special type of enterprises that are becoming very important in the last decades of the 20th century. SMEs are recognized as: the engine of national economies' growth; the biggest potential of (self-) employment; the new job generator; companies that have great influence in the national, regional and local development (as a "tool" for prevention of the migration of people from some passive geographical areas) and as companies that obtained international character (because of their business in the global market). SMEs are a key source of national economies' growth (Spicer & Sadler-Smith, 2006, p. 134). SMEs are determined – using the criteria defined by the European Commission – as companies with up to 250 employees, whose annual turnover does not exceed 50 million [€] and/or whose total capital does not exceed 43 million [€] (The New SME definition, p. 5).

SMEs, as the largest category of companies (99.8 [%] of total enterprises in the EU and Serbia are SMEs) have many common features, despite the diversity and specificity of each of them. Attention of this paper is drawn to only one relevant characteristic: shortage of SMEs' resources. That characteristic of SMEs is the main constraint. It reflects to the other characteristics of SMEs: a) Integration of ownership and management; b) SMEs' small capacity; c) Specialized (niche) market; d) Lack of standard use, etc.

According to Barney (1991, p. 106), the necessary condition for developing competitive advantage and reaching company's strategic goal is the availability of resources. He notes that sustainable competitive advantages of a company come from its resources that are valuable, irreplaceable and difficult to imitate. Due to the limitation of SMEs' resource potential, it is obvious that SMEs need extra help.

Shortage of financial resources (as a universal resource) is one of the most commonly used justification² for the problems and failures of SMEs. SMEs' owners have difficulties with finance because they invest their personal savings and assets and the funds borrowed from family and friends into their business (Irwin, 1998, p. 162). Based on the characteristics of SMEs (in particular - on the basis of modest resource capacities) and the problems they face, it can be concluded that the SME sector needs the help and support. SMEs' environment is a potential source of help and support.

SMEs' environment is an important factor, viewed from the aspect of SMEs' support that is explored in this paper. The business environment is the business potential and resource of SMEs (Lazic-Rašović & Omerbegović-Bijelović, 2006, p. 5). According to Porter (1990, r. 73) "root of companies' competitiveness is in the nature of their business environment". Actors of SMEs' business environment are its stakeholders: customers, suppliers, competitors, banks and investors, educational and research institutions, the

¹ "Survey of conditions, needs and problems of SMEs and entrepreneurs", organized by the Regional Center for Development of SMEs and Entrepreneurship - Belgrade, conducted in 2010 – 2011, on a sample of 310 SMEs in Serbia (from cities: Belgrade, Kragujevac, Vranje, Jagodina, Arandelovac and Sombor).

² Research conducted in 2006 – 2008, during the preparation of a doctoral dissertation: "The contribution to application research of contemporary metamanagerial tools in small and medium enterprises with unbalancedly developed resources" (2008), M.Sc. Brankica Ljamić-Ivanović (under supervision of prof. dr J. Omerbegović-Bijelović), showed that the most important resource for the success of SMEs is the owner's competence.

government and its institutions, local communities, environmentally oriented organizations, media, organizations and agencies that provide support to the SME sector (Omerbegović-Bijelović, 2006, p. 5). SMEs can benefit and receive help and support from its stakeholders (whether in money or in other resources - material resources, knowledge, information, etc.). The rule is that each stakeholder has an interest to observe (and also to help and support) the existence and development of a specific SME.

The state that the SME sector needs help and that it expects the environmental support is justified by the analyzed data from the Survey - which shows that every SME from the sample had at least one problem in its business. The average number of problems per SME was 3.87 [problem/SME]. (Some of the main problems in the survey were: Shortage of financial resources (86.4 [%] of respondents), Lack of business ISO standard certifications (92.7 [%]), Inability of doing business on the international market (86 [%]), Inadequate legislation (34.3 [%]), Lack of information about the market trends and situation (29 [%]), Lack of trained personnel (12.5 [%]).)

In the Survey, SMEs were also asked about the types of support which they believe would assist in overcoming their problems. Survey has shown that every company in the sample reported at least one missing/desirable form of support. The average number was 2.88 [types of support/SME]. (Some of the most demanded forms of support are: Easy access to financial resources (82.9 [%] of respondents), Help in the promotion (54.8 [%]), Procurement of the missing equipment or replacement of the existing equipment (41.6 [%]), Professional support through training, consulting and mentoring (40.5 [%]). Therefore, based on the presented data, it can be concluded that the SMEs have a strong need for help and support from the environment.

3. SMEs SUPPORT

Term of SMEs support refers to any form of financial or non-financial help to SMEs that is provided from the environment (by other individuals, companies, institutions, state or some supra-system). The sources of various forms of SMEs support can be: Supply chain participants (customers, suppliers), banks, agencies (accountants, lawyers and consultants), business associations, government organizations, media, family, friends and others. Bennett and Robson (1999, p. 161) explain how buyers and suppliers can be a good source of information and help: a) Customers of a company may provide a good signal of product's market success; b) Suppliers are the sources of information about new technologies, opportunities and chances for innovation and cost reduction.

Usage of external support is strongly associated with successful business growth (Bennett & Robson, 1999, p. 155). Chrisman and McMullan (2004) have shown that small businesses that use the support services of public agencies have a higher rate of survival and growth than the firms that do not use these types of services. Therefore, the conclusion is that support is very important and that, consequently, the improvement of the environmental support can help the SME sector more effectively.

According to the basic categories of resources, the help/support that can be provided to SMEs is divided into **two main types**: financial and non-financial support.

Financial support – money is the key resource of this type of SMEs support. More precisely, it refers to the financial help of various institutions and organizations to start new business (start-up loans) or to improve the business of existing SMEs (loans to finance current operations). In many cases, money that is given to support SMEs is not a help itself, but a resource for the achievement of specific objectives, so it must be spent on planned activities. (For example, the support institutions provide funds to SMEs for: purchase equipment, employee trainings, export activities and innovation of products/ services/ processes/ management).

Financial resource, as a form of support, is necessary for the development of new business ventures. Patzelt and Shepherd (2009, p. 322) claim that entrepreneurs can achieve their strategic goals only if they have sufficient funds and available sources of funds.

Non-financial support refers to support that does not include money as a resource of support. It is some kind of service: consulting, mentoring, training and seminars in various educational fields (e.g. legal aspects of operations, business planning, marketing, finance, human resource management, change management, innovation), intended for "managers" of SMEs (owners, entrepreneurs and managers). The main objectives of non-financial support are knowledge and competence improvement of the SMEs' owners, management and employees. The non-financial form of support may also include: the transfer of technology, help with business networking (entrance into clusters and other associations), contribution to the SMEs' reputation and

promotion, reduced administrative barriers and increase of tax incentives, but also a platform for business development - such as business incubators and technology parks.

Non-financial support includes provision of resources and activities combination. The most important are: a) Technology transfer is very important for the development of the enterprises in many countries, so support measures for this process are created (such as: Technology Transfer Agencies and Technology Transfer Offices); b) Entrepreneurial networking - an important form of non-financial support, which refers to the formal and informal links of entrepreneurs and SMEs with other individuals and organizations, through which they do economic transactions. Those networks can provide access to important knowledge and improve the visibility and reputation of a new business ventures. Support creators use them for placing numerous support program this type of support (entrepreneurial networking) for numerous support program (e.g. for formation of clusters); c) Knowledge - a very important resource for the development of every company and one of the most important sources of competitive advantage (Spicer & Sadler-Smith, 2006, p.133). According to the Knowledge based theory, it is a basic asset/resource for any company. All other resources depend on it (Chirico, 2008, p. 434). There are three very important types of knowledge: 1 - knowledge about management and development of existing business or newly established company; 2 - knowledge about processes of products and services development and production; 3 - knowledge about market, where the new company will operate; d) Removal or reduction of administrative barriers allow entrepreneurs to focus on daily operations and finding new business opportunities in their environment (because high levels of bureaucracy and administrative barriers have a negative impact on new business ventures development, according to Patzelt & Shepherd, 2009, p. 326); e) Tax incentives - they can be an excellent form of support, so the governments of many European countries provide large number of them (e.g. reduction of tax rates and respite in tax payment).

The existing forms of support which are provided to SMEs in Serbia are presented in Table 1. It is obtained by research on forms of support intended for SMEs in Serbia (Support for Success, 2012).

Table 1: Institutions and type of support for the SME sector in Serbia

Institution	Support intended for:	Type of support
Ministry of Economy and Regional Development	Fast growing SMEs ("gazelles")	The funds for financing activities for encouragement of SMEs' competitiveness.
	SMEs	The funds for financing activities for strengthening of SMEs' innovativeness.
		Free services provided by the regional development agencies (consulting, training, promotion).
National Employment Service	Potential Entrepreneurs	Subsidies for self-employment.
		Mentoring and specialized training for entrepreneurs who have received subsidies for self-employment.
	SMEs	Subsidies for new job creation.
		Subsidies for employment of persons with disabilities.
		Professional practice - financial subsidies for training of unemployed persons without work experience.
National Agency for Regional Development	Potential Entrepreneurs	Non-financial and financial support to the business starters who are returning to their cities (underdeveloped municipalities).
	SMEs	Support programs for co-financing (up to 50 [%]) of project costs for the development of SMEs' competitiveness.
		Mentoring for start-ups and existing SMEs.
	SME clusters	Support programs for co-financing innovative project activities (up to 50 [%])
Innovation fund	SMEs	European Network of Entrepreneurship Program: Information about conditions for entering into the EU market, export opportunities, new technologies, potential partners, etc.
		Program of early development of start-up and spin-off companies that have the technological innovation with potential of creating new intellectual property.
Serbia Investment and Export Promotion Agency	SMEs	Grants for financing export activities and the international promotion.
Export Credit and Insurance	SMEs	Short-term loans for financing export activities.
		Guarantees issuance

Agency of the Republic of Serbia		Receivables insurance Factoring (assignment of receivables)
	SME/Entrepreneurs	Consulting for potential exporters.
Development fund	SME/Entrepreneurs	Loans for arts and old crafts.
		Credit support for beginners (newly established SMEs and entrepreneurs, women entrepreneurship).
		Guarantees for SMEs' and entrepreneurs' loans.
		Short-term loans for encouragement of competitiveness and liquidity, investment loans
		Low interest loans for development of SMEs/entrepreneurs in underdeveloped regions
National Bank of Serbia	SMEs	European Investment Bank, the Government of Italy and the European Agency for Reconstruction loans for SMEs
The Intellectual Property Office of the Republic of Serbia	SMEs	SMEs' intellectual property diagnostics
		Education of SMEs about intellectual property

Therefore, the Structure of SMEs Support (SS), as a set of individual environmental support components that are designed for solving SMEs' problems has next characteristics:

- **Type of support** - complex characteristic that indicates on: its form, nature of resources that are provided to SMEs, specific purpose;
- **Volume of support** - the number of different support types that are integrated into the SS that is provided to SMEs. If the SS, consists of several types, the volume of support is higher;
- **The intensity of support** - characteristic that involves introduction of indicators (and measuring unit of the indicator expression intensity) which may be: period of providing support, financial value of support, number of participants who provide support to SMEs (mentors, consultants, listeners). Intensity of one support type refers to the amount of certain type of resource that is used in the implementation of a specific form of support;
- **Process of providing support** - an essential part of the structure of environmental support (because processes "justified" structure). It also refers to the cost, time and risk that are appearing in support;
- **Support recipient satisfaction** – refers to the level of SMEs' managers/owners satisfaction with received support. It can be measured as a level of fulfillment of expectations for support;
- **Support provider satisfaction** – an indicator of fulfillment of their intentions and expectations;
- **The quality of support** – measure of fulfillment of the SMEs' support expectations (and also of the involved stakeholders expectations), which is usually expressed as the effectiveness and efficiency of SMEs support. The authors of this paper suggest that the quality of support can be determined through the other two characteristics: Suitability of support and Successfulness of support;
- **Suitability of support** - it can be defined as an indicator of compatibility of support provided to SMEs with the SMEs' problems recognized by competent individuals or organizations (experts, SMEs' owners/managers, specialized consulting organizations). According to Chrisman & McMullan (2004, p. 231) support should be conceptualized and organized so that, in terms of its structure, it corresponds to the particular problems and requirements/expectations of SMEs. They are drawing attention to the suitability of support: "It is preferable that advisors (who provide support to SMEs) rely on the ideas that are given by the owners/managers of SMEs, than to rely on prefabricated solutions to the SMEs' problems", because "the SMEs' owners/managers expect support that is suitable with their needs, that are numerous and that vary according to the activities, firm's sectors, firm's development phase and also according to the ambitions from the owner/manager "(Audet, Berger-Douce & St-Jean, 2007, p. 30);
- **Successfulness of support** – it refers to the effect of support on the problem solving and SMEs' performance indicators. It can be measured by different (direct or indirect) indicators: the degree to which problems in the company are solved, i.e. the effects on company performance (an increase of: revenue, profit, number of employees, market share, etc). Possibility of measuring the successfulness of support through the integral objective function, that will satisfy more stakeholders at the same time, is particularly interesting;

The main hypothesis of this paper refers to the connection of support suitability with the support successfulness (and therefore SMEs' successfulness): If the planning of SS that environment provides to the SME sector achieve higher suitability (SSS - as a performance indicator of SS) with the structure expected

by the owners/management of SMEs, better results of that support are achieved (and also higher SMEs' business performance).

For the purpose of proving the main hypothesis, 310 SMEs were surveyed. Two different things were analyzed - SMEs' requests for support (requests for solving problems that are identified by the SMEs' managers/owners), on one side, and the specific forms of support (that are provided to SMEs), on the one side. The level of agreement between the support SMEs are looking for and the support that is provided to SMEs is recorded as a variable - suitability of support. That variable could take integer value of how many times used SMEs support is suitable with the requirements of the manager/owner. An indicator/variable "Direct growth of total SMEs revenues", expressed in [%], was used for support success measuring.

Correlation analysis of these two variables gave the following result: Pearson Correlation ρ (suitability; increase in revenue) = 0.422 was statistically significant ($\text{sig} = 0.002$). The obtained coefficient of correlation is in the category of medium correlation. Dependence between suitability and successfulness of support (precisely, in this paper it refers to one successfulness indicator: direct increase of revenue as a result of the environmental support to SMEs) can be established on the basis of that correlation. (The authors believe that the reason why the relationship between two variables is not stronger ($\rho > 0.5$), is in the answer to the question "Are the owners/managers of SMEs competent enough to identify what is the problem of their SMEs?").

Since the statistical test confirmed a statistically significant relationship, it can be concluded that the hypothesis is true, i.e. that if support achieve higher suitability of structures (SS) with the structure expected by the SMEs' managers/owners, the better SMEs' business score will be achieved.

(The next conclusion is that if more competent experts define SMEs' needs, the more suitable structure of support will be given. That will lead to even higher improvement of planning/plans of support to SMEs). Based on this conclusion, the suggestion for improvement of the planning support process (and also the whole support system) should be defined by including the innovated ways of defining and designing structure of SMEs support. This can help the improvement of SMEs support and the success of their business.

4. IMPROVING THE PLANNING SUPPORT PROCESS TO SMEs

The purpose of planning model, that is proposed in this paper, is to help in directing always limited resources to the forms or activities of SMEs support that is "most promising", i.e. support that will have the biggest positive effect on the success of SME sector and, consequently, on the economy and quality of life. The initial hypothesis is defined to indicate that there is regularity in the designing of SMEs structure of support. Stakeholders are advised how to improve the system of SMEs support and how to participate in it.

Support planning is part of a more complex process which occurs in the support management system. Therefore, the complex management process of providing SMEs support can be presented in two phases (Omerbegović-Bijelović J. et al., 2010, p. 141 and p. 245):

F1. Planning – creation of plans for SMEs support where the highest goal(s) are decomposed into:

a) hierarchically-organized (and time-synchronized) goals' tree-structure, and b) A set of appropriate actions (up to the level of work assignments for the direct objects of work transformation) for achievement of the planning goals, c) Resource defined by type and quantity (planned activities should be implemented over them) s and d) Specifying of the ways for providing resources to SMEs support;

F2. Execution of providing support plans, where other three classical phases of management could be found:

a) Organization for plans execution - where the decomposed goals and other elements of plans (like: information about planned activities and the authority for managing necessary quantity of planned resources for planned activities perform) are assigned to individuals or groups (organizational units); b) Realizations of SMEs support plans where the availability of necessary recourses is provided through purchasing and supplying (at the each relevant (work) place and at all planned horizons). In this phase planned resources are used to obtain the output - planned support (with planned quality, planned costs, in planned moment, with optimized values of output characteristics, for planned users); c) Controlling the execution of support plans through all goals and tasks, time horizons, management objects (resources, processes, functions) and indicators of the quality/ success of business operations, through the stages: 1) Identification of conditions of SMEs support management entity, 2) Determination of deviations between the real condition and planned values, 3a) Discovering of the deviations causes in parallel with, 3b) Operative removal of achieving goals obstacles and 4) recording of experience and recommendation for next cycle of management improvement.

SMEs support planning system in Serbia (as an illustration for possible of SMEs structure of support innovation and as an improvement object for planning process of the motioned support) is concretized with *"The Development Strategy of Competitive and Innovative Small and Medium Sized Enterprises for the*

period 2008-2013". The strategy is adapted every five years, and it includes the defined aims for SMEs support. More precisely, it is a strategic plan that is defined by the Serbian Government, which includes the aims that should be achieved by the government institutions and organizations through their activities in the planned period. The Strategy is document for SMEs policy development. That document defines the main priorities (goals) and ways (actions) for their realization in planned period. The main goal of Strategy is to develop Serbian entrepreneurial economy based on knowledge and innovation. It needs to create a strong, competitive and export-oriented SME sector and to significantly contribute the improvement of life standards in Serbia. The general goal of the Strategy is further decomposed into the five most important objectives – "pillars":

- Promotion and support to entrepreneurship and the development of new enterprises
- Human resources for competitive SME sector
- Financing and taxation of SMEs
- Competitive advantages of SMEs in export markets
- Legal, institutional and business environment for SMEs

For the purposes of meeting the defined five "pillars" or the main aims of the Strategy, the particularly activities are defined. Therefore, the strategy was defined according to the "top-down" principle - from the main goal at the state level towards specific objectives and activities designed for the SME sector.

Authors of this paper think that another complementary approach (a "bottom-up" approach that is based on concrete problems and needs of SME sector) is missing in defining Strategy. Based on the hypothesis conceptualized and proven dependence between the results of provided support (the success of SMEs) and its suitability with the problems and needs of SMEs, the authors present the concept (proposed methodology) to improve the planning of support system (as part of SMEs management support system), so that each individual support, meets demands and needs of SME in the best way. Additional contribution of this concept would be a better definition of support strategy for SME sector.

Support planning process should be initiated with "call for help" - that the owners/ managers of SMEs send to the particular SME support institution. However, in many cases, owners/managers of SMEs are not able to identify when they have problem, what is the problem and even does the problem really exist in their company. SMEs' owners/managers are also not informed well enough about the capabilities of many support institutions. Therefore, the support institutions often encourage SMEs' support demands with a numerous proactive programs and activities. It can be said that the institutions start the planning process for SME support. So, the beginning of the SMEs support planning process can have two sources of "impulses": Particular SMEs or institutions that provide support to them).

During the designing of SMEs support planning process, next things must be taken into considerations:

- *Structure of support* that is provided to the SME, which is in accordance to their problems and need. This element of support planning can include all important aspects of support (type, scope, intensity, quality, suitability and desired successfulness);
- *Resources* required for realization of support (money, people, knowledge, information, time, etc.). where care should be taken about their availability in different time-planning period;
- *Time period* in which the support is implemented. It must be in accordance with the SMEs support needs in the observed period, and with the resource availability of organization that provides support;
- *Institution* or organization that has task to implement support, because the organizations that planned support to SME, are often not the ones that implement support.

SMEs support planning process (stages S1-S9) cannot be regarded as isolated, but in the context of integral planning, and also in entire support management process (or at least on the level of operational management - in stage S7). Therefore **SMEs support planning process** can be conducted through the following stages:

S1) Investigate the problem of SMEs – i.e. do an accurate diagnosis of the SMEs' condition, problems and needs. It is necessary to define the SMEs' problems, because incorrectly defined problems can lead to inefficiency of the whole support system). Therefore, this phase is crucial for the further support planning and support realization process;

S2) Define the goal that will be achieved through the support. Well-defined SMEs' problems (in previous stage), may determine the purpose and goals of providing support to SMEs. While considering the goals the expectations of many stakeholders should be take into consideration;

S3) Define suitable structure of support which meets goal identified in stage 2. At this stage, with respect to the support suitability, structure of support that is intended to SMEs is precisely defined;

S4) **Define the necessary resources** by types and quantities and specify the dynamics of resource needs (which may be the major constraint to achieve support goals) for implementation of support. The goal is to make the greatest support effect with rational use of always limited resources;

S5) **Define the support intensity** in accordance to the SMEs' needs and support providers resource constraints;

S6) **Define indicators for monitoring the support results** – while support planning, the indicators that will monitor the achievement of planned support and successfulness of realized support forms are also defined. Those measurable indicators could be: a) degree of plan achievement, b) degree of resources utilization, c) degree of support needs satisfaction and g) degree of particularly stakeholders' satisfaction;

S7) **Implement the support** – according to strict classification it is not included in the planning stage because it is a realization phase. However one part of realization stage (transformation, i.e. direct providing support activities), cannot be separated from operational preparation of support planning, and even less from the operational preparation of providing support. They are so close that they are not even separate from the operational management of SMEs support activities realization. Information about validity of the applied planning process, and ideas for SMEs support planning process improvement come from this stage;

S8) **Analyze the performance indicators** of the provided support structure. Indicators for measuring success of planning and support providing are analyzed after the execution of support. If the results meet expectations, it can be concluded that the support was successful and that the plan achieved the goal. According to Omerbegović-Bijelović et al. (2010, p. 151) "measure or degree of planning objectives fulfillment is the quality of planning. It can be defined as: effectiveness - an indicator that measure the achievement of planning purpose and efficiency - as the ratio between the benefits and cost of planning process", Otherwise, it is necessary to work on further improvement of the planning system of SMEs support (primarily, here observed structure of support);

S9) **Define further actions** – SMEs support planning process usually does not end after the successful or unsuccessful completion of the planning and plans executing cycle,. New cycles of providing support are defined and planned towards a further SMEs problem solving and improvement of their success. Continual improvement activities of the system for monitoring SMEs' needs, problem solving and successfulness, are defined through the following: measurement, analysis of the results, determining deviations, further planning of improvement and implementation of SMEs support activities. After one cycle of improvement, next cycles should be repeated.

An important characteristic of the SMEs support planning system is the structure of that system, in addition to the process of providing support. Organizational structure for SMEs support planning objectives achievement is defined in accordance to the decomposition of those objectives. Theoretically, that process goes through: 1) Delegation of (planning) goal's components to individuals and/or to organizational entities of the complex SMEs support planning system (i.e. assignment of specific goals to groups and individuals) 2) Allocation of authorizations for: a) use of necessary resources to achieve assigned planning goals and b) initiating and managing the activities of planning goals. Although the organization of planning is just one phase of SMEs support planning management, it is necessary to consider the time horizon, and to synchronize the organization ("activities assignment") with that aspect of planning (and the entire management) SMEs support. However, this topic will further be discussed in another paper.

5. CONCLUSION

Providing support to SMEs is a serious social and professional task. The role of science is to make decisions in this area be based on the facts. The result of the survey of the relationship between the suitability of SMEs structure support (SSS) and the effects of providing that support (in case of SMEs support in the Republic of Serbia) is presented in this paper. It was found that the effect of the support depends on its suitability with and the actual needs for environmental support (at least as the owners/managers of SMEs saw those needs). It is shown that the success in providing support to SMEs (including the SMEs' business success) is higher if the provided support is more suitable with the one needed.

Based on the proven hypothesis and the innovated way of SMEs structure of support (SS) designing, the authors made an improved concept of SMEs support planning process. Through this new concept, the authors want to direct the institutions and organizations that provide support to SMEs towards the real needs of practice – that during the process of SS planning and providing support they have to consider the real needs and problems of SMEs, in order to achieve greater success.

The concept of SMEs support planning has many benefits. It can serve as a guide to:

- *Small and medium enterprises* – for better planning of their own support needs and learning about the available support forms from their environment;

- *Government and its institutions* – for better understanding of the SMEs' problems and their needs for support (with the aim of defining more adequate forms of support provided/coordinated by the Government of RS);
- *Institutions and organizations that provide support to SMEs* - for better planning of: support, necessary resources and support activities.

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ENTREPRENEURSHIP AS MARKET VALORIZED CREATIVE POTENTIAL

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Abstract: *The transition period of the society has left us richer for certain immediate experiences that will not remain without influence on future generations. The transition from the old paradigm (socialist society) to the new one (entrepreneurial society), is an uncertain and a long-lasting process, merely due to its radicalism. Thus, this study aims at determining the quantity of entrepreneurial resources for those who manage and operate organizations, institutions, and companies in the Republic of Macedonia, through determining the extent of some of their personal characteristics that are considered part of the profile of any successful entrepreneur. Inventive and creative potential, reliability, attitude toward change, attitude toward risk-taking are the personal traits, in which we are interested in terms of management of human resources. It is said that they broadly represent, but not fully cover the entrepreneurial personality. The research comprises a sample of 132 respondents from different levels and activities in the Republic of Macedonia and the conclusions have been reached according to their results on the TTS test by Eugene Rodsep, the test for determining confidence, the MI 1 test for measuring the attitude toward changes, and the questionnaire assessing the level and attitude toward risk-taking. The results of the research have shown that the managers in the Republic of Macedonia possess, more or less, the tested characteristics, but they are very unevenly distributed among individuals. In conclusion, this research aims to help managers of different organizations to become aware of their "entrepreneurial spirit", to help HR managers and the state authorities to develop it and give directions for further development of entrepreneurship.*

Keywords: Entrepreneurship, entrepreneur's profile, inventive- creative potential.

1. INTRODUCTION

The period of transition of the society has left us richer for certain immediate experiences that will not remain without influence on future generations. The transition from the old paradigm (socialistic society) into the new one (entrepreneurial society), is uncertain and long lasting process, by the mere fact of its radicalism. Collectivism, averaging, closeness, redistributive ethic, rigidity, maintaining of certain social justice, require to be replaced with the values of the modern times. Market economy, pluralism of ideas and opportunities, private initiative, entrepreneurship promotion, etc., are the clear objectives that we have targeted. From here, the context of all contemporary developments, as much it seems hard to understand and accept, represents confrontation of the individual with reality and often means certain discontinuity of living. Thus, on the one hand, a process of rejection of the negative baggage occurs from the past, which is a measure of convergence towards the new. And on the other hand, it becomes more clearly that this change requires time - but not empty and unorganized, but filled with thought-out steps that will mean success. Hence, it is understandable that the period in which we live is a challenge to professional profiles of different facets of human activity. All of them from their own aspect are trying to observe and explore the entrepreneurship.

2. THEORETICAL FRAMEWORK AND DEFINITION OF THE KEY VARIABLES

Inventiveness and entrepreneurship are part of the key concepts, determinants of the development of any society. They can be understood if presented as interconnected elements, characteristic for those individuals who make change. Entrepreneurs are basically innovators, and innovation is the core of entrepreneurship. Hence, the determination of entrepreneurship inevitably will lead by setting the remaining terms, which constitute its essence. We start with innovation.

Innovation is a process of creating something new and as a phenomenon is a key determinant of the development of any society. Certain need that appears in a certain area of the human life can become a problem, inevitably requires adequate innovation (content, product, service).

"The term innovation under the proposed definition of the OECD include transforming an idea into a market product or service, new or improved production or distribution process, i.e. new way of social service." (Petkovski, K. & Sulejmani, N., 2001:11)

"The innovativeness would mean:

- Renewal or expansion of the assortment of products and services, as well as, connecting the markets;
- Establishing new ways of production, supply and distribution;
- Introduction of changes in management, organization of work, working conditions and skills of the workforce." (Krale, T., 2001:32)

Previous determinations of the innovation put the emphasis on the outcome of the process. In another words, they focus on the consequences of it, while listing to what the innovativeness has led and where it is needed. However, we think that for practical reasons that would function in a certain meaningful treatment of the field of innovativeness fostering and development, in the determination of this term it is necessary to include some other more fundamental determinants (processes, capabilities, features) that will allow more accurate and bigger understanding of the innovativeness. Explaining the scheme of "the process of creative problem solving" by defining the characteristics of the person who does it - creatively solve certain problem, is the essence of the innovativeness, which, as was told, is the core of the entrepreneurship. (Figure 1)

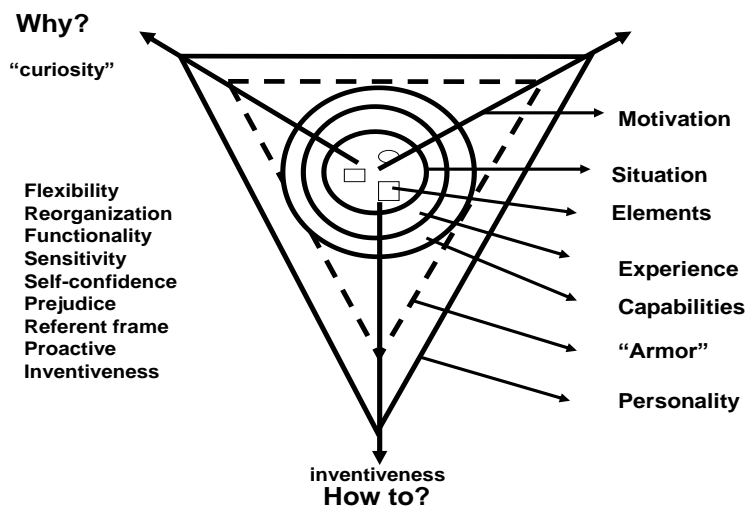


Figure 1: Process of creative problem solving (Gruevski, D., 2010: 119)

Hence, the phenomenon of creativity is not reduced only to a divergent production of ideas, but the process of creative problem solving fully and very concretely explains the essence which may have practical implications. As the professor Lj. Madzhar says: "In fact, the entrepreneurship by definition is capability and current practice of solving completely new, very nonstandard problems on which from the previous experience can be drawn only poor or no lessons." (www.yuope.com / Republic, Sources of entrepreneurship in transformed Serbia, pg.1)

Thus, is started from some emerging unmet needs, which by themselves represent a particular problem whose solving through a creative process answers the following questions: "why", "what" and "how to", in a certain constellation of structural elements of a particular creative person, acting in suitable conditions, leads to innovation that he or someone else, the market, may valorize. In fact, **entrepreneurship is only applied and market valorized innovativeness - creativity.**

Actually, if we recall the development of scientific thought and aspects that were crucial in explaining the concept of entrepreneurship, given in the review made by professor Petkovski, we will get to the following: "the risk taking", as the main determinant of the entrepreneurs: "the 'entrepreneur is one who takes risk, unlike the person who provides the capital."; "development carriers", not only about "risk carriers": "the entrepreneur is an innovator and instigator of growth."; "The entrepreneur has the ability for creation and situation assessment."; "The entrepreneur takes initiative, organizes social and economic mechanisms and

assumes the risk of losses in the activity that he realizes.”; “The entrepreneur is one who sees the opportunity for gaining a profit.” etc. At the end we will come to the determination which is most acceptable and understanding to us – the explanation of Peter Drucker, who emphasizes “the economic valorization of creativity”, as crucial: “Entrepreneurship is based on recognition of the opportunities for innovation and their fastest market and economic evaluation.” (Petkovski, K. & Jankulovska, P., 2001)

Of course, what is not completely clear is the answer to the question whether the process of creativity and the process of its economic valorization is identical and is present as personal category in the same person to call him entrepreneur or it is about two processes - one of generating creative ideas that later someone else manages until their economic valorization? Or, we can speak about the entrepreneur only when the two abilities (creating and management until the economic valorization of the creation), are clearly expressed?

Thereby, the answers to this question are probably already given by some authors. Yet according to us, they are not clearly defined. For example, according to Ljubomir Madzhar: “Entrepreneurship is very heterogeneous and complex mixture of ingenuity, the ability to predict or even presentiment about future events, the ability to accept unusual and unconventional ideas, courage, persistence and other natural gifts, and on the other hand it is the result of some favorable ambient conditions largely related to factors and constellations that reduce the uncertainty.” (www.yuope.com / Republic, Sources of entrepreneurship in transformed Serbia, pg.1)

On the other hand, indeed there are many ambiguities and misconceptions regarding the determination of the essence of the matter, which have negative practical implications for the attempts to systematically encourage and develop, reminds professor Vlado Petkovic, who summarizing the various definitions and understandings of entrepreneurship talks about misconceptions about the term:

First delusion: Entrepreneurship is not just forming a new company, but also introducing a new activity, creating a new product or service. Entrepreneurial may be even those enterprises established in the past century, if in their work are introducing major innovations which are of general importance and interest.

Second delusion: Relating of entrepreneurship to small commercial ventures. The large firms, even the largest state enterprises, may be entrepreneurial. It is about making something new, unknown or not used in the practice.

Third delusion: Refers to the ownership of the entrepreneur. The entrepreneurship can be developed in all enterprises regardless of their ownership status.

Fourth delusion: It refers to the relating of entrepreneurship only to commercial enterprises. The entrepreneurship also exists in the non-profit activities (science, education, health, information, etc.). (www.ekof.bg.ac.yu / Economic chronicles, Entrepreneurship and entrepreneurs, pg. 1-2)

Besides the economic and social aspects in defining of the entrepreneurship, retention to the characteristics of personality and behavior of typical entrepreneurs would mean special approach and contribution. Through the literature can found lists of characteristics of individual entrepreneurs (profiles). They highlight various characteristics among which dominate the following: high level of motive for achievement, small fear of failure; strongly expressed sense of self-control and self-criticism; capability of dealing with uncertain situations, great confidence, optimism, determination - commitment, great energy, emphasized individualism, etc.

This, it can be said that for the entrepreneurial person is characteristic a certain set of manifesto and recognizable behavior, which would amount to: orientation to goals setting, commitment to those goals, persistence in their achievement; constantly decision making, calculated risk, acceptance of responsibility, innovativeness.

Quite understandably, besides defining of the concept, the next crucial question that arises and which is of special interest for each country refers to the possibility of a systematic approach to any organized attempt to **encourage the development of entrepreneurial consciousness and culture**.

Namely, if we know that the development of entrepreneurship is an essential factor for acceleration of the economy and rapid development of every country, every state must to encourage its development with various measures. The factors - determinants that affect the development of entrepreneurship, various authors divided into: “objective - subjective, internal - external, personal factors of the environment. Some have divided them into: economic, psychological, sociological, legal, information, technical - technological.” (Ibid, pg. 1-2)

According to Professor V. Petkovic, it is more useful to elaborate the basic conditions for development of entrepreneurship, which are exhausted by the existence of a) Free market; b) State deregulation in the economy; c) Innovative culture, climate, tradition. Also other authors listed factors, activities that can be placed in the previously mentioned, conditions.

“There are various forms of state aid for development of entrepreneurship. These include: providing legal certainty to entrepreneurs, infrastructure and above all, stability of the economic system and democracy. Also, one of the forms of state aid is the promotion of entrepreneurship and stimulating of young talents to pursue a career in small business, the establishment of institutes and special forums, which should contribute to removing barriers that hinder the development of entrepreneurship. Particularly, the state should help in creating of a stable and reliable framework for managing.” (Ibid, pg. 4)

“It is necessary first to create conditions for competition in the economy, which represents the most favorable climate for entrepreneurship development. That would mean building a market infrastructure, institutional and public infrastructure, which includes primarily agencies and funds for development of entrepreneurship and running a stable economic policy.” (Ibid, pg. 5)

On the other hand, the professor Lj. Madzhar lists the as well the international sanctions and the economic blockade, as appropriate mechanisms and environment for entrepreneurship development. Of course, not forgetting this phenomenon to be named as “often mistakenly targeted and exploited entrepreneurial energy and resources”, characteristic for him is that he does not believe in the possibility of systematic development of entrepreneurship through the forms of any formal education: “Unlike the management in the business and other organizations, the entrepreneurship is not a factor that would thoughtfully and meaningfully grew through learning and educational activities, least through some formal education, where courses in the area of entrepreneurship would have a central place.” (www.yuorpe.com / Republic, Sources of entrepreneurship in transformed Serbia, pg.4)

Of course, this attitude is extremely questionable and calls into question concepts and theories of education and socialization. And precisely this dilemma opens the question that we have set as a problem. Namely, who is an entrepreneur, those who are creative, or those who successfully and quickly manages a creative idea to its economic valorization, or both? It seems interesting because both of them through education and socialization processes surely can be systematically developed and encouraged.

3. PROBLEM – SUBJECT FRAMEWORK OF THE RESEARCH

The fact that all proposed activities, concepts, strategies, methods of development of entrepreneurship are based on the assumption of the existence of individuals with their personal characteristics apart from others and who can properly use such opportunities given and constructed, leads to the question of personality of the entrepreneur and the possibilities for systematic action in the direction of fostering, encouraging and developing certain abilities, traits, values, attitudes and beliefs from their early age through the education system and families.

Because, the inventiveness, creativity is defined as the core of entrepreneurship, for which we said that it is nothing else than “applied creativity found its market valuation”, we think that nurturing, encouraging and maintaining the inventive-creative potential through thoughtful treatment represents a form of support and development of entrepreneurship. On the other hand, also the confidence of the person, as characteristic of the image for himself, the “self concept”, over which can be directly acted and it can be shaped through the process of socialization and by imitation and which is mentioned as characteristic of the entrepreneurs, represents a point of interest in this study.

The support and attitude toward change is another important dimension which is different for entrepreneurs (initiators, leaders, innovators, non-conformists, flexible) and the others that hinder, and prevent the development, and that is the goal of this research. Hence, it is focused on: determining the extent and certain diagnosis of the inventive-creative potential, reliability, attitude to change and the attitude toward risk taking of those who successfully manage, operate with organizations, institutions, companies in Republic of Macedonia and for who exist indicators of their entrepreneurial trait, with the main goals:

- To verify which of the personal traits that make “the entrepreneur profile” given in the literature are present in individuals who manage their own business or manage with other organizations in Republic of Macedonia;
- To set the foundation for building of an experimental model - system for encouraging and developing of the inventive-creative entrepreneurial potential in children and adolescents of school and adolescent age;
- To test the use value and validity of some psychometric instruments and procedures used in this research.

4. METHODOLOGY OF THE RESEARCH PROCEDURE AND INSTRUMENTS

In terms of methodology, the research can be placed in the group of preliminary researches with the main objective to verify, determine the level, to diagnose the situation and as such it is part of a wider activity towards trying to establish a system to encourage and develop entrepreneurial awareness and culture where the values obtained will be useful for certain profiling of the local entrepreneurs as the basis for future recommendations and analysis.

In the research was used the test procedure by using validated instruments such as: the TTS test of Eugene Rodsep (test for determining the confidence), the MI 1 test for measuring the attitude toward the changes, and the questionnaire referring the level and attitude toward risk taking.

The test for measuring the **attitude towards creativity – TTS** is authorship of Eugene Rodsep and it has been already used in research on creativity in Republic of Macedonia. It is quite extensive with 50 offered attitudes and a few words that are chosen through several alternatives. The processing and scoring is made according to a key on the given scale of creativity: from 21 to 14 / uncreative, from 15 to 29 / under average creative, from 30 to 55 / average creative, from 56 to 84 / above average creative, from 85 to 109 / highly creative, from 110 to 140 / extremely highly creative.

The test for measuring the **confidence CC/C** is adapted to the needs of some researchers in Macedonia (K.Petkovski, 2001). Its metric features are not fully tested on our soil. It contains list of given statements with which the respondent may agree or not, the test is easy to check and evaluate by elaborated key. It provides rough indicators on the extent of one's confidence – non confidence on the confidence scale: from 0 to 15 / unconfident, from 16 to 24 / confident, from 25 and more / very confident.

The test for measuring the **reaction towards change - MI-1 (RTCI)** is proposed as a simple and fast tool for identifying the degree of acceptance / repulsion towards change (Smilevski, C., 2000: pg. 529). It contains 30 words referring the change. The preference of certain words that are most often associated with some changes, allows using prepared key and scoring system, to calculate the certain score which then is seen on a scale of acceptance of change: 40 and over / strong support, from 20 to 30 / moderate support; from 10 to -10 / subjection to change, from -20 to -30 / moderate resistance to change; of -40 and less / strong resistance to change.

The **attitude towards risk taking** recognized through direct response to the question “To what extent do you take risk?” on a scale from 1-7, where the rounded answer no. 1 means: “I often take risks by exceeding the positions that are previously defined, set out, agreed”. And the other extreme under no.7 means: “I almost never take risks by not going beyond what I had previously scheduled, planned, conceived”.

5. DYNAMIC AND STREAM OF THE RESEARCH

As previously mentioned, the study is focused on sizing the entrepreneurial resource of those who manage, operate with organizations, institutions in the Southwest region in the Republic of Macedonia (municipalities of Bitola, Prilep, Demir Hisar, Krusevo, Resen), through determining the extent of some of their personal characteristics that are considered part of the profile of every successful entrepreneur. Hence, the sample consists of 132 managers, owners of private companies and a number of heads of public sector organizations. The choice has been made based on several criteria: a) persons who started and run their own business (in any area); b) persons who applied and participated in the realization of projects connected with the promotion and development of entrepreneurship; c) people who were / are customers of business start - up centers or other development foundations, associations, NGOs working in the area.

Given the nature of the research, the type of research procedures, the usual closure of the business world for the researchers - especially with this type of research, the field work of the research was done on several occasions and it is mainly done in part of the free sessions at several training, seminars, in whose realization we participated. Hence, the overall process of collecting data, with certain interruptions, lasted several months in 2010 and 2011.

6. RESULTS FROM THE RESEARCH

This research focuses on sizing the entrepreneurial resource for those who represent certain example of successful individuals who manage, through determining the levels of their inventive - creative and confidence dimension, as well as the attitude towards risk taking and acceptance of change.

After the conducted research, the results obtained are presented qualitatively and quantitatively, and is used a statistical methodology for concluding by calculating the indicators of the descriptive statistics (measures of central tendency and measures of variability and dispersion) (Table 1). These indicators clearly show the extent to which each of the examined entrepreneurial characteristics is present among managers from private and public sector in Macedonia, which actually is the aim of the study.

After processing of the results a ranking of the respondents was made, separately for each test and for all tests together, collecting the achieved scores for each respondent. The results indicate that there are certain variations in the range of respondents on different tests. Given the deviations in the scores we consider that they are significant and show that very few (about 15% of the total number of respondents) are those who achieved high scores on all tests. In others there is variation in matter that on some tests they achieved extremely high, and on others - extremely low scores.

Table 1 Descriptive statistics' indicators of the examined variables

	TTS	SS/S	MI 1	Risk
Measures of central tendency				
\bar{Y} - Arithmetic mean	60.64	15.13	17.42	4.09
Me - Median	60.00	15.00	20.00	4.00
Mo - Mode	59.00	17.00	30.00	6.00
Measures of variability and dispersion				
Min. - Minimum	29.00	5.00	- 30.00	1.00
Max. - Maximum	95.00	24.00	50.00	7.00
Range	66.00	19.00	80.00	6.00
σ^2 - Empirical dispersion	122.03	16.04	381.10	3.43
σ - Standard deviation	11.05	4.00	19.52	1.85
Kv - Coefficient of variation	18.22	26.47	112.04	45.25
Ka - Coefficient of asymmetry	0.41	- 0.09	- 0.34	- 0.11
n - Sample size	132	132	132	132

From table 1 is obvious that when speaking of the first variable - the **attitude towards creativity (TTS)** the largest part of the respondents fall into the category of "creative above average" ($\bar{Y} = 60.64$). It is confirmed by the graph (figure 2) in which 64% of respondents fall into this category. The relatively high value of standard deviation, however, is a sign that the scores of the most respondents are different i.e. have major deviations from the arithmetic mean value.

In the results for the variable - **confidence (CC / C)** the average score achieved $\bar{Y} = 15.13$ indicates that most respondents are on the limit between "unconfident" and "confident". Most respondents, 53%, were unconfident. As for variability and dispersion can be said that exists pretty high variability, especially considering the values of standard deviation, variance and the empirical coefficient of variation.

As for the **reaction towards change (MI 1)**, the average achieved score $\bar{Y} = 17.42$ indicates "moderate support for change" as characteristic of most respondents. Majority of the - 46% have that attitude towards change. From the range of sores it is evident that with respect to this variable there are big differences from "strong support", to "strong resistance" to change, confirmed by the fairly high value of standard deviation.

The indicators for the fourth investigated variable - **the attitude towards risk taking** - indicate that the most respondents have average willingness to take risk ($\bar{Y} = 4.09$) on a scale from 1 - 7. Here, respondents are fairly divided by "often taking risk" to "not taking risk at all", for which speak the indicators of variability.

All this is concisely presented in the following graphs:

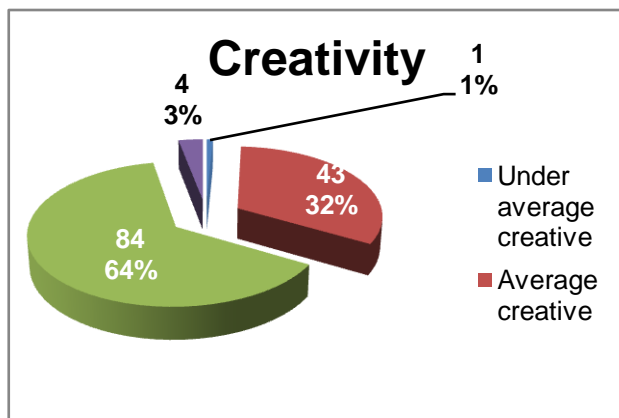


Figure 2 Distribution of "Creativity"

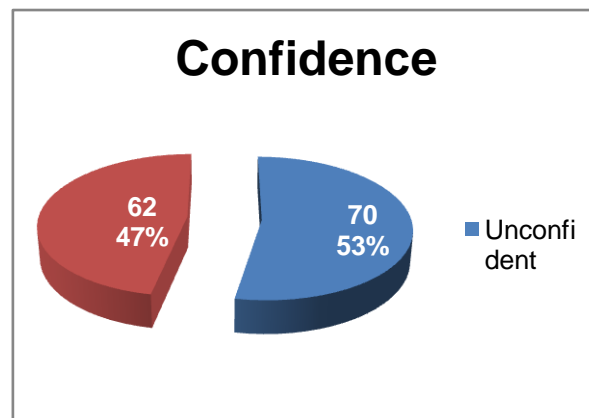


Figure 3 Distribution of "Confidence"

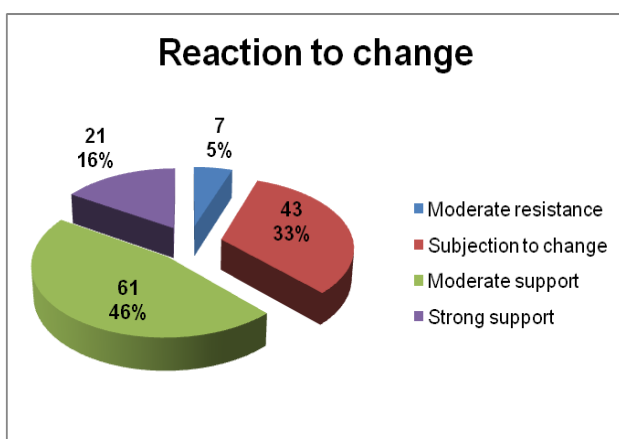


Figure 4 Distribution of "Reaction towards change"

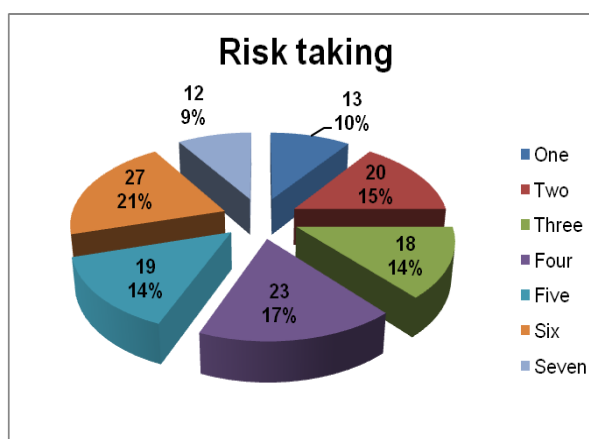


Figure 5 Distribution of "Attitude towards risk taking"

7. CONCLUSION

Given the fact that in Republic of Macedonia do not exist similar researches aimed at determining the levels of these delicate personal parameters, our discussion will remain focused on the indications of some authors from which indirectly can be drawn certain conclusions.

In addition, although it was not subject of this research, however lacking in other studies related to other parameters that we measured, we intentionally focus on the exploration of "the achievement motive" realized in our country. We say intentionally because:

- It is a subject that is of scientific interest since the time of socialism and offers certain comparison;
- It is known that it is a gained motive which is subjected to development and change;
- It is a key of the entrepreneurial profile and
- Its structure includes the attitude towards risk taking and towards change which are variables of our interest. (McClelland according N.Rot, 1987).

Namely, the research conducted in the former Yugoslavia pointed to its low level, compared with levels in the population of developed countries. (Havelka & Lazarevic, 1981) and (Nikolovski, 1991). But its more recent measurements suggest that living in the transition has not remained without influence on the socialization of new generations. Specifically, it is claimed that it has an upward growth and tend to be equalized with the same levels set in the same population of the Western countries. (Donevska, 2010)

Hence, it appears that the issue regarding the risk taking, based on our results, as it was expected, the propensity to take risk is average - $\bar{Y} = 4.09$.

Finally, we can conclude that:

- The results indicate that it is necessary every eventual strategy for encouragement and development of the entrepreneurial potential to contain adequate, adjusted contents and activities which will be implemented under the supervision and guidance of specially selected and trained individuals - synergists, mentors, especially in the structure of values and attitudes (attitude towards change and risk taking). Even more, given the model and structure of the human capital in which, among other, are distinguished the values for which the famous author and researcher in this field M.Rokic spoke as for "cognitive represent of the connotative." (according Kolevski, N. & Kotevska, M., 1992: 331)
- There are individual cases in the group of respondents who possess personal characteristics regarding all investigated parameters, which can be considered as positive role models that might try to establish certain future cooperation, and the modeling system to encourage and development of the inventive - creative and entrepreneurial potential in our environment.
- By registering of the relatively high score in the attitude towards creativity, in Republic of Macedonia is reinforced the conviction that entrepreneurship is nothing but "market valorized creativity" and is easily explainable with some contemporary concepts and models of the relationship of creativity with other variables (Renzuli) .

Taking into consideration the opinions of the authors Petkovic and Madzar, regarding the definition of the concept and its differential separation from something it is not, which is summarized in the text as "delusions about the concept " we consider that the criteria " successful business " and even more "wealthy boss" often used in the context of determining the level, development, directions, tendencies, etc. of the entrepreneurship, are not fully appropriate in situations when is needed to identify or distinguish models of people - entrepreneurs. Of course, this is due to the existence of many other intervening variables that is obviously difficult controllable in an attempt to define "success, wealth," and ways of getting them. Hence, we believe that our attempt: the models of successful entrepreneurs with who in the future we would like to cooperate, on the way of fostering and development of the entrepreneurial awareness and culture, to choose the group of those who meet a certain level of characteristics described throughout the literature is entirely justified and appropriate. Of course, the variables emphasized in this research are one of the key in that profile.

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FINANCING ENTREPRENEURSHIP IN TIMES OF CRISIS – CASE OF SERBIA

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Abstract: *The paper elaborates on the current situation in the field of financing entrepreneurial venture in Serbia in times of crisis. The global financial crisis significantly hit the SME sector in Serbia, reduced the liquidity and solvency of the enterprises, reduced the amount of available funding and loans for SMEs, increased the cost of capital and generally made existing financing problems even more difficult. The number of registered enterprises and entrepreneurs is constantly dropping, while the number of those ceasing to work has been going up since 2008. In times of crisis, SMEs are more vulnerable, since it is very difficult for them to downsize. Also, their weak financial structure is heavily dependent on external financing.*

Financing entrepreneurial ventures became one of the key challenges entrepreneurs are facing today and one of the major barriers to the rapid development of SMEs. Therefore, this paper aims to give an overview of available instruments of financing in Serbia, as well as to emphasize missing options. Regarding debt financing, since costs of credits and banking services in general are relatively high, SMEs are not profitable enough to be able to afford significant levels of debt financing at the existing interest rates in Serbia. Collateral requirements are still high, the procedures for obtaining guarantees and loan approval are too long, and loan amounts limited. Loans, although available, are not accessible to SMEs. Equity financing is in the initial stage of development. Venture capital companies are generally focused on large companies, while the segment of informal investors (business angels), who can substitute bank financing or venture capital at the early stage of a firm's life cycle in particular, is the missing piece of the puzzle. Serbian entrepreneurs are not quite familiar with the advantages and disadvantages of equity financing, and more training and education are necessary in order to introduce this kind of financing. Investment readiness programs could be an excellent opportunity to clarify business angels' expectations and entrepreneurs' perception of investors' requirements. Confronted with this gap and realizing that the existing market failure inhibits the provision of appropriate financing for SMEs, the Serbian government plays a very active role in providing subsidized loans and grants.

The analysis was mainly based on existing surveys conducted by Serbian and international institutions. The problems were analyzed from different perspectives using available statistics and we tried to provide relevant inputs of value to Serbian SME policy makers, entrepreneurs, banks and potential investors. The development of new financial instruments, especially in times of crisis, in order to support innovative SMEs and provide access to equity-based investments, has been envisaged as the priority of SME policy in Serbia. It is necessary to develop regulatory and funding mechanisms for encouraging formal and informal venture capital investments in SMEs.

Keywords: entrepreneur, SME, bank, debt financing, equity financing

1. THE LATEST DEVELOPMENTS IN SME SECTOR IN SERBIA

Since 2000 significant progress has been made in creating an institutional and legislative framework for business development in Serbia. The SME sector became the most efficient segment of the Serbian economy and the key generator of income and employment. In terms of SME developments, Serbia has managed to catch up with other countries in transition.

Table 1: Key development indicators of the SME sector in Serbia

	SME sector		Share of SME sector	
	2009	2010	2009	2010
No. of enterprises	314.827	318.540	99,8	99,8
No. of employees	872.540	814.585	66,7	66,4
Turnover (mil. RSD)	4.380.545	4.677.933	67,8	65,3
GVA (mil. RSD)	778.108	817.417	57,1	55,9
Export (mil. RSD)	275.378	339.845	50,5	46,4
Import (mil. RSD)	627.147	680.549	60,9	54,3
Investments (mil. RSD)	259.796	...	52,6	...

Source: MoERD, NARD: Report on SMEs and entrepreneurship development (2011), adapted by authors

Number of SMEs and number of employees generally has the positive trends in the period 2006-2009. It is worth mentioning that the *number of new jobs created in the SME sector in the period 2005 – 2008 was higher than the number of jobs lost due to the restructuring of large enterprises (MoERD, RDB, RASMEE, 2009)*. In 2010 the SMEE sector accounted for more than 99% of total number of enterprises, 66.4% of the employment, 65.3% of the total turnover and 55.6% of the gross added value of Serbian economy (MoERD, NARD, 2011). Micro business entities - entrepreneurs and micro enterprises account for the highest share in the number of SME sector entities, whereas small and medium-sized enterprises are dominant according to number of employees, total turnover and GVA, total export and import.

Decrease of foreign and national demand and investments had a negative impact on the business operations and the overall entrepreneurial climate. Slower development dynamics of the SMEE sector in 2009 and 2010, made the development problems of the sector more visible. The structure of SMEE, due to dominant share of micro enterprises and entrepreneurs and insufficient number of medium-sized enterprises (which are the key drivers in all developed countries), is unfavorable in a longer period of time and reflects pretty slow transition of micro into small and especially small into medium-sized enterprises. Secondly, prevailing position of low-tech industries is evident within the manufacturing sector (64% of all SMEs, 59% of total number of employees and 55% of GVA were realized in low-tech industries) while, medium-high-technology industries and high-technology industries encompass only 10% of all SMEs, 17% of number of employees and generate 21% of GVA.

Table 2: Indicators of SME sector in manufacturing industry in 2010 by technological structure (%)

Industries	No. of enterprises	No. of persons employed	Turnover	GVA	Export	Import
Manufacturing industry – SMEs	100,0	100,0	100,0	100,0	100,0	100,0
Low tech industries	63,6	59,0	55,6	54,4	54,6	40,6
Medium-low-tech industries	26,4	24,1	23,5	25,3	24,8	24,9
Medium-high-tech industries	6,6	12,8	13,2	14,1	15,8	17,6
High-tech industries	3,4	4,1	7,7	6,3	4,8	16,8

Source: MoERD, NARD: Report on SMEs and entrepreneurship development (2011), adapted by authors

Relatively low level of competitiveness is crucial problem of SMEE sector in Serbia which generates significant trade deficit. Low level of production and financial capacities produced increased investment dependency of this sector on the external sources of financing. Preliminary results from the *Business Environment and Enterprise Performance Survey (EBRD, 2008)* clearly showed increased reliance of SMEs in Serbia on bank borrowing as compared to the findings of the same survey run in 2005. Bank loans are the most important external source of financing SMEs (40%), whereas significantly less important sources are loans from friends, relatives or partners, leasing, government funds, foreign loans, guarantees and donors' support.

2. IMPACT OF FINANCIAL CRISIS ON SME SECTOR

At the present time, SMEs have been especially hard hit by the global crisis. *These firms are more vulnerable now for many reasons: not only has the traditional challenge of accessing finance continued to apply, but new, particularly supply-side, difficulties are currently apparent (OECD Centre for Entrepreneurship, SMEs and Local Development, 2009)*. There is the evidence that since 2008 SMEs in Serbia are being constantly faced with a clear decline in demand for goods and services. In this context, it is very difficult for micro and small enterprises as well as entrepreneurs, which are the dominant segment of SME sector, to downsize business operations as they are already small. Two related factors were of special importance for the SME sector: increased payment delays (which produced the decrease in liquidity) and increased insolvency and bankruptcy rates (due to weaker financial structure, lower or no credit rating and inability of SMEs to obtain short-term financing).

The number of registered enterprises and entrepreneurs has been constantly dropping, and the number of business entities ceasing to work has been going up since 2008. The ratio of established and closed enterprises, has been declining every year indicating less newly established enterprises compared to

number of closed enterprises. In this context, constant negative trends can be found in decrease of birth rates and increase of death rates of enterprises.

Table 3: Established/closed ratio and birth rate vs. death rate

	Established/closed ratio		Total	
	enterprises	sole traders	Birth rate	Death rate
2006	7,5	1,7	22,3	10,6
2007	5,9	1,5	20,7	12,1
2008	3,7	1,3	18,0	13,2
2009	2,8	1,1	15,7	12,7
2010	1,0	0,9	14,2	14,9

Source: MoERD, NARD: Report on SMEs and entrepreneurship development (2011), adapted by authors

According to Survey of small and medium-sized enterprises and entrepreneurs (*Republic Statistical Office, 2011*), 60% of respondents are coping with challenges of the current economic crisis, among which there is a small number of enterprises that do not feel the effect of the crisis (14%). There are 21% of respondents faced with decisions on dismissal of employees, and as much as 19% of them are faced with uncertain perspective in terms of further survival. Share of surveyed enterprises that feel stronger impact of the economic crises was reduced compared to the findings of the surveys in the previous years (40% compared to 51% in 2010, and 48% in 2009). Most of enterprises in 2011 intend to continue working with the increased (44%) or the same scope of business activities (48%) in the following three years. Negative outcome was considered by 8% of respondents, where 4% is related to reducing business activities, 3% to closing the business and 1% to transferring the business to somebody else.

Table 4: Orientation and plans of SMEs in times of crisis

	Business expansion	The same workload	Reduced workload	Closing the business	Transfer business to others
Micro	32,2%	55,6%	6,1%	4,7%	1,5%
Small	45,9%	47,2%	3,8%	2,0%	1,1%
Medium	58,7%	37,6%	2,4%	0,9%	0,5%
Entrepreneurs	29,1%	59,1%	4,6%	5,3%	2,0%
Total SME	43,6%	48,5%	3,8%	2,9%	1,2%

Source: MoERD, NARD: Report on SMEs and entrepreneurship development (2011)

In the similar survey conducted in 2006, there was much more enthusiasm among entrepreneurs: 66% of respondents intended to expand their business, and 26% planned to keep the existing level.

Governments generally responded on financial crisis by three types of measures aimed at: *supporting sales and preventing depletion of SMEs' working capital, enhancing SME's access to liquidity and helping SMEs to maintain their investment level* (OECD Centre for Entrepreneurship, *SMEs and Local Development, 2009*). Serbian Ministry of Economy and Regional Development in 2009 initiated the scheme and put in place anti-crisis packages, through the Serbian Development Fund in cooperation with the commercial banks, which enables subsidized loans for businesses covering investments, liquidity maintenance, financing of long-term working capital, export activities and financial leasing.

3. FINANCING ENTREPRENEURSHIP IN SERBIA

3.1 Debt financing

SME sector has become an important segment of interest of banking sector and an increasingly attractive customer group although the banks in Serbia have been traditionally cautious with lending to SMEs due to high risks associated with the sector. Consisting of 33 banks with network of 2.432 organizational units at the end of 2011, the banking sector in Serbia provides the range of both standardized as well as specially tailored banking products/services. Banks became more aware of the importance of the SME sector in Serbia and majority of them have separate departments dealing with SMEs. In this context, banks that are a part of international banking groups have changed the terms of access, the risk analysis and risk

management practices for SMEs. Concerning banks' operational management, the small enterprises became the part of retail lending while the medium enterprises became the part of corporate lending. The existence of financial infrastructure, such as credit Bureau of the Banking Association and the Solvency Centre in the NBS, have been of major importance to allow introduction of modern credit risk appraisal techniques.

Serbian banking system operates under very strict and tight legislations and regulations. Although the bank lending conditions have significantly tightened, growth rate of credit potential of banking sector in Serbia had increasing trend in 2008 and 2009, but slower than in the period 2005-2007, indicating the direct impact of financial crisis. Deposit potential had a negative growth only in 2008 as a direct consequence of the first wave of financial crisis.

Table 5: Indicators of banking sector in Serbia

	2005	2006	2007	2008	2009
Number of banks	40	37	35	34	34
Growth rates of credit potential (in %)	40.0	26.2	38.7	21.4	7.2
Growth rate of deposit potential (in %)	35.2	52.2	45.4	-2.7	14.2

Source: NBS and ECB, 2010

From the bank's perspective, profit potential from SME lending is high, but some obstacles, basically policy related, were identified (<http://siteresources.worldbank.org>). The most serious obstacle is the legal and contractual environment (including weak protection of creditors and property rights, problems with contract and collateral enforcement, judiciary inefficiency and slow and costly bankruptcy procedures). Banks in Serbia are trying to deal with these inefficiencies by demanding high levels of collateral for practically all types of credit products. Macroeconomic factors related to regulations were also recognized as obstacle to SME finance. Due to very tight monetary policy implemented by National Bank of Serbia and high cost of compliance, the cost of credit and of banking services generally in Serbia has significantly increased. It is widely recognized that SMEs are not profitable enough to be able to afford significant level of debt financing at the existing interest rates in Serbia. In the field of bank's policy, they frequently try to avoid providing loans to certain types of SMEs particularly start ups and very young firms without track records that typically lack sufficient collateral, or firms whose activities offer the possibility of high returns but at a substantial risk of loss (OECD, 2006). In this context, loans although available are not accessible for SMEs in Serbia.

On the other side, SMEs' perspectives elaborated in the Survey on current situation, *problems, and needs of the SMEE (MoERD, RASMEE, SSO, 2009)*, conducted on a sample of 3,000 enterprises, provided insight into the existing situation and problems encountered by the SMEE sector. Entrepreneurs found very limited possibilities and poor assortment of sources of finance on the domestic financial market. Commercial banks' offer is still not stimulatory enough and unreachable for the majority of SMEs. High interest rates are the main problem regarding loan arrangements of small enterprises, banking costs as well as collateral required are still high, the procedures of obtaining guarantees and approving loans are complicated and too long, and loan amounts limited. Serbian Business Registration Agency and the Serbian Development Fund have a fully operative system for the registration of movable assets allowing firms to use movable assets as collateral in their efforts to access bank finance. Additionally, it should be emphasized that some opportunities for reduction of collateral requirements through credit guarantee schemes exist in Serbia. The Serbian Guarantee Fund and Vojvodina Guarantee Fund issue guarantees for SMEs, entrepreneurs, start-ups and agricultural producers. Export credit and Insurance Agency is focused on export oriented sectors and provides credit guarantee schemes. There is an idea that credit guarantee schemes should be privately managed in order to achieve efficient allocation of resources through the incentive schemes.

3.2 Government intervention

Due to existing market failure that inhibits the provision of appropriate financing suitable for the SMEs, Serbian government still plays an important role in supporting the SME sector. There is a number of government-sponsored programs aiming to stimulate the SME development. Existing financial infrastructure at the national level that directly or indirectly provides financial support to SMEs and entrepreneurs from government sources consists of several institutions.

Table 6: Government support

	Institution	Types of support
1.	Ministry of Economy and Regional Development	<ul style="list-style-type: none"> • Subsidies for quality certification, cluster development, entrepreneurship development and innovations • Subsidies within Program for stimulating investment in innovations in Serbian companies • Loans for development of enterprises and entrepreneurship in under developed municipalities • Loans for improvement of the quality of tourist products in SMEs • Low interest rate loans for start-ups
2.	Ministry of Science and Technological Development	<ul style="list-style-type: none"> • Subsidies for innovation projects
3.	Ministry of Agriculture	<ul style="list-style-type: none"> • Financial support to entrepreneurs and NGOs in the field of agriculture for developing safety and quality systems for agro products in 2009 as well as for providing consultancy work.
4.	Development Fund of Serbia	<ul style="list-style-type: none"> • Low interest rate loans in order to facilitate SME start up and development (including investments in new programs/innovations, reconstruction and modernizing, and in working capital)
5.	Development Fund of Vojvodina	<ul style="list-style-type: none"> • Long term and short term loans for SME development and export finance
6.	Guarantee Fund of the Republic of Serbia	<ul style="list-style-type: none"> • Approves and guarantees for company loans parts approved by the banks and other financial institutions. Guarantee Fund approves 30% and the banks 70% of the loan.
7.	Guarantee Fund of Vojvodina	<ul style="list-style-type: none"> • Issuance of guarantees to banks as the collateral of regular bank loans repayment by individual farmers, private entrepreneurs, small and medium enterprises
8.	National Agency for Regional Development (former Republic Agency for SME Development)	<ul style="list-style-type: none"> • Low interest rate loans for start-ups (as implementing institution within the government program) • Subsidies for quality certification, entrepreneurship development and innovations (as implementing institution within the government program)
9.	Export Credit and Insurance Agency of Serbia (AOFI)	<ul style="list-style-type: none"> • Short –term financing, export credit insurance, factoring, foreign buyer financing, refinancing of a foreign buyer via commercial bank and financing from other sources.
10.	Serbia Investment and Export Promotion Agency (SIEPA)	<ul style="list-style-type: none"> • Subsidies for the participation of Serbian companies at international fairs, creation of business linkages as well as organization of trade missions for the foreign companies interested in doing business with Serbian companies
11.	National Employment Service (NES).	<ul style="list-style-type: none"> • Subsidies for job creation – mostly for the ones listed in the NES's database as unemployed and other incentives for job creation.

As far as state-funded credits are concerned, the Development Fund of the Republic of Serbia is the principal channel, providing (subsidized) financing for different programs related to economic, regional and SME development, increasing competitiveness and related activities. This Fund has a number of credit products including: Long term credits up to five years at an annual interest rate of one per cent, funded by the Ministry of Economy and Regional Development; Short-term credits (6 months), with annual interest rate of 3.5% from Fund own resources; Long-term credits of up to five years at 4.5% annual interest and with a grace period of one year; Credits for financing development of production trades (craftwork) and services – entrepreneurial credits (4 years) with 1-year grace period and annual interest rate of 1-3%.

Banks were very positive about the need for the Government to take an active role in trying to facilitate lending to SMEs (<http://siteresources.worldbank.org>). Although the subsidized programs have provided interest rates that were significantly smaller than that of banks, when asked to evaluate the Government-sponsored credit programs, banks responded that the programs have little or no real impact on the market or the SME development. One explanation for such an opinion can be that the total volume of funding available from the government-sponsored sources is actually rather small to affect the market rates, which is partially true. More importantly, there is no reliable impact assessment of the incentives to SMEs put in place by Serbian government. It should be the very clear indicator of efficiency of SME policy in the context of financing entrepreneurship. Therefore, it is necessary to design clear monitoring processes for all government-sponsored programs aiming to finance and stimulate the SME development.

3.3. External equity financing – the missing piece of the puzzle

Financial markets in Serbia are generally underdeveloped and there are limits for SMEs to use other financial instruments coming from the capital market and corresponding financial organizations. The Law on Investment Funds (2006) was a first step towards allowing the establishment of private equity funds in Serbia. The *OECD report "Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans: 2009 SME Policy Index"* (2009) states that several private equity funds are operating in Serbia. But, these funds confine their investments to the acquisitions of stakes in larger Serbian enterprises. Existing Law on Investment Fund does not impact substantially on innovative SMEs nor venture capital companies investing in them.

Despite the importance of innovative SMEs, having in mind that they represent higher risk than traditional SMEs or large firms, they face particular problems when attempting to access traditional bank loans. On the other hand, SMEs are also disadvantaged having in mind that investors (who provide risk capital in return for the equity share in the company), are generally focused on large companies. Financing innovative SMEs is additionally complicated by the fact that these firms require different financing at different stages of their development.

Business angels can be a substitute for bank financing or venture capital which can be difficult to attract at the early stage of a company's life. In contrast to bank finance, venture capital companies and business angels do not seek scheduled repayment, but for a minority stake in the share capital of a company in return for cash. Business angel, as private investor who brings not only capital but also experience and know-how in company management at the early stage, is generally interested in the high-risk and high-reward business opportunities that the venture creation offered. Business angel tends to operate on a smaller scale than formal venture capital companies and probably concentrates more on start-ups than in expanding enterprises. For these reasons venture capital companies and business angels are usually regarded as separate categories.

Although, there is no formal representative association of business angels in Serbia, in the end of 2009, the first informal network of business angels was established in Serbia, called "Serbian Business Angels Network" (SBAN). SBAN provides an opportunity for entrepreneurs, through the web portal that serves as a type of matchmaking platform, to place their business ideas and to search for potential investors. Investors, business angels, members of the network, can see all the projects and browse through projects according to their field of interest or value of capital needed as investment. SBAN also allows the investors a potential joint investment. It is of vital importance for entrepreneurs in Serbia, through attending trainings, conferences, workshops and lectures, to improve knowledge on designing business plans, project documentation, marketing and finance as well as to improve their communication and negotiation skills in order to prepare themselves for the business meetings and negotiations with potential investors. Investment readiness programs will be an opportunity to eliminate some misunderstandings and to clarify business angels' expectations and entrepreneurs' perception of investors' requirements. Also, it is necessary to promote the equity financing and to develop regulatory and funding mechanisms for encouragement of formal and informal venture capital investment in SMEs.

4. CONCLUSION

Slower development dynamics of the SMEE sector in the times of crisis, made the development problems of the sector in the fields of financing entrepreneurship venture more visible. Weak financial structure of SMEs is heavily dependent on external financing and due to lower or no credit rating (especially in case of start-up firms) they have limited external financing options.

Existing scope of financial support to SME sector in Serbia, although significantly improved, is not enough specially in times of crisis to contribute to faster growth and development of SMEs and entrepreneurship.

Regarding the debt financing, the cost of credit and of banking services generally increased. Although available, loans are not accessible for SMEs in Serbia having in mind the SMEs are not profitable enough to be able to afford significant level of debt financing at the existing interest rates in Serbia. Start-up businesses are in particularly difficult position. Banks frequently hesitate or try to avoid providing loans to them because they have no track records or sufficient collateral.

External equity financing in Serbia is in the initial stage of development. Venture capital companies are generally focused on large companies, while the existing Law on Investment Fund does not impact substantially on innovative SMEs nor venture capital companies investing in them. Informal investors (business angels) can be the substitute for bank financing or venture capital especially at the early stage of a company's life. But, in Serbia this is the missing piece of the puzzle, and more training and education is necessary in order to promote and introduce the essence of this kind of financing. Very first initiative to establish the network of business angels in Serbia was implemented via SBAN web portal enabling entrepreneurs to present their business ideas and projects on one side and investors to better allocate their investment decisions in the area of their interest.

Development of new financial instruments which will support primarily innovative SMEs and provide access to equity-based investments, was envisaged as the priority of SME policy in the area of financing SMEs in Serbia by the Strategy for Development of Competitive and Innovative SMEs 2008-2013. Besides providing direct financial support to SME sector, it is also necessary, in the conditions of a financial crisis, to work more actively on improving the knowledge of SME owners and entrepreneurs in the field of availability of funding, information on how to access these sources as well as how to manage them efficiently.

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MANAGEMENT PRACTICE, SUCCESS AND/OR GOOD PERFORMANCE OF SMALL BUSINESSES

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Abstract: *One of the main goals of this paper is to define formal management practices, as well as to define success, i.e. good performance of small businesses. Current dilemmas in the cited triangle are of immediate interest because of different research results on this subject. Initiating critical thought on the subject creates necessary conditions for further research within the framework of the defined field, increases the understanding of the research problem and contributes to better dissemination and usefulness of future research results. Considered from the aspect of future research intentions, this paper is a necessary step on a defined path, that is, a necessary condition for further research.*

Keywords: management practice, success, good performance, small business

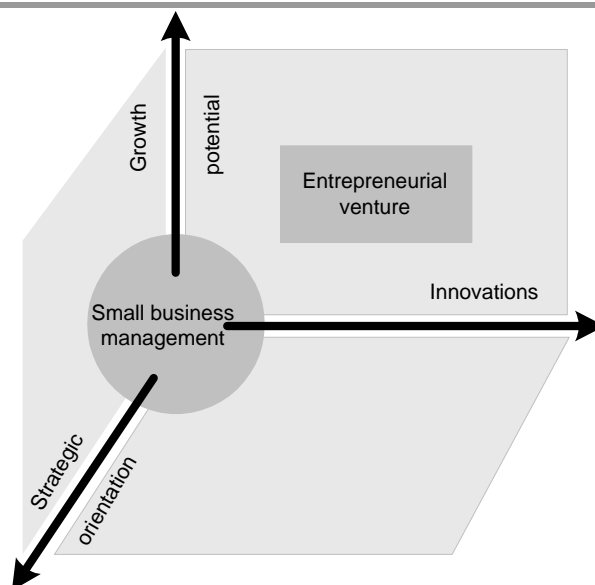
1. INTRODUCTION

Numerous works published in academic publications, as professional journals, including research results on management practice and success and/or good performance appeared about 50 years ago. At the beginning, significant part of this sort of researches related to large enterprises, therefore, most management practice was founded on methods and procedures developed for large enterprises, where operative and financial goals were very precise and clear and could be very easily turn into concrete actions (Simpson M., Padmore J., Frecknall-Hughes J., 2007). Recently, the realized balance and part of attention have been paid to small business. This change of behavior relationships have been caused by the opinion and a very logical attitude that **management practice is the principal culprit for success/failure of large companies and everything good for large companies is also good for small ones**. This attitude is confirmed by many researches where managerial practice was on the top as a critical factor for the success of small business. Significant research space within the framework of this subject after five decades of current importance has been present for opposite results of authors when researching in this field. The previous statement should be accepted very carefully. Results of the cited researches can be hardly compared because there is some dose of relativism when determining how an author understands the key variables of researches as managerial practice, success, performance and indices for indicating these variables. The work, as part of a wider research project will enable the adequate starting points and the realization of planned researches to determine the interdependence of management practice and success/performance of small business. The main result, the practical result, of these attempts should be the managerial framework in the form of managerial recommendations for success, i.e. good performance of small business, as well as the adequate way to disseminate these results with a view of advancing practice in the field of researching. It is also very important to emphasize the necessity of clearing up the starting points and complete understanding of some categories so the results of this research can be definite, unambiguous and completely useful. This means, firstly, that we must determine precisely the categories of formal management practice, as well as to limit the categories of success and good performance; these will be some of the key variables in the research.

2. EXISTANCE OF MANAGEMENT PRACTICE

As the beginning phase in the life cycle of an enterprise, i.e. development, considered from the aspect of its size, small business, as the social-legal entity – societies have a significant distance in relation to medium enterprises, when speaking on management practice and the level of its application. Management and intention for the long-term existence, as well as the realization of its own mission make small business an officially accepted entity of the economic activity. The existence of management orientation clearly divides small business from the entrepreneurial undertakings, as visually explained in Figure 1. In the same way, starting management practice, largely, qualitatively divides small business from medium enterprises, as the next phase in development, where management is present at one higher, professional level.

Figure 1. Differences between entrepreneurial investments and small business management



Source: Wickham, P, 2004.: «Strategic entrepreneurship», Prentice Hall, p. 103.

Therefore, small businesses divided from the segments of medium ones, where the category of micro enterprises is turned off, represent one homogeneous entirety, i.e. one qualitatively precise and clearly limited field of researching. As seen in the previous part of the work, as selected research field appears a subgroup of small businesses where the category of micro enterprises numbering until ten enterprises is excluded. Reasons are exclusively of the substantial character and they significantly exert influence on the quality of researching. The basic set of small businesses without micro enterprises, defined in this way, is completely compatible and comparable with the same segment of economic societies as defined in EU and the surrounding countries. It is not the case in our country. In the analysis of interpreting and usability of research results based on the realized compatibility of the research field, we get the broader field, in the time and space sense, for medium enterprises dissemination. Except micro enterprises, the sub-segment of medium enterprises is also excluded because small businesses have specific features in relation to the medium ones, as for the attained level of management practice. As obliging in the next part is the precise determination of key research variables in order to interpret causes, relationships and connections of some results with a dose of reliability and usability. One of the main independent variables in this research is certainly management practice in small businesses. There are different approaches and determinations in the scope of this part of the research field. According to Wickham and the model illustrated in Figure 1, the existence of small business management within entrepreneurial undertakings is confirmed with the strategic orientation and it represents the basic indicator of management practice in small business (Wickham P., 2004, p. 41). The substantial strategic orientation means the existence of the long-term determination with small business for realizing business activities materialized in strategic goals, defined mission and business vision. The presence of formal small business management is mostly identified with planned activities. The dominant activity within the framework of strategic management is planning. Planning as the first phase of management process is definitely the key subject of small business and management practice. Some authors connect planning with the advancement of performance, others treat planning as the key factor of success. Connecting management practice for planned activities exclusively points to some indications that it is about the beginning phases of management system and its development in small businesses according to the level of business activities of economic entities as small businesses. The following citations speak about the importance of business planning for small business. If the beginner entrepreneur asks for advices to advance business, the most often answer is "Start with planning" (Brinckmann et al, 2010). In addition, most university in the U.S. A. having study entrepreneurship programs, teach students on the importance and carrying out business plans (Brinckmann et al, 2010). Seventy-seven schools of 100 business schools in the U.S.A. have courses for carrying out business plans (Honig, 2004). Many leading professors of entrepreneurship consider business plan development as the most methodical unit in entrepreneurship

instruction (Hills, 1988). In many countries, business plan is one of the leading instruments for entrepreneurship development and regional development (Russell et al, 2008; Lange et al, 2007). In addition, in many countries, hundreds of people participate every year in the government instruction programs for carrying out business plans (Brinckmann et al, 2010). Citing these attitudes in detail, we have not yet defined precisely how we understand management practice in small businesses. According to the previous question, there are two opposite schools: the planning school as opposed to the learning school (Wiltbank et al, 2010). Supporters of the planning school emphasize that learning generally advances efficiency, therefore the performance of small business (Ansoff, 1991). As the main components of business planning, they cite strategic goals, strategies, evaluation and decision-making as part of control implementation (Armstrong, 1982; Porter, 1985). Supporters of the learning school focus dominantly on learning, strategic flexibility and resource control, not on the predefined behavior in the form of formal plans (Mosakowski, 1997; Mintzberg, 1994; Waters, 1985). In addition, one of the researchers who connect management practice of small business with the survival and good performance is Johan Maes et al (2005). He cites, in his work, the following activities proving the existence of management practice and their influence on financial performances in small business.

Figure 2. Relationships on performance

	Financial performance
Owner–manager characteristics	
Education	+
Knowledge of cost accounting	+
Financial knowledge	+
Experience	+
Company characteristics	
Size	+
Age	+
Internal factors or management practices	
Equity above minimum level	+
Percentage of time spent on administrative affairs	-
Use of external professional advice	+
Planning horizon	+
A priori screening of clients	+
Avoidance of cash credits	+
Gathering of non-financial information	+
Standard costing	+
Actual costing	+
Factors used in costing process	+
Budgeting	+
Quality control	+
Supporting use of informatics	+
Percentage of jobs as a subcontractor	-

Source: Johan, M., Luc, S., Filip, R., (2005), *Modelling the Link Between Management Practices and Financial Performance Evidence from Small Construction Companies*, *Small Business Economics* 25: 17–34

The list of business activities is illustrated in Figure 2, being identified as the form of management practice, unambiguously points to the beginning steps in building the management structure, which is typical of enterprises in the beginning phases of development as small businesses. The cited activities in this research cause the interdependence with financial performances and are very important for the survival of small business. From our standpoint, only their presence and the form in which they appear are interesting. In this way owners/managers confirm the thesis about intentions and efforts on the long-term survival, building the organized business system; all this has the characteristics of strategic orientation.

2. SUCCESS AND/OR GOOD PERFORMANCE

In all the fields of social and economic engagement, participants try to realize success. Success is not always the end goal in undertaking some activities, but it becomes the resource for realizing many other goals. Success is something to which owners/managers/beginners of small businesses also gravitate. For economic activity and enterprise management, success can be measured and expressed by a large number

of indicators, but an overall expression of success is realized by means of synthetic indicator called profit. Besides this representative indicator, success can be considered in different business segments where success can be presented in different ways as productivity increase in production, winning a new part of the market, sale volume increase, introducing a new product on the market, increasing the number of employees, production increase, etc. Most attitudes, presented in the literature considering success, define successful enterprise in the following way: to be considered as successful, the enterprise must realize at least average profit of its economic branch. However, as for small business, is it the same? For success in an entrepreneurial undertaking, it is necessary to satisfy all the conditions so business activities can result in successful business results. These conditions relate to knowledge, skills and capabilities of the entrepreneur who, as a person, should have them, then good business ideas, as well as conditions ruling in the business environment. There is no guarantee for entrepreneurs. Simply, there is no way to eliminate all risks connected with starting small businesses, but the chances for success can be increased by good planning, preparations, evaluation of strengths and weaknesses of potential owners/managers of small businesses. Except of all these usual legalities, there are exceptions as many successful owners of small businesses are who, in the age of adolescence, were team players, athletes, leaders at school, excellent students, never considering status quo. However, it is quite usual to meet many successful entrepreneurs inclined to be rebellious people, and inclined to taking risk, as well as those having tendency to be "off beat" and it is considered as necessary for successful carrying out an entrepreneurial undertaking. Obviously, there is not a well-known formula for success, but there are numerous open questions and dilemmas what it represents and how to measure it in small businesses. To treat the problem of performance categories and success of small business represents one of the key points in this work. There is not firm determination what the previously cited categories mean, as there is a wide range of variables for measuring performance/success. Most management practice is based on methods and procedures being developed for large companies, where operative and financial goals are very precise and clear and which can be easily transformed into concrete actions (Simpson M., Padmore J., Frecknall-Hughes J., p. 1). As for small businesses and the relationship between management practice and success/performance (Rue and Ibrahim, 1998; Perry, 2001; Gibson and Cassar, 2006; Simpson et al, 2007; Wiesner et al, 2007), there are some difficulties mostly relating to objective measurement. But, in most researches, a significant part of success/performance of small businesses is connected with management practice, illustrated in Figure 3. According to some authors, success is interpreted as a specific aspect of performance (Brush and Wanderwerf et al, 1992, p. 159); others equalize success with high performance (Brooksbank et al, 2003), while some authors bring it in touch growth and profitability (Perren, 2000).

Figure 3. Relative importance of the factor of small business failure

Causes	%
Lack of management skills	29.1
High interest rates	15.6
Economic recession – inflation/unemployment	11.4
Taxes	10.1
Competition	5.8
Money flows	5.8
Laws and other bylaws	5.0
High business costs	3.6

Source: Peterson, R., Kozmetsky, G., Ridgway, N.: « Perceived Causes of Small Business Failures », *American Journal of Small Business*, 2003., p. 15

Some authors connect small business success with the survival itself, i.e. avoiding failure. As for **defining small business failure**, it may be the simplest way when it equalizes with its **formal bankruptcy** (Cochran, 1991). Using different sources of information on small business failure, there is a possibility to widen the previous definition by the category of conscious retreat from business, including here small businesses that stop working because of the loss financial resources, which also means bankruptcy, as well as conscious retreat, leaving nonpaid liabilities to creditors (Dun & Bradstreet, 1999).

Because of different understanding of success and performance, and the way of measurement, there is the necessity of precise limitations and defining. As for owners/entrepreneurs/managers of small businesses and the wide spectrum of their goals, as quality independence and life style (Jennings and Beaver, 1997, p. 63)

speaks enough about the complexity of problems. The illustration of success by means of financial indicators, as the total income per employee, profit per employee or the period of investment return is not enough to apply in the context of small businesses, disregarding they are easy to measure because they ignore the alternative criteria of success based on personal goals of owners/entrepreneurs/managers. Personal goals of owners/entrepreneurs/managers should not be harmonized with business goals, financial indicators do not often state them, and it additionally complicates the current situation. Some financial categories, total income, profit, property, as quantitative statements are differently calculated because they, in their structure, include different elements, and it makes the category of financial indicators and their values relativistic. According to Frecknall-Hughes et al (2007), the main shortages of accounting and financial indicators of performance are:

- Ratios give meaningless figures if the company has generated a loss;
- There is no absolute definition as to what constitutes a “correct” ratio;
- Given (ii), they may be calculated almost as one likes, which means that they are capable of manipulation;
- Compounding (ii) and (iii), ratios are often just presented as figures, without any supporting calculations or definitions;
- Ratio analysis deals only with financial numbers and does not take account of other factors which may affect company performance; and
- If they are calculated over a period of years to provide longitudinal data, then the value of currency in later years will not be the same as that of earlier years, owing to the effect of inflation, etc.

For the concept of small business success, i.e. owners/entrepreneurs/managers, we can say that it is a subjective-absolute category as a measure in realizing the set goals of the company, which can be simple and having one meaning; therefore, they can reflect individual, personal aspirations and motives. *Performance represents the relative-objective dimension of success as a multi-dimensional, qualitative and quantitative, the expression of success compared to other enterprises or relevant groups of enterprises.* Performance itself represents the attained level of realization, i.e. the principal result of business activities of the company, in this case, small business. Such defined limited categories of success and performance point to the fact that the company can be successful in realizing the set goals, but also it finds itself in an unsatisfactory level of performance- good, high, optimal), for instance , regarding to growth and development, as a multi-dimensional term of success (Jennings and Beaver, 1997, p. 68). When the analysis is oriented toward small businesses, as the pattern and the basic set defined within the framework of this research, the main resource of mutual comparison to the dimension of relative success is certainly performance expressed by selected indicators, which unambiguously represent this category. The selection of indicators for stating the level of performance is certainly the key factor of success of all the efforts expressed in this and similar researches, which have performance as an independent variable. Lumpkin and Dess are very precise when researching the multi-dimensional nature of performance, deciding for traditional indicators of growth, market participation, profitability, stakeholders’ satisfaction, etc. (Lumpkin and Dess, 1996, p. 153). In this research, indicators of survival, growth, development and profitability are selected with a view of measuring small business performance. The cited selection represents one consensus on the subject of performance indicators, and it is seen in the research carried out by Murphy with authors within the framework of 51 works, where he identified 71 different performance measures, classifying them into nine principal groups, where growth and profitability are the most frequent (Murphy, Trailer and Hill, 1966, p. 16).

3. CONCLUSION

Based on the previous attitudes, determinations within the framework of this research are as follow. Documented business plans do not represent strategically oriented management practice in small businesses, but the formal planning is part of a strategic management process. Learning a lesson from the previous sentence, for management practice, we mean planning and documented business plans, as well as management activities in all the phases of management processes with formal documentation.

As for measuring and business result statements in small businesses, there is a significant distinction between the categories of success and performance. For the category of small and medium enterprises, we can say that it is a specific aspect of performance characterized by subjectivity and the personal dimension of owners/managers/entrepreneurs, which should not be in accordance with realized business results, i.e. performance. As a qualitative statement, it is very hard to express it by means of numerical indicators, and it represents the basic shortage of financial success indicators, when talking about small business. Performance measuring, as an objective statement of business success, does not point to the level of

realized business goals of owners/entrepreneurs/managers and it points to the need of inclusion of qualitative indicators of the entrepreneur's business success. If we want performance indicators to express the real measure of business success and realized results in the form of selected financial indicators, some mutual comparisons within the framework of some related groups of companies in the same economic branch are necessary. It is also necessary that financial indicators are uniform to relative relationship of selected categories and being compared and in this way; they make a comparable ratio structure. In any case, the volume of management activities, according to all the phases of management process and the degree of its formality in the form of written documents, is connected with success, i.e. small business performance. The former researches partly and contradictorily covered such a defined problematic orientation, opening the space for intentions set in this research.

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SMALL AND MEDIUM SIZED ENTERPRISES OWNER PROBLEMS AND INFLUENCE FACTORS

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Abstract: *This paper describes the role of owners of small or medium sized businesses as the main pillars of business functioning, and outlines potential impacts (positive or negative) on owners of SMEs. The objective of this research is theoretical understanding of the problems SME owners face every day, and possible identification of local SME owners (in Serbia) with foreign or domestic problems abroad. Specific methods used in writing this paper were confrontation of views of various authors on the same issue, and the synthesis of the authors' own findings, or the findings of others. The authors have gained insight into the quantity and quality of problems and factors affecting owners of SMEs, and the daily amount of tasks which an owner has to deal with. The limitation of this study may be a lack of practical research, but it can certainly be a good impetus for further work. The paper has revealed a strong correlation between owners of SMEs and ways in which they are introduced to problems, or whether they will succeed in minimizing side effects. This theoretical study may serve to existing or future entrepreneurs and researchers, to elaborate on the topic.*

Key Words: *small, enterprise, owner, influence, business*

1. INTRODUCTION

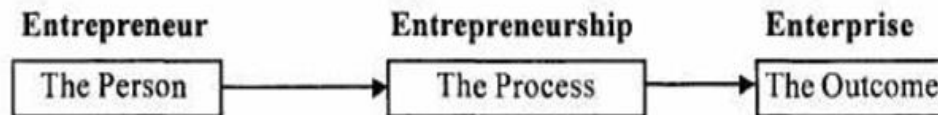
Concept of entrepreneurship now basically covers the design and organization of business activities with the ultimate goal of profit making. An entrepreneur is a person who is constantly looking for changes, and responses to changes in the environment, using them as an opportunity for further development. Entrepreneurs innovate constantly in order to keep up with market conditions. Within-entrepreneur (intrapreneur) is a person working in a company apart from other activities, and the company is actively involved in innovation, as well as in revitalization / diversification of business. Entrepreneur has to feel the freedom of action in order to explore and implement ideas, although the outcome effect of that work will be greater than the whole company can withstand, but also the entire company has to take over the risk that comes with such actions. Entrepreneurs usually play a major role in developing the economy of a country, or to increase the GDP of a country. Social development of a country or region is also marked by the influence of entrepreneurial activity.

2. THE ROLE OF A SME OWNER

In business there are no guarantees. There is simply no way to eliminate all risks associated with start-up businesses - but it is possible to increase the chances of success with good planning, preparation and close examination of business conditions. The owner must have a good idea to assess the strengths and weaknesses of his small business. It must be carefully considered including all concerns, such as:

- Do you venture into everything yourself (i.e., whether each project, organizing, monitoring, just go through the owner or someone else),
- How well is the owner getting along with the environment (the owners have to develop working relationships with a variety of people including customers, vendors, bankers, lawyers, consultants, etc...)
- How well and how does the owner plan to organize a business (a good finance organization, storage, distribution, production can help avoid many downfalls),
- Is the urge to own a business strong enough (business management can significantly emotionally downfall on owners, so many owners burn out quickly, precisely in order to submit all the pressure, all liability for (non) success of their business).
- How will the business affect the family of the owner (the first few years can be very difficult for the family life of the owner, so it is important for family members of owners to know what to expect, but for the

owner it is very important to know that they will have the support of family members when it comes to difficulties in business) (Morgan, 2007.).



Picture 1 (Saroj and Mehndiratta, 2009.)

Ideas to the new business owner can come from various sources. Some owners run the business and develop existing ones, according to some of their personal interests. Any specialized knowledge or skill may be the owners to indicate, and the possibility of turning it into a business. Through time, as companies reduce, or require more external services (outsource), so the opportunities for entrepreneurs are born. Any task or responsibility that large companies do not want, or do not have time to do it, can be the basis of the owner of an SME to be involved in cooperation (and Saroj Mehndiratta, 2009.).

The role of the SME owner is to learn all aspects of his business potential, to make such a good knowledge that could lead to good functional and business decisions. There are entrepreneurs who are very inventive in their work, including developing new or improving existing products which can interfere with much larger "players" in the market. There are some advantages in developing your own business. Again, the owner is the main pillar of that development. It is less costly to start and develop their own business, rather than to buy someone else's which already had numerous disadvantages encountered. Most people who start their own business are good at what they do, so it is easier for their colleagues to rely on them in the process of developing a business (and Saroj Mehndiratta, 2009.).

When owner family members are involved in the whole story, then it is possible to develop their own management style and approach, their own policies, ways of treating the problem (and of course there are risks that cannot stop the realization of the process of business development) (Saroj and Mehndiratta, 2009.).

The characteristics that a SME owner has (at least most of them) to meet are:

- Ability to take initiative - an entrepreneur is a person that identifies an opportunity, trying to extract the best outcome from it, if he doesn't have this capability, the entrepreneur cannot continue to progress,
- Self-confidence,
- Possession of leadership quality- an entrepreneur would have to be able to influence the behavior of his employees so that they achieve the objectives of the organization,
- Ability to assume the risk- an entrepreneur would have to be able to analyze the opportunities and calculate risk factors before taking the next step,
- Originality,
- The ability to predict- an entrepreneur must try to understand future trends and to plan for their outbreak,
- Creativity- an entrepreneur must be able to generate new ideas and designs, to depart from ordinary products, and to open new markets,
- The inner drive to succeed- entrepreneurs set big goals in front of them, they tend to behave very ambitious, removing obstacles to success,
- Dynamics- entrepreneurs recognize the importance of coming and staying "on top", and the only way to achieve this is to change and grow depending on the situation in the region,
- High Motivation- high standards and objectives that need to be achieved by looking for entrepreneurs to be motivated and to motivate their employees,
- Acceptance of constructive criticism-good entrepreneurs must know how to receive criticism, hurdling obstacles are a part of the picture in business conduct, so they have to be treated, with analyticity,
- Good interpersonal relations-Entrepreneurs with good interpersonal relationships can more easily find their way to market, to develop a network with its suppliers, etc. retailers. Good relationships help them work more efficiently,
- Appropriate strategic planning-, medium-term and operational planning must be present to access business opportunities in the best possible way, to be implemented (and Saroj Mehndiratta, 2009.).

3. SME OWNER PROBLEMS

The work and the type of work performed, the fear of job loss or employment, fatigue, short deadlines, lack of parent support, a sense that he cannot manage their time or work performance, inability to influence the way or work organization, sense of alienation other employees of the company, a sense or feeling excessive exploitiveness unused in connection with work tasks set before the owner, any gap in the work, monotony, and numerous physical, biological, or chemical influences at work - these are all potential problems that arise in entrepreneurial life.

On the other hand, Brixia (2011.) defines several key limitations that owners of a major problem and obstacle to the initiation and maintenance of entrepreneurial ventures, including its:

- High tax rates;
- The inefficiency of tax administration;
- Advanced obtaining permits and licenses;
- Corruption;
- Poor infrastructure.

Stress is a daily companion, a certain feature of organizational life and largely associated with the execution of duties and tasks at work, daily routine, relationships with other people, control and performance management processes, as well as a variety of unplanned and unforeseen circumstances which business owners face with, during their company's life cycle.

While between all the employees in any organization exists a normal, natural, level of stress, the business owner's situation is slightly different (Lovelace et al., 2004.). Directors of large systems generally are under increasing pressure over the short-term problems, while the main stress of SME owners are about the long-term planning, financial investment, job security, as well as the status of their business (Fassin et al., 2011.)

Leaders of organizations are more prone to experiencing different problems because of the position and level of responsibility demands that are expected of them to meet. In order to create a healthy and motivating work environment, the owner is the one who needs to develop leadership skills and autonomy of thinking of other employees.

The practice of „self-leadership“ is the development of personal motivation and desire for achievement of organizational goals, but in a way that will help reduce stress and increase job satisfaction or easier coping with problems (Lovelace et al., 2004). .

The biggest motivation for almost every owner of a SME is a possibility of prosperity and growth of his small business. According to Ward (2004)., owners of small and medium businesses cited six major problems for long-term development of their business, which in some way motivate them in a positive (or negative) direction:

- Maturation of business life cycle and increasing competitiveness;
- Limited capital for business growth;
- Next generation of business owners (if inheritance is between family members);
- Ownership changes dependently and inflexibility;
- Conflicts between the heirs;
- Incompatible goals of family values and needs.

4. INFLUENCE FACTORS ON SME OWNERS

The authors believe that the owners of large businesses seek to achieve the highest possible profit, while the owners of small businesses do not think that way. The main fact is that the profit level is satisfactory and constant, to maintain their business, and to preserve the pleasure of owning their own business (Sarasvathy et al., 2011.).

What can spoil the plans is a bad tax system, and the inability to find and retain good employees and loyal customers. The advantage of entrepreneurs is primarily in that they are doing what they love, and to affect

their satisfaction is knowing that they are independent, free to create their own money (Alstom, 2009.). On the other hand, risk and responsibility is often a big negative impact on entrepreneurs. All this with long working hours, or the lack of working time leads to stress.

What is not discussed here, that there are some very important reasons why entrepreneurs of the enumerated factors of influence haven't seen as something negative, but in spite of them engage in creating their own business. For this it would primarily be required a study of the psychological characteristics of entrepreneurs and the way of thinking where you might be concluded that these entrepreneurs are simply people who love challenges and do not like to be a self-controlled part of the organizational hierarchy.

Lussier and Halabi (2010). Cited several factors as reasons for failure of a family business, of which the most important are:

- Planning-companies that do not have a business plan are more likely to fail than those that have (a business plan),
- Parents (owners) whose parents had had a family business are less likely to experience failure of their business,
- The age-young people who start businesses are more likely to experience failure than older colleagues,
- Management-owners who have no experience in management are more prone to failure than colleagues who have managerial experience.

As for relations in firm size and success of entrepreneurship is the only association seen in the influence of the duration of a company. Entrepreneurship has a stronger and better impact on the longevity of small businesses, while the major factor in the company is weaker and negative (Ha-Brookshire, 2009.).

The family business firms can be improved and some of the factors that influence is not directly related to the job. This is primarily done to reduce tension among family members, living in families with two or three generations, devoting more time to the detriment of business and holiday hiring temporary help, during a turbulent period. The family has a stronger impact on business than on the family business (Olson et al., 2003.).

Threats, such destabilization operations, which follow from the specific personalities owners of SMEs, can be activated by the subjective, knowledge, personal values and beliefs, perceptions and experiences of the owner as an individual who cannot easily be replicated, and are therefore an important factor (un) successful business (Kor et al., 2007).

Factors threats coming from outside are often unable to reach owners and small businesses would usually resort to strategies of avoidance, is often faced with insufficient institutional support their enterprise. But also, too little capacity resources is an important factor that may determine the success of an SME (Welter and Smallbone, 2011.).

So often employed in an MSA does not really look favorably on new employees who come right out of college in business, since they are a potential threat due to a higher level of education. Employees of SMEs, if they are employed because of nepotism, additional pressure will be done by the owner to not only recruit graduates (Gao et al., 2011.). SME owners need to further fight against it, because otherwise it could not be expected to increase the capacity of its business.

A Portuguese study has proved the claim that the slowdown in the rate of growth of SMEs is under the increasing influence of the economic crisis, but because it affects the growth of large companies (Amorim Varum and Rocha, 2011.), and therefore the economic crisis should be appreciated as an important factor impact on SMEs also.

Companies that do not invest in R&D projects will inevitably experience a nearly complete or total slowing growth rates. As an additional factor appears the lack of quality human resources to participate in such R&D projects, while larger firms have such capital (Macas Nunes et al., 2011.)

There are several major factors that influence the barrier to a stable rate of growth of SMEs, such as the inability of entrepreneurs to establish an appropriate organizational model in the company. This organizational model would imply a professionalized management system and development of methods, techniques and processes to support development (Barbero et al., 2011.)

Several factors influence the operations of an SME should be further explored in other papers, as well as their role in everyday relations in such organizations. Factors which influence the following (below), can in some cases represent a barrier to normal functioning and development of SMEs, but also can contribute to stimulating the owners of SMEs in certain situations for the sake of achieving greater efficiency.

Motivation is any influence that causes, or maintains a direct human behavior. In the management of family SMEs, motivation plays an important role because with a higher level of owner motivation they are trying to meet the desires of their business environment, so that it contributes to the realization of various benefits for the owner.

There are various emotional (psychological) factors affecting the owner of small or medium businesses, which will certainly affect his motivation for running the business. They can be classified into:

- Autonomy in work;
- The power of decision making;
- Challenges;
- Continuity of operations (Zellweger and Astrachan, 2008.).

For the owner of an SME, he may be affected by the three environments:

- Home;
- Business;
- Personal career flow.

Considering the first environment, it is related to marital status, number of working hours, responsibilities towards children, living expenses, work at home. The business environment influences the owner through the available resources, employee behavior and performance of employees. The third environment that may affect the owners of SMEs is reflected in the transition from economic inactivity into entrepreneurship, family business management experience, and age (Jayawarna et al., 2011.)

5. CONCLUSION

It is difficult to choose what problems most affect a small business owner. That is, each owner is dealing during his career in the SME sector, with various problems, never (or seldom) repeating the same problem. What is really possible to show, that's the way the owners can deal with these problems. There is no universal pattern, but there is a certain mindset, that can overcome most of the risks and problems. As for the impact, the implications are too many and it would be pointless to compare them, or even by a classified order. But what can be concluded, it is that any "attack" on the company, each factor of instability-is surely preventable, or at least can be mitigated so it makes no major problems. This story can be repeated in circle until the owner of the company, as the main pillar of the link between all sectors of the company, can fit in and integrate the parts into a whole so that external influences are not the reason for the decrease in profits, or business-shutdown.

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ENTREPRENEURIAL TEAM IN NEW VENTURE CREATION: THE KEY CHALLENGES FOR MANAGEMENT

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Abstract: *When starting a new venture, entrepreneurs usually select founding team members with skills and expertise closely matching their own. In choosing cofounders it is wise to focus on complementary aspects when it comes to the knowledge base, but on similarity in terms of personal characteristics and attributes. Once the appropriate founding team is assembled, these individuals must work together effectively if their venture is to succeed. The main research focus of this paper is to analyze principles of building effective business relations within a new venture along with establishing an optimal team structure and size. As a new venture grows and the number of employees rises, new skills and capabilities enhance performance. Founding team diversity is prerequisite to innovativeness and creativity that result in a successful new venture.*

Keywords: *entrepreneurship, team, new venture, management*

1. INTRODUCTION

People tend to feel more comfortable to work and cooperate with persons who are similar to themselves in various ways, and therefore, entrepreneurs usually select cofounders with skills and expertise closely matching their own. Nevertheless, since variety and diversity of knowledge, experience and training is significant advantage to new venture, it is reasonable to select members of founding team on the basis of complementarities rather than similarities. In other words, in choosing cofounders it is wise to focus on complementary aspects when it comes to knowledge base, but to similarity with respect to personal characteristic and attributes. In order to choose excellent cofounders, entrepreneurs must perform the task of social perception well, which is not an easy task since others don't portray themselves accurately, but engage in various tactics designed to impress and present them in favorable light. Therefore, entrepreneurs should be careful when choosing cofounders and double check information provided by other contacts. They often confront deception, or other efforts by others to actively mislead them, and if they make wrong decision when choosing founding team, that can lead to disastrous results.

Once the appropriate founding team is assembled, these individuals must work together effectively if their venture is to succeed. One of the key ingredients in establishing strong working relations is development of clearly defined roles, responsibilities and jurisdiction. Because of the self-serving bias and other factors, individuals often perceive that they are not being treated fairly by others – that they are not receiving a share of rewards according to their contributions. Reactions to such perceived unfairness range from demanding more or doing less. Because of potential problems that may arise, entrepreneur should take active steps to assure that all the members of the founding team feel that they are being treated fairly. Another ingredient in strong working relationships is effective communication. Entrepreneurs should deliver constructive criticism, or otherwise he will face atmosphere of conflict and hostility (Baron & Shane, 2005, pp. 107-128).

As new venture grow, requirements for additional human resources increase. Often these new employees are hired through the founding team's social network. Evidence suggests that the greater the number of employees in new venture, the greater success, due to the quality of the opportunity being exploited. The choice between hiring temporary and permanent employees is a complex one, since both offer advantages and disadvantages. Ultimately, this decision must depend on the situation and specific circumstances.

2. THE ROLE OF OPTIMAL HUMAN RESOURCE COMPOSITION IN THE NEW VENTURE CREATION

The beginning of new millennium brought knowledge economy, globalization of competition and increasing expectations of Internet commercial use. During the last decade initial *dot.com* enthusiasm has dwindled and investors realized that there is much more sense to invest in industries where intellectual property rights are legally protected and consequently new ventures based on radical entrepreneurial ideas came to the spot of

the light. The most prospective ventures are in the field of high technologies since they bring investors multiple returns on investment, either through acquisition or initial public offering (Stojanović Aleksić, Šapić, & Erić, 2010).

Schumpeter was the first one who described *new venture* concept in 1934. arguing that “entrepreneurs have need to compete; they are overwhelmed with activities providing encouragement for launching radical innovation that cause irreversible turn of events and structural market change” (Busenitz, 2007, pp: 183-185). *Entrepreneurial new venture creates added value through innovation of products, services, markets, technology, distribution channels or business strategy* (Allen, 2009, p. 9). Ventures can have legal form of independent enterprise or they can be incorporated in organizational structure as dependent business unit, established as a result of corporate entrepreneurship process (Babic, Eric & Nikolic, 2010). Entrepreneurial venture and small enterprise are two related concepts, but are not synonymous. Entrepreneurs tend to disrupt the existing market equilibrium and present new products or processes that change the way business works, while small business owners are focused to provide their own existence and lifestyle. The latter should not be neglected because they are the backbone of any national economy. Those entrepreneurs are emotionally involved with their company survival and growth, but only to the point of meeting personal needs. The most successful new ventures were initially founded as a small business.

Employees create innovative ideas, overcome rigid organizational hierarchy, make necessary modifications and strive to obtain key resources and support for their implementation (Stojanovic Aleksic & Eric, 2011). The success of a new business venture depends on the quality of human resources: knowledge, experience, skills, capabilities and the network of business relations of not only the founder but the team of his or her associates as well. Although the largest number of ventures is started by teams, there are relatively few attempts to explain the process of their effective creation and management. The team consists of two or more individuals who jointly create a venture they have a business interest in. (Kamm, Shuman, Seeger, & Nurick, 1990). There are two reasons for which they are the subject of research; the first one is that new ventures are much more frequently led by teams rather than individuals, and the second one is that their performance is determined by the successfulness of the venture.

Several significant researches conducted in the 1990's showed that 55-80% of the analyzed ventures had been founded by teams (Kamm, Shuman, Seeger, & Nurick, 1990). The key reason lies in the fact that, in high-technology activities, it is not probable that an individual has all the knowledge needed for a venture to succeed. Recent researches (Davidsson, P., 2006, pp. 33-36), conducted by Ruef, Aldrich and Carter have accounted for the fact that 52% of new ventures are started by teams. In the largest number of cases, 74%, teams consist of two members, and in less than 5% of the cases, they consist of five members. Even 53% of teams of two members are spouses or partners, 18% are family members and only 15% of the ventures were founded by partners only related to each other through business. The conclusion of this research was that it is much more probable that a new venture will be started by a team rather than an individual. A similar research was conducted by Chandler, Honig and Wiklund, and they came to a conclusion that there is reverse proportionality between the number of new members joining a team and the time needed for a new venture to reach the desired profitability rate. The offered explanation is based on two theses: first, when a new member joins a team, it is a disturbing factor for the venture's functioning, and second, the venture has already been facing difficulties since it needs a new member, so, for that reason, profitability also suffers.

Teams have a much greater chance for success than solo efforts for a variety of reasons (Allen, p.154):

- The intense effort required of a start-up can be shared;
- Should any one team member leave, it is less likely to result in the abandonment of the start-up;
- Founding team covers major functional areas (marketing, finance, operations);
- A skilled founding team lends credibility to the new venture in the eyes of lenders, investors, and others;
- The entrepreneur's ability to analyze information and make decision is improved because she or he benefits from the varied expertise of the team, and ideas might be viewed from several perspectives;

In psychology, an individual is known to tend to feel the most comfortable when being with people similar to him- or herself. Such a tendency when the starting of a new business venture is concerned can have its negative side. If people are similar, that means their knowledge, experience and attitudes significantly overlap. Furthermore, this means that they lack the same or almost the same skills. The optimizing of the

personnel structure imposes a need for achieving complementarity by means of harmonizing various personal and business capabilities of all participants in a venture.

Finding partners with complementary skills means making sure that the team is not overloaded with people who all have the same expertise. A team of three engineers or three finance analysts is generally less attractive than a team with more diverse skills. Teams with more diverse skills make better strategic choices that lead to higher performance. In terms of skills sets, heterogeneous teams also tend to handle the complexity of new ventures better. Five factors that have great significance in team composition are: a) homogeneity, or similarity; b) functionality, or skills diversity; c) status expectations, or cultural bias; d) network constraints, or social contacts; e) ecological constraints, or geographic distribution (Allen, pp. 155-157).

When the start-up effort is collective, with a team that displays diverse capabilities, the new venture is more likely to be innovative. Evidence suggests that firms founded by heterogeneous teams are more successful than those founded by individuals (Bird, 1989). Lead entrepreneurs drive the development of new venture and serve as guardian of their vision. They have the ability to see what others cannot see and to identify ways to change marketplace rather than simply recognize an opportunity.

To make a perfect match between an entrepreneur as the initiator of a new business venture and right co-workers is a huge challenge. There are several activities (Baron, & Shane, 2005, pp. 107-127) which he or she must carry out to create the optimal personnel structure for the venture. First, they must consider if they are in need of partners to start their venture and which characteristics and knowledge they should possess. Second, they must start the process of searching for partners, which is a very complex process. Third, they must establish effective communication between their partners and other employees, based on clearly demarcated authorities and responsibilities and the principle of impartiality in awarding as well. Four, they must make a decision if and on which principles they will seek external consultants' help.

An entrepreneur must have the skill of *social perception*, i.e. assessment of one's personality, because only then can they recognize other people's potential and capabilities they need. That would not be difficult unless people had a tendency to show themselves in their best light, which usually does not coincide with their real capabilities. They hide their feelings and motives with an aim to impress their collocutor. For that reason, an entrepreneur must separate the external impression a potential partner has made on them and its essence. To be able to know what to expect from other team members, an entrepreneur must reconsider personal values and capabilities they are bringing to the venture. There are two reasons for this to be a challenging task. First, it is not always clear why an entrepreneur behaves the way they do. He may want to include someone in the team because he or she feels attracted to that person because of his or her personality, but could not provide a precise answer to what it is he or she exactly feels attracted to in that person. So, there are factors that have an influence on the behaviour of an entrepreneur which he or she is not fully aware of, which makes the self-evaluation process more difficult. The second reason is that an entrepreneur can become aware of his or her characteristics only through interaction with other people. An entrepreneur as leader should focus him- or herself on complementarity when his members' knowledge, skills and experience are concerned, and on similarity when their motives and personal characteristics are in question. The effectiveness of every type of leader behaviour directly depends on the nature of the situation and factors such as characteristics of the task, organization and employees (Stojanović Aleksić, Erić, Šapić, 2010).

3. CREATING THE FOUNDING TEAM

The manner in which an entrepreneur creates a team is an interesting piece of information for potential investors (Allen, 2009, pp. 153-158). New ventures are analyzed by investors from the aspect of their personnel structure. From their viewpoint, the team whose members have already had an opportunity to cooperate is of a better quality than it is the one being formed for the first time. An entrepreneur tends to achieve a high degree of business control and is worried about a possibility that he or she might employ a wrong person in the key position, so, for that reason, they are frequently not ready to employ staff who have experience in management positions. There are also those who are aware of their shortcomings and tend to form their team so that it consists of individuals complementary with each other with respect to their skills. The venture must have a strong management team, dedicated, competent, dynamic, and persistent, with relevant experience and highly flexible (McAleese, 2004, pp. 182-183). The investor would rather invest in a worse idea implemented by first-class management team, than vice versa (Eric & Nikolic, 2010). If team lacks certain competencies, investor provides assistance in overcoming difficulties (Gladstone & Gladstone, 2002, pp. 54-55).

Some authors (Franke, Gruber, Harhoff, & Henker, 2006), came to a conclusion that, when they are supposed to make a decision whether to invest their capital in a concrete venture, investors are significantly influenced by the so-called *similarity hypothesis*, defined by psychologist Burne in 1971. In brief, it says that the bigger the similarity, both professional and personal, between the founding team's members and the investor, the bigger a probability that a favorable decision on investing in a new venture. That means that the process of accessing external sources of financing has its psychological dimension as well, and an entrepreneur should have *the* dimension in view.

When creating a team, two sorts of problems appear: first, there is a possibility of a collision and conflicts, and second, a problem can arise with a need to define the formal organizational structure and hierarchy of decision-making. This process is additionally complicated when several partners found a venture. There are several factors that determine the quality of a team (Barringer & Ireland, 2006, pp. 127-129) on the basis of which differences between founding teams are possible to identify according to several different dimensions: their scope, the type of the venture, the pace of accession and the individual members' contribution.

A more recent research (Beckman, 2006) accounted for the fact that the composition of a team has an influence on whether exploitative or explorative behavior will be favored within the framework of a venture. Team members who previously worked together in another company know and understand each other well and have routine performance schemes, and for that reason they prefer a rather passive *exploitative* style of behavior. Contrary to that, team members who did not previously directly cooperate with each other on a business basis bring fresh ideas in a venture, force creativity and promote the *explorative* type of behavior. It can be concluded that there is a strong correlation between team members' previous experience and the degree of innovativeness promoted by organizational culture, so that a higher degree of knowledge and unique competences dispersion contribute to the creation of the ambience of innovativeness and change.

Analysis 161 of a high-technology company from the Silicone Valley (Beckman, Burton, & O'Reilly, 2007) only corroborated these statements, proving that higher efficiency is achieved by teams composed of members who used to work for a larger number of employers and have more diverse working experience. These differences lead to stimulating constructive discussions amongst the members reducing the probability of rash decision-making without considering relevant alternatives. Apart from that, the research suggests that the structure of the founding team has an influence on the capability of carrying out critical activities, such as the acquisition of the venture capital.

Although for a long time an attitude prevailed that, due to a high level of turbulences, a team in high-technology ventures should have the organic structure characterized by the adaptability and a low degree of formalization, a more recent research (Sine, Mitsushashi, & Kirsh, 2006) proved the superiority of teams characterized by a formal structure and high specialization in the venture founding stage. The shortcoming of the theory laid down by authors Burns and Stalker in 1961 is reflected in that they did not analyze ventures in their emergence stage, but in their mature stage, which significantly influenced giving advantage to the organic organizational design.

Choosing partners to start new venture is one of the most critically important tasks that an entrepreneur must undertake. It is a difficult task because it is often not possible to understand a person's character until that person has spent some time working in the company. The stressful environment of a start-up may bring out traits and responses that were not apparent when the person was originally selected. Everyone from investors to bankers to potential customers looks at the founding team of the new venture to determine whether its members have the ability to execute their plans. Thus it is vital to choose partners who have complementary skills and experience and who do not have a history that might be detrimental to the company.

There is another advantage to forming a team. Because members of an entrepreneurial team often invest not only their time but also their money, the burden of gathering resources is shared. The lead entrepreneur also gains access to the network of contacts of the other members. This vastly increases the information and resources available to the new venture and enables it to grow more rapidly. Of course, it isn't always possible or necessary to put together the perfect team from the start. The right person to fill a particular need may not have been determined, or the right person may be too expensive to bring on board during start-up.

3.1 Building effective business relations amongst team members

One of the latest researches (Eden, Hitt, & Ireland, 2008) led us to interesting conclusions when interpersonal relations within the framework of a venture are concerned. They suggest that the entrepreneur prefers to cooperate within a venture with his or her friends who he or she trusts; however, if that is not possible, due to a lack of trust, they establish business relations with absolute strangers rather than superficial acquaintances. These conclusions do, to a certain extent, coincide with the results of the research conducted by Fracis and Sendberg (2000), where they suggested that stronger interpersonal relations amongst the team members lead to more efficient decision-making, a higher level of participation, as well as the domination of cognitive rather than affective conflicts. Besides, top management teams characterized by unique dynamics and interpersonal relatedness, family ties among other relations, lead to a higher cohesion and a stronger strategic consensus in view of the future of the venture (Nordqvist, 2005, pp. 285-290).

Although there is no universal recipe how to build a team who will operate successfully, yet there are several aspects (Barringer & Ireland, 2006, pp. 129-131) which, in that view, can represent a stimulating but also limiting factor:

- a) *The demarcation of authority and responsibility* – the main source of conflicts amongst employees is a lack of clear authorizations. If it is not clear who has the decision-making authority, then probably there will be conflicts. When founding a new venture, partners should share responsibility according to their competences and skills, which means they must stick to the complementarity principle.
- b) *Showing respect for the principle of impartiality* – psychology has proved that every individual has a tendency to give themselves credits for work done successfully, and fault others for a failure or attribute it to external factors which could not be influenced. So, he concludes, their performance is not adequately valued comparing with the results of other employees. The entrepreneur must seriously approach this problem and promote the principle of *distributive impartiality* reflected in that the employee's contribution/award for performance ratio must be the same for all. A balance among different interests must be found and clear rules for all must be established.
- c) *Effective communication* – this is the key factor in the creating and maintaining harmonious business relations. Constructive criticizing other people, based on respecting their feelings and dignities, deprived of aggression and antagonisms, subjecting no one to condemnation and offering concrete proposals for improvement are always beneficial for all team members. A functional conflict is desirable because it brings to surface different ideas, motivates employees to observe things from another person's viewpoint and leads to more quality business decisions.

Although there are no perfect founding teams and no fail-safe rules for forming them, effective founding teams tend to display the following characteristic (Allen, 2009, p. 157):

- The lead entrepreneur and the team share the same vision of the new venture;
- The team members are passionate about the business concept and will work as hard as the lead entrepreneur to make it happen;
- One or more members of the founding team have experience in the industry in which the venture is being launched;
- The team has solid industry contacts with sources of capital;
- The team's expertise covers the key functional areas of the business: finance, marketing and operations;
- The team members have good credit ratings, which will be important when the firms seeking financing;
- The team is free to spend the time a start-up demands and can endure the financial constraints of a typical start-up.

3.2 Founding team extension

The entrepreneur and his or her team make maximal efforts, use their maximal knowledge and capabilities to provide the functioning of their business venture. However, it is impossible to create a team capable of having all necessary knowledge and information at any moment, which means that, sooner or later, the team will need services provided by experts and external consultants (Hisrich, Peters, & Shepherd, 2008, p. 282).

New ventures have significant difficulties when engaging quality personnel is concerned. They are unknown to a broader public, they have not built their business image and credibility yet, which is the case with

existing enterprises. It is a big shortcoming of theirs in the labor market, so entrepreneurs are forced to use their own business contacts to come to quality personnel. There are two basic reasons why entrepreneurs employ new personnel (Forbes, Borchert, Zellmer-Bruhn, & Sapienza, 2006): they either possess knowledge their venture is in need of or personal traits perceived as desirable by the entrepreneur. They employ people who they know in person or who have been recommended by another person, and, in that way, they save their time, energy and resources. Besides, it is easier for them to persuade people they know of the quality of ideas and their ideas' potential.

One of the key issues the entrepreneur has to deal with is the number of employees needed for the functioning of a new business venture. Although a larger number of employees has obvious advantages, brings new energy, ideas and information, there are certain negative sides as well, reflected for the most part in high fixed costs from salaries. The engagement of new personnel is a sword that cuts both ways; in the majority of cases, however, positive effects prevail. Neither is there any doubt about advantages from engaging a team because the team has a plethora of various skills, experiences and talented people with numerous professional contacts supporting and helping each other. There is general agreement about positive correlation between the number of the employed and a probability that a new business venture will be successful; however, it should not be taken for granted because it has not yet been proved empirically beyond any reasonable doubt.

The entrepreneur has a right of discretion to make decisions on the optimal size of a team. Sometimes it happens that a team is too small for the creation of a complex venture; however, it is more frequently the case that entrepreneurs make an even more dangerous mistake when creating too big a team. With the number of team members, the number of problems related to the functioning and interpersonal relations also increases. One question is asked: if a smaller team is better, why do entrepreneurs make this mistake? The uncritical application of the *the-more-the-better* way of thinking (Baron, & Shane, 2005, pp. 124-126) is one part of the answer; the main reason, however, is of psychological nature and lies in any individual's need to share their responsibility with as large a number of people as possible. In that manner the team becomes over capacitated and neither is capable of efficient operations nor does it demonstrate the necessary originality and inventiveness in managing a new venture.

Additional question which the entrepreneur must answer is: which employees should be engaged permanently and which ones from time to time? Both alternatives have their advantages and disadvantages. To engage personnel from time to time is, from the viewpoint of the project principle, more profitable and provides greater flexibility; on the other hand, of course, those employees are usually insufficiently motivated and are not loyal, which may be a problem, especially if they have access to the venture-related sensitive information competitors would like to learn about and are prepared to pay for. Permanently employed people are much more dedicated and more loyal to the venture; however, their engagement is a bigger cost. So, a choice the venture founder has to make is everything but easy. It is recommended that, in activities where flexibility and the fastness of response are important, the entrepreneur should engage personnel he or she needs at the moment, whereas in those branches where the environment is more stable, it is rather advisable that they should employ people on a permanent basis.

When the new firm is in its infancy, it generally doesn't have the resources to hire professional help such as an attorney or accountant. Instead, it must rely on building relationships with professionals on an *as-needed* basis. These professionals provide services and information not normally within the scope of expertise of most entrepreneurs, pointing out potential flaws in the business concept. There is hardly any aspect of starting a new venture that is not touched by the law. Attorneys are professionals who typically specialize in one area of the law – taxes, real estate, business or intellectual property. Within their area of expertise attorneys can: advise the entrepreneur in selecting appropriate organization structure and in preparation for acquisition of intellectual property rights and licensing agreements; negotiate and prepare contracts; advise the entrepreneur on compliance with regulations related to financing, etc. Another type of expert help entrepreneur can get from an accountant. The accountant may set up the company's books and maintain them on the periodic basis, or may hire a bookkeeper to perform the day-to-day recoding of transactions. Bankers, insurance agents, and other specialist today, more than ever will put the new venture in better position to compete on the market (Allen, 2009, pp. 160-163).

A growing number of start-ups are forming advisory boards to provide them direction and guidance. An advisory board is a panel of experts who are asked by a firm's managers to provide counsel on the daily bases. Unlike board of directors, an advisory board possesses no legal responsibility for the firm and gives

nonbinding advice. Some firms have advisory boards for specific issue or need, such as to help identify new products ideas or dealing with an emerging challenge (Baron & Shane, 2005, pp.134-137).

4. CONCLUSIONS

In organizations, there is never ending tension between need for stability, which implies effective performance of current business activities as prerequisite for maintaining current competitive position, and constant quest for new products and business activities that would provide superior competitiveness in the future. Entrepreneurs in their quest for independence often attempted a new venture as soloist. In this way they could retain sole ownership, make key decisions and not have to share profits. This approach is still common in small lifestyle businesses and among craftspeople.

However, in today's global and complex environment, most entrepreneurs find it necessary to start their venture with a team. It is rare for an entrepreneur to conclude that she or he has all the expertise and access to resources that are needed by the new venture. It is very important for entrepreneur to identify the essential participants for the initial launch. Not everyone involved with the new venture has to be an owner or employee. It is not uncommon to find that one or more members of an otherwise cohesive team had different expectations for the outcomes of the business or their role in it. These differences must be discussed and agreed upon before moving forward as a team. It will be far more costly in time and money, not to mention relationships, if these differences are ignored and cause problem later when the business is growing.

Creating optimal team structure is still huge challenge, and relevant research studies are yet to be done. Researchers must focus their attention more on how to manage heterogeneity and diversity within entrepreneurial teams, but in a way that will not jeopardize innovativeness, creativity and lateral thinking. How to select not best individuals, but individuals that will fit the best, remains the main issue and dilemma entrepreneur will face in the future.

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SMES INNOVATION AND GROWTH IN EU

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Abstract: *The focus of this paper is the analysis of the most important factors for SME performance, survival and growth in the EU.*

The main objective is to consider what determines potential failure of young companies to innovate and grow. The importance of innovations and growth for new, young and thus often still small firms is commonly claimed. Therefore, factors that would inhibit these small, young companies from achieving their goals can have a huge public impact.

The research results show that the age of the firm (which reflects its reputation) is important to the degree to which the firm feels financially constrained. Also, finance barriers can be associated with market failure. Risk and informational asymmetries create capital market imperfections and a firm's lack of reputation and collateral become crucial elements.

Conclusions reveal that the ability of SMEs to grow depends highly on their potential to invest in restructuring, innovation and qualification. All of these investments require capital and, therefore, access to finance. Recent policy initiatives aim at improving the financial environment for European entrepreneurial activity and, more specifically, supporting newly-founded innovative firms in order to increase their global competitiveness and spur innovation.

Key words: *SMEs, financing, innovation, growth.*

1. INTRODUCTION

We are living a period of financial and economic crisis. It is accompanied by widespread pessimism and lack of confidence and trust. Under these circumstances the focus on long run growth and innovation may appear out of place. This paper is an argue against such a perspective. It is important to take a long run perspective precisely in moments of crisis and turmoil. From the earliest period on record up to the eighteenth century, the standards of living have been quite stable over the long run. Sharp variations in standards of living were associated with disease, famine and war. Nevertheless, they would not persist over the very long run. The Malthus / Ricardo model was able to reconcile long run stable standards of living with technological progress over time (Lucas, 2002).

The engine of growth is a capitalist society based on competition and change. Joseph Schumpeter characterizes economic development as: "The spontaneous and discontinuous change [...] which forever disturbs the equilibrium state that previously existed".

Nobel Prize winner Robert Solow showed that for a sustained economic growth technological progress is more important than factor accumulation. For Schumpeter behind innovation (i.e. the economic application of technological improvements) lies entrepreneurship. Innovation involves the industrial or commercial use of something new: a new good or service, a new production method, a new market or source of supply, a new form of organization or a new method of financial organization. For Schumpeter innovation is fraught with difficulties. One of them stems from the need for external financing (Levine, 2005).

2. A SCHUMPETERIAN LOOK AT THE GROWTH PERFORMANCE OF THE EU

After a long period of technological catch-up since the WWII, the productivity gap between Europe and the US began widening again in 1995. Structural conditions necessary for Europe to catch-up with the productivity leader, the US, were present from the end of the war to the first oil shock and afterwards. However, conditions needed for creation, innovation and leadership in a knowledge economy worked against Europe (relative to the US).

The recovery of the US productivity growth in the post-1995 period and the corresponding decline in the EU reflects the influence of key technology and policy factors. Below are discussed three interrelated determinants: ICT (information and communication technology), innovation and firm dynamics.

2.1 The role of ICT as a general purpose in EU productivity growth

Sectional data suggest that the divergence in productivity growth between the US and the EU in the post-1995 period is primarily explained by differences in the pattern of production and use of ICT.

- Labor productivity growth in *ICT producing manufacturing* industries has been particularly high in both the US and the EU. However, the US benefited from a leading initial position and an increasing growth in the post-1995 period in high-tech industries such as office machinery, electronic valves & tubes, telecom equipment, TVs, and scientific instruments.
- *ICT using services* have been the focus of the most profound technological gap with the US, particularly in the retail and wholesale sectors and in banking and finance. On the other hand, more restrictive regulatory barriers in European countries have been detrimental to the diffusion of ICT.

More recent firm level evidence (Bloom, 2007) confirms that the US productivity advantage is not only related to a higher ICT spending by US firms (in ICT using sectors), but US firms as well as their subsidiaries operating outside the US-specific conditions reap a higher return from their ICT investments. This suggests that other firm-specific advantages are important, such as the quality of management practices.

2.2 The importance of knowledge production and diffusion

In the present context, we need to define the extent to which the example of ICT is an isolated case or is likely to be replicated in other high-growth, high-tech industries. This is a pertinent question if one accepts that the US's lead in ICT is not an isolated case.

Assuming that a failure of EU enterprises to recapture the full potential and benefits related to ICT is a credible risk, the following key questions arise: 1. Does the EU have specific problems regarding its innovation infrastructure?; 2. Does the US have specific features/framework conditions which make it more likely to be the locus for the next future breakthroughs in technology?; 3. Why is the EU less apt to creating and exploiting new technologies in general? In order to better understand the EU-US innovation deficit, discussion beyond ICT importance is needed.

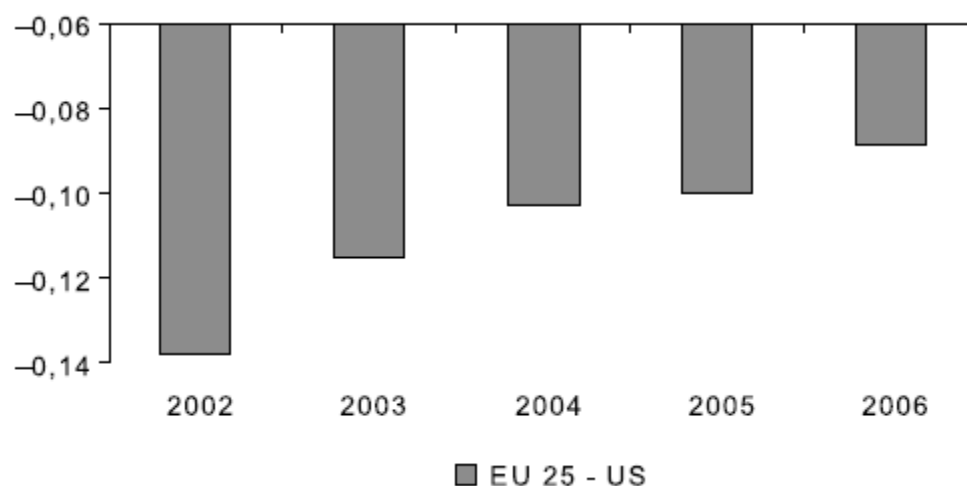


Figure 1: EU's overall innovation performance relative to the US

Source: EIS 2006.

Despite some signs of catching-up, Figure 1 confirms the presence of persistent innovation deficit in the EU. As this innovation indicator comprises several innovation input and output measures, the EU innovation gap goes beyond the deficit in R&D spending. The R&D deficit is a symptom rather than a cause of a weakness in the EU's capacity to innovate; the cause is rooted in the structure and dynamics of industry and enterprise (O'Sullivan, 2007).

A comparison of innovation inputs shows that SMEs represent a larger share of *R&D expenditures* in the EU than in the US and Japan. On the other hand, EU SMEs are less R&D intensive than in the US, although the SME gap is similar to the overall gap in R&D spending. The average R&D intensity of SMEs in Europe is 0.34% versus 0.53% in the US. This compares to an overall average R&D intensity in Europe of 1.17% versus 1.57% in the US (Results are based on DG RTD, 2007).

However, specific contribution of SMEs to innovation goes beyond the share of SMEs in R&D expenditures or in innovation output. SMEs have a very important indirect effect. Usually young small innovating firms create radical new technologies and markets, whose further developments are completed by large players. Baumol (2002) recognizes the complementarity between small and large firms, but at the same time notes the importance of small firms in large innovations. In 1994 the Small Business Administration Office of Advocacy prepared a list of breakthrough innovations made by small firms during the 20th century. It is impressive going literally from A (airplane) to Z (zipper) with many innovations that have been crucial to the economy. Other studies on the distribution of innovations certified as “significant” by industry experts, confirmed that small (as well as large) firms outperform medium-sized firms for the US (see OECD (2006) for an overview).

According to Baumol, private sector innovations in the US come from two distinct sources, firstly from the activities of large firms and secondly from the efforts of independent inventors and their entrepreneurial partners. Baumol asserts that the active presence of both groups enhances the overall innovation process since their activities are complementary. Independent inventors/entrepreneurs specialize in breakthrough innovations while R&D departments of the larger firms enhance these breakthroughs and add to their overall usefulness.

2.3 Firm demography and the creative destruction process in Europe

EU-US productivity growth differences can be additionally explained by (a change in) the firm’s demography. The *churning process* has substantial effects on labor productivity growth because large part of it results from reallocations from less productive to more productive firms. Industries and/or countries where the churning process is inhibited, exhibit lower productivity and employment rates.

All European industries exhibit a greater number of small firms and also a higher share in total employment than in the US. American manufacturing firms are larger and they display wider size dispersion, particularly in high-tech sectors and in wholesale and retail.

Figure 2 on aggregate entry, exit and net entry rates from the research work of Cincera and Galgau (2005) shows that although both *entry and exit rates* are lower in the EU than in the US, the differences in exit rates are substantially larger. The average *size of entrants* is much smaller in the US. Lower entry as well as lower exit (firing) costs in the US allow benefiting from the experimentation process supplied by the market. While there is a high positive correlation between the entry and exit in the US, correlation is insignificant in the EU and even negative in France, Italy and Portugal. A positive correlation reflects churning of firms within sectors as a part of the creative destruction process. A negative correlation reflects more traditional sectoral shocks (positive for entry, negative for exit).

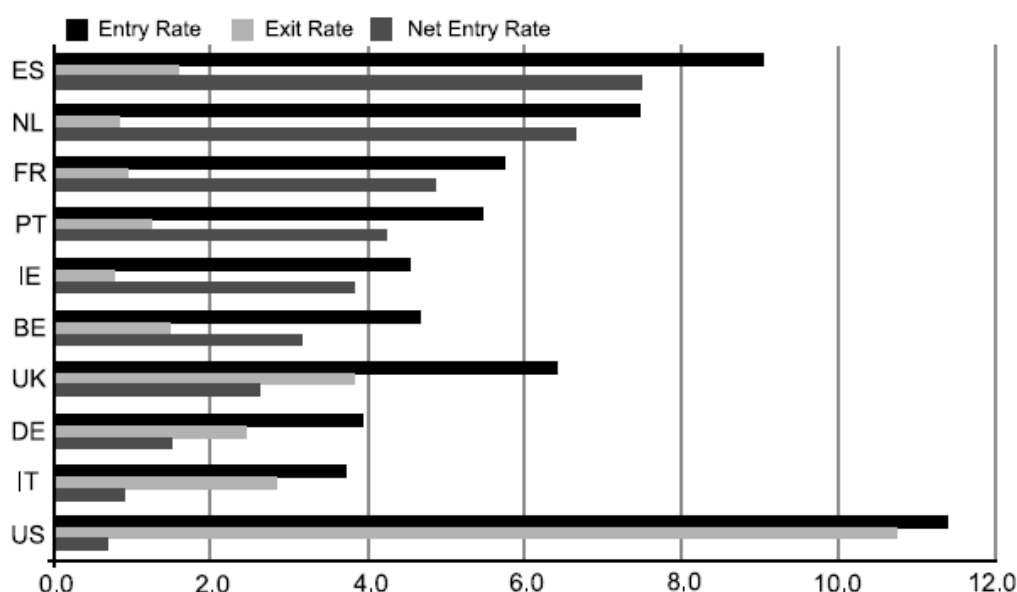


Figure 2: Aggregate entry, exit and net entry rates (in %) by country (1997–2003)

Source: M. Cincera and O. Galgau (2005), “Impact of Market Entry and Exit on EU Productivity Growth Performance”, EC Economic Papers p. 222

Post entry performance also differs between Europe and the US as shown in Figure 3: net employment gains amongst surviving firms at different limits, from the empirical research of Bartelsman et al. (2004). The short term survival rate (2 years) for American entrants is very low, but after this market experimentation period, the conditional survival rate of successful firms becomes high. In addition, the growth for firms that survive for 7 years is higher in the US than in Europe. These results are a clear indication that there are also higher barriers to growth for SMEs in Europe.

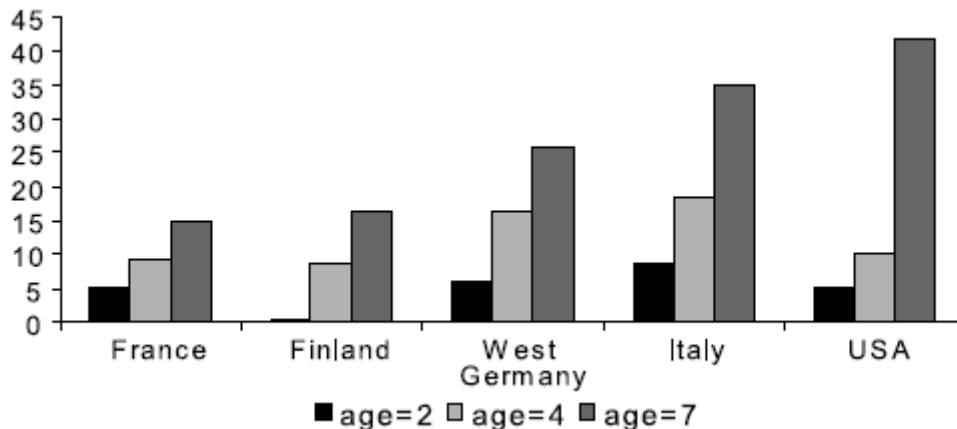


Figure 3: Net employment gains among surviving firms at different lifetimes (net gains as a ratio of initial employment)

Source: Excerpt from Bartelsman et al. (2004).

2.4 The impact of the creative process on productivity growth

The overall labor productivity growth originates mainly in growth of incumbent firms, both in the US and the European manufacturing sector. However, the EU-US differential growth performance can be explained by the reallocation effect between firms and the net entry component. This seems to be a clear indication that creative destruction process is less effective in European countries than in the US in both low and high tech industries.

- The *exit effect* is always positive, both in the US and the EU, which means that exiting firms are the least productive firms.
- The *long-run effect of entry* on aggregate manufacturing productivity growth has a smaller magnitude in the EU than in the US. Furthermore, the effect of entry depends on the industry's distance to the technology frontier. The positive effect of entry on productivity growth is more significant the closer a country or sector is to the technological frontier.
- In high-tech sectors, the entry effect is positive in all countries and this suggests an important role for new firms in more *technology intensive industries*. In these industries, the entry effect is much stronger in the US than in the European countries. Similar observations apply to exit barriers.
- New and small firms contribute to aggregate productivity growth directly through their own growth performance, and indirectly by affecting growth of large incumbents. Thus, the US firms' post-entry growth and productivity performance is higher. Moreover, beneficial interactions between small and large firms, especially in sectors where technical ideas and innovations are an important ingredient of growth, could be at the heart of different effects that entry has on aggregate productivity growth.

In summary, Europe's growth gap results partly from an inappropriate industrial structure in which small and new firms, occupying the main part of total employment, fail to play a significant role in the dynamics of the industry, especially in the high-tech intensive sectors. This is illustrated by their inability to enter, but most importantly, for the most efficient innovative entrants, to grow. The churning that characterizes the creative destruction process in a knowledge based economy encounters significant obstacles in the EU, suggesting barriers to growth for small innovating firms which ultimately weakens Europe's growth potential.

Economic analysis suggests the following "problem drivers" for the insufficient exit and low post-entry growth:

- weaker product market competition (e.g. barriers to cross-border trade in services, national regulations, etc);

- protection of inefficient firms through subsidies, bail-outs, etc.;
- labor market and other regulations that kick in when a firm grows beyond a certain size threshold;
- financial market developments.

3. FINANCING OF SMALL AND YOUNG INNOVATIVE COMPANIES

The literature generally supports the importance of new, young and therefore often still small firms for innovations and growth, even if they are small in number. Therefore, factors that would inhibit these small, young companies to innovate and grow can have a huge public impact.

In the analysis of the (failing) contribution of small and young firms to innovation and growth, *access to finance* is a priority issue. Survey data for the EU confirm the importance of access to finance. Excessively high economic risks are the major hampering factors for innovation for all types of firms, but somewhat more for small than for large firms. A second tier of barriers is formed by the *access to skills*, which again impedes both small as well as large firms. *Regulatory burden* is also included in the second tier of barriers. The empirical evidence suggests that this burden is somewhat stronger for small firms.

Table 1: Proportion of enterprises that regard selected hampering factors as highly important (% of all enterprises); by size class

	Excessive perceived economic risks	Innovation costs too high	Lack of appropriate sources of finance	Organisational rigidities within the enterprise	Lack of qualified personnel	Lack of information on technology	Lack of information on markets	Insufficient flexibility of regulations or standards	Lack of customer responsiveness to new goods or services
Small	16	21	16	6	13	5	5	10	8
Medium-sized	13	19	13	5	14	4	4	8	6
Large	18	21	10	6	13	3	4	7	5

Source: Eurostat (2004).

Analysis of survey data on firms' financial constraints perceptions show that the age of the firm, which reflects its reputation, is more important than its size in determining the degree to which the firm feels financially constrained. A possible interpretation of this result is that age might reflect reputation of the firm which, in turn, significantly affects access to finance.

The access to finance barrier can be associated with the *market failure*. Risk and informational asymmetries create capital market imperfections and a firm's lack of reputation and collateral become crucial elements. Existing literature demonstrates substantial differences between small and large firms in this respect. Hall (2005) shows that imperfections in capital markets usually affect small firms more than large ones which can rely on internal financing. Young firms are even more likely to be constrained than other small firms as reputation and collateral are important to mitigate capital market imperfections. More radical investment projects further exacerbate the imperfect, incomplete and asymmetric information problem. Thus, young innovative companies, which combine the disadvantages of a small scale, a short history, less retained earnings and more risky innovative projects, are even more likely to be financially constrained than other small, young and/or innovating firms.

Along with this financial market failure, particular for the EU, stands the highly fragmented nature of its venture capital market with 27 different operating environments adversely affecting both fundraising and investing. Complexity in operating across borders means that some funds have difficulties in expanding, growing and reaching a critical mass. This makes access to financing even more difficult and more expensive in the EU.

3.1 Characterizing YICs

Young Innovative Companies (YICs) are defined in the EU State Aid Rules as small enterprises, less than 6 years old, being "certified" by external experts on the basis of a business plan as capable of

developing products or processes which are technologically new or substantially improved and which carry a risk of technological or commercial failure, or have R&D intensity of at least 15% in the last three years or currently (for start-ups). The YIC dummy takes a value of 1 if an innovation active company is less than 6 years old, has less than 250 employees and spends at least 15% of its revenues on R&D.

Out of the sample of 1342 German innovation-active companies (A research done by the Catholic University of Leuven, 2006), only 51 companies qualify for YIC status, using the EU State Aid definition. This confirms the “rareness” of YICs, representing only 3.8% of all innovation-active companies in West-Germany in 2006. Even within the group of small innovators or young innovators, YICs are rare (4.3% and 24%, respectively).

A “typical” YIC has a micro size, with about 20 employees. This is considerably smaller than other innovating SMEs, as well as young innovators. Also on R&D intensity and basicness of its R&D profile, a “typical” YIC scores much higher than any of these reference categories. These statistics confirm that it is a combination of age, size and R&D profile that composes the particularity of YICs. YICs are not the same as innovative SMEs or young innovators. Finally, YICs are overrepresented in knowledge-intensive, technological sectors, specifically services (ICT and R&D engineering) while they are absent in more traditional manufacturing industries.

3.2 YICs and barriers to innovation

Table 2 presents the results on whether YICs perceive differently obstacles to innovation. Respondents were asked to give a score to each (potential) hampering factor on a scale going from zero (not relevant) to three (high). The first column indicates the share of firms that considered this factor to be relevant (i.e. firms that scored one or more), while the second column reports the mean score.

Table 2: Obstacles to innovation

	YICs		Other Innovators		
Barriers to innovation	%	mean score	%	Mean score	mean diff. with YICs
External financial constraints	95.65%	2.283	75.75%	1.234	−1.049***
Internal financial constraints	93.30%	2.457	66.42%	1.382	−1.074***
Innovation costs too high	93.33%	2.356	87.71%	1.862	−0.493***

Source: Schneider and Veugelers (2008)

As expected, YICs face, on average, higher obstacles to innovation than other innovating firms. When comparing across barriers, results confirm the presumption that financial constraints (both internal and external) are the most important barriers to innovation for YICs. Although this ranking also holds for other innovating firms, the YIC-differential is the largest and strongly statistically significant on both financial constraints. The evidence presented by Schneider and Veugelers (2008) show that young innovative companies, combining newness, smallness and high R&D intensity are rare in the sample of innovative firms. They view financial constraints, both internal and external, as an important factor hampering their innovation activities, significantly more so than other innovation active firms.

4. CONCLUSION

We have argued that innovation is an important determinant of competitiveness and important to address global challenges, such as sustainable development. The importance of innovation has been reinforced by a fast development of new technologies (ICTs in particular), which enabled new forms of competition and opened new markets for creation of innovative products. Nevertheless, despite importance of innovation, as well as new opportunities offered by globalization and new technologies, improvement in productivity in the EU, the EU seems to be lagging behind the US in this area.

We try to document the importance of SMEs and young innovative companies (YICs) for the innovation process. Both of them are source of dynamism and in particular, YICs are directly related with research activities and are a key component of the innovation system, facilitating the emergence of new products and

markets. However, evidence shows that in Europe small and new firms fail to play a significant role in the dynamics of the industry, although they account for a majority of employment. Not only they face significant entry barriers, but also successful entrants face difficulties to grow.

However, the ability of SMEs to grow depends highly on their potential to invest in restructuring, innovation and qualification. All of these investments require capital and therefore access to finance. Recent policy initiatives, such as the creation of the YICs status at the European level, aim at improving the financial environment for European entrepreneurial activity and more specifically to support newly-founded innovative firms in order to increase their global competitiveness and spur innovation.

Empirical research on access to finance for SMEs and young innovative companies has been limited, however, a recent analysis confirms the presumption that young, small, innovation-intensive firms are a very small but distinct segment in the group of innovative companies. Furthermore, access to finance is the most important factor that hampers YICs' innovation activities, significantly more than other innovating firms.

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