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DEVELOPMENT OF ENTREPRENEURIAL SECTOR AS THE BASIS FOR STRENGTHENING COMPETITIVENESS

Razvoj preduzetničkog sektora kao osnove jačanja konkurentnosti privrede

Abstract

The entrepreneurial sector in modern countries is the driving force of the national economy, which generates new ideas, products, and technologies. As such, it is the source and the basis of sustainable economic growth and the implementation of structural changes, as necessary parts of the development process. It is the quality that the entrepreneurial sector gives to the growth of the economy that has made this sphere the subject of a number of policies, measures, and regulations, which the most advanced countries use to acquire and/or maintain a competitive advantage over other competitors on the international, global, market. Therefore, this paper will provide a critical analysis of the position of the entrepreneurial sector in Serbia during the crisis (from 2008 to the present time), point to vulnerabilities of the sector that prevent its rapid growth and development, and particularly emphasize the unfavorable position of the fastest growing companies (the so-called "gazelles"), which should be the backbone of the development of innovative segment of the national economy. In addition, the paper analyzes indicators concerning business demography of entrepreneurial sector of Serbia, and the global entrepreneurship index, which also point to poor condition and unfavorable position of the entrepreneurial sector in Serbia, with uncertain prospects for improvement in the future.

Key words: *entrepreneurial sector, business environment, investment, industrial and export competitiveness, business demography, high-growth enterprises, gazelles*

Sažetak

Preduzetnički sektor u modernim državama predstavlja pokretački deo nacionalne ekonomije iz koga se generišu nove ideje, proizvodi i tehnologije. Kao takav on je izvor na kome se zasniva održivost privrednog rasta i sprovođenje strukturnih promena kao neophodnog dela razvojnog procesa. Upravo zbog kvaliteta koji rastu jedne privrede daje preduzetnički sektor on je predmet mnogih politika, mera i regulativa kojima se u najnaprednijim zemljama pokušava steći i/ili održati konkurentska prednost u odnosu na druge takmičare na međunarodnom, globalnom, tržištu. Stoga smo u ovom radu pokušali da kritički analiziramo položaj preduzetničkog sektora u Srbiji u uslovima krize (od 2008. godine do danas), da na osnovu toga ukažemo na slabe tačke sektora koje onemogućavaju njegov brži rast i razvoj, a posebno da podvučemo nepovoljan položaj najbrže rastućih preduzeća (takozvanih „Gazela“) koja bi trebalo da budu okosnica razvoja inovativnog segmenta nacionalne privrede. Pored toga u radu su analizirani indikatori koji se tiču poslovne demografije preduzetničkog sektora Srbije kao i globalnog indeksa preduzetništva koji takođe pokazuju loše stanje i nepovoljan položaj preduzetničkog sektora u Srbiji sa neizvesnim perspektivama poboljšanja u narednom periodu.

Ključne reči: *preduzetnički sektor, poslovni ambijent, investicije, industrijska i izvozna konkurentnost, poslovna demografija, brzorastuća preduzeća, gazele*

Introduction

Constructing a knowledge-based economy brings into focus the necessity of increasing national competitiveness and productivity, in order to participate in the global innovation race. Only countries with a high level of productivity of enterprises operating within their jurisdiction succeed in the competitive game on the world market, and improve their position in the industries in which they created competitive advantage in relation to other nations. Unlike *Porter's* claim that “at the global level, it is not nations and countries that compete, but multinational companies and enterprises” [3], the reality is quite the opposite – countries with developed innovation strategies and institutions implementing them achieve the fastest progress, i.e. the highest rates of growth and development of national economies, whether in terms of market-oriented economies or economies guided by state intervention. Typical representatives of the first group of countries are the USA and Great Britain, while the typical representatives of the second group are China, Brazil, India, South Korea, and others.

In the case of Serbia, the position of the entrepreneurial sector can be described as ambivalent: on the one hand, there is a series of regulations, strategies, and measures of state authorities, which nominally encourage this part of the national economy, but, on the other hand, the results of these stimuli and the reached level of competitiveness are very low, so that, based on all rankings in respect of competitiveness and innovation, Serbia occupies the unenviable low position in the world, especially in Europe. Therefore, the main motive behind this paper is to analyze the causes of this situation, examine relevant internationally verified indicators in this area, and give a proposal of some measures to improve the situation and the position of the entrepreneurial sector of Serbia.

The key concepts in this paper are related to competitiveness and productivity, entrepreneurship, small and medium-sized enterprises, fast-growing companies, gazelles, and business demography. Therefore, what follows are some of the definitions of these terms, and the literature overview of their role in the process of building a knowledge economy.

Theoretical background: Literature overview

The World Economic Forum defines competitiveness as “the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity determines the level of prosperity that the country can reach and maintain in the long term” [26].

Productivity and competitiveness, although different, are two very closely related concepts. In broader terms, “competitiveness” includes the relative productivity. According to this definition, the most competitive economies are those that ensure the emergence and development of highly productive enterprises that contribute significantly to the long-term development of the economy and society as a whole.

What is important when analyzing the competitiveness of a country is the awareness of its position in the international environment, defined primarily by its size (both in terms of territory and population). For small economies, export competitiveness is fundamental in promoting economic development and progress of the country in global terms. “The level of export of a country is an important indicator that shows whether the underlying fundamentals of the economy are well-established. Among others, the volume and rate of export growth, the degree of diversification of export, and the achieved level of sophistication of export (share in export of products with high added value)” are commonly analyzed useful indicators [8].

The export volume, structure, and trends show the ability of domestic enterprises to compete in an open world economy. For *Porter, Ketels, and Delgado*, “competitiveness is a country’s share of world markets for its products”. In accordance with this definition, they further state that “it makes the competitiveness a zero-sum game, because one country’s gain comes at the expense of others” [25, p. 6]. This notion of competitiveness is used to justify intervention in the direction of influencing market outcomes in the country’s own favor, especially in the so-called strategic industrial policies, through artificial depreciation of wages, subsidies to export companies, and influencing artificially depreciated exchange rate of the national currency. The authors themselves agree that “lower wages and currency devaluation make the nations

more competitive” [25, p. 2]. To achieve a certain level of competitiveness, required for effective participation on the global market, it is necessary to encourage the development of entrepreneurship and small and medium-sized enterprises at the national level, which are the main carriers of these activities. A number of empirical studies have shown a link between entrepreneurship, small and medium-sized enterprises, and economic growth and job creation. In addition, various studies have shown a correlation between the increase in the number of small and medium-sized enterprises and start-up businesses and accelerating the growth rate of an economy [22, p. 24].

There is also indisputably established relation between the activities of small and medium-sized enterprises and job creation. Specifically, practice has shown that “small and medium-sized enterprises absorb the labor force that is released during the reduction of the volume of activity in other parts of the economy and raise national and local competitiveness” [22, p. 24].

Other authors state that “in proportion to their size, small enterprises create more jobs than large ones, and have an advantage in the creation of radical innovation” [5], [17].

The establishment of a large number of new enterprises and business improvement of existing small and medium-sized enterprises is crucial for the development of a modern economy. Therefore, the development of entrepreneurship and SMEs occupies an important place in the development strategies of the most developed world countries. Despite their importance for strengthening competitiveness and overall economic development, support for small and medium-sized enterprises and entrepreneurs has not yet been sufficiently integrated into development policies of a large number of countries.

What is more, one must always bear in mind that small and medium-sized enterprises make a very heterogeneous group, differing in size, age, activity, willingness to take risks, propensity for innovation, and orientation towards growth and development. Although heterogeneous, each group of small and medium-sized enterprises has its place in the economy, and the state, through its development policy, should support them and facilitate their business, growth, and development. There is a big difference between

SMEs that make the economic core (a large number of enterprises in the field of handicraft production, trade, and other services) and which are not oriented to rapid growth and the introduction of significant innovation, and a small number of fast-growing innovative enterprises that are focused on rapid growth and change in the existing situation on the market, which enable the transition of the economy and society to a higher stage of development, based on knowledge, innovation, and entrepreneurship.

Entrepreneurs, i.e. new, fast-growing, and innovative SMEs, are the largest makers of changes in the economy, because the introduction of new products and services, new production, organizational, and marketing models and methods increase productivity and efficiency, and strengthen the competitiveness of the economy. Although fast-growing companies and gazelles have a small share in the total number of enterprises (OECD data on 11 countries in this group show that fast-growing enterprises make up only 2% to 8% of the total number of enterprises with 10 or more employees, while “gazelles” make less than 1% of enterprises [22, p. 24]), they create a disproportionate number of new jobs and record above-average growth of other business indicators (turnover, GVA, productivity, profit, etc.). *Hölzl* and *Friesenbichler* suggest that “high growth firms are recognised as a central source of dynamism not least because of their contribution to job creation and employment” [15, p. 91], and Acs, Parson and Tracy emphasize that “employment is not the only way how high-growth enterprises affect the economy. This can happen in many ways but there are at least three ways identified in the economic literature: through productivity growth, innovation or employment change”[1]. With their presence in the economy considered promising for the creation of more jobs and innovation, interest in high-growth firms is high among policy makers [24]. *Hölzl* and *Friesenbichler* summarise a number of fields that they assume to be important for firm growth. They discuss the determinants of education, finance, labour market, regulation, entrepreneurship, technology and networking [15, p. 91]. Although governments, in most of the countries, are increasingly aware of the importance of high-growth entrepreneurship, it is difficult to design effective policies, because these enterprises experience

specific problems [27]. Therefore, the state should use its development policy to make a distinction between fast-growing and other enterprises, and, in accordance with its development priorities and capacities, support enterprises that are most important for rapid and sustainable economic development.

Finally, when one takes into account the situation in terms of unemployment in Serbia, as well as potential new unemployed people, resulting from solving problems in the public sector and its surplus, the attitude of the OECD on the relationship between entrepreneurship, small and medium-sized enterprises, and employment must not be neglected. Specifically, job creation in the entrepreneurial sector is of great importance for overcoming the impact of the current global economic and financial crisis. Policies that encourage entrepreneurship and innovation in this sector will not only bring the improvement of products and processes, or raise productivity of the service sector, but will also result in the creation of new jobs in conditions of high unemployment in other parts of the economy. OECD experts point to a great opportunity for a number of countries, and state that “in the short and medium term, there is a real possibility for the use of policies that will encourage entrepreneurship and innovation of small and medium-sized enterprises, and contribute not only to increased productivity, but also to the creation of new jobs at the same time” [22, p. 25].

In the end, it is necessary to explain the concept of business demography, which is increasingly recognized as a key determinant of success and sustainability of the entrepreneurial sector. Two important aspects are important here: the net entry of enterprises in the market and the causal link between the entry and exit from the market. First, the net entry, i.e. the number of newly established minus the number of closed enterprises, indicates whether the number of enterprises increases or decreases over time [7]. The positive net entry is a good indicator of adoption of new technologies, growth of the service sector, market deregulation, and cultural steering towards greater degree of self-employment [6], [29]. Second, in the analysis of the interdependence of the process of entry and exit from the market, it is important to distinguish between two possible directions of changes:

- After the exit from the market, a new entry occurs, which reduces the process to the replacement of one organization with another, expectedly more efficient and productive;
- The process when, after the entry of an enterprise in the market, another one exits, is treated differently, and is marked as the pushing out. In this case, enterprises are forced to operate in a better and more productive manner, in order not to be pushed out of the market. This means that companies release less efficiently allocated resources (plants, production programs, etc.) and invest released resources into other, more productive activities, thereby improving overall allocative efficiency [9].

The development of entrepreneurial sector in Serbia in conditions of crisis

The entrepreneurial sector, which consists of small and medium-sized enterprises and entrepreneurs, is the basis of the development of the Serbian economy, because, in addition to its 99.8% share (315,412 out of 315,906 enterprises in 2013) in the total number of enterprises, it has a dominant share in the formation of other significant non-financial performance indicators of the economy of Serbia. In 2013, the entrepreneurial sector employed more than two thirds (768,550) of employees, generated 64.3% of turnover (5,713.9 billion RSD), generated 54.1% of GVA (964.0 billion RSD), achieved 43.2% (519,1 billion RSD) of exports, 56.5% of imports (938.2 billion RSD) of the non-financial part of the economy, and accounted for about 34% in the formation of GDP of the Republic of Serbia [See more in 10].

The development of the entrepreneurial sector in Serbia has experienced significant slowdown during the economic crisis. Compared to the pre-crisis year, 2007, basic performance indicators of entrepreneurial sector (employment, GVA, and productivity) decreased, and the negative effects of the crisis hit the entrepreneurial sector stronger than large enterprises (see Figure 1). Compared to 2007, in 2013, the entrepreneurial sector recorded a decline in employment by 15.2% and GVA by 19.5%, which resulted in a decline in productivity by 5.0%. At the same

time, large enterprises increased productivity (by 9.2%), due to a more pronounced decline in employment (12.7%), compared to GVA (4.7%). Smaller drop of GVA in large enterprises, in relation to entrepreneurial sector, i.e. high increase of productivity in large enterprises, in relation to a drop in productivity of the entrepreneurial sector, led to a slight increase in productivity of non-financial part of the economy. However, as productivity growth (1.2%) was accompanied by further decline in employment (by 14.4%), and a decrease in GVA, the competitiveness of Serbian economy and economic development did not improve, but resulted in an overall decline in economic activity, and the establishment of balance in the economy at a lower level, compared to the pre-crisis period.

Slower pace of recession recovery of the entrepreneurial sector, in relation to the rest of the economy (decline in productivity, accompanied by a fall in GVA and employment), with constant generation of below-average gross earnings (for example, 88.4% in 2007 and 89.9% in 2013, in relation to the average of the economy) points to low competitiveness of the entrepreneurial sector, and the inability to make significant contribution to the economic development of Serbia.

Recessionary crisis deepened the key development problems of the entrepreneurial sector in Serbia:

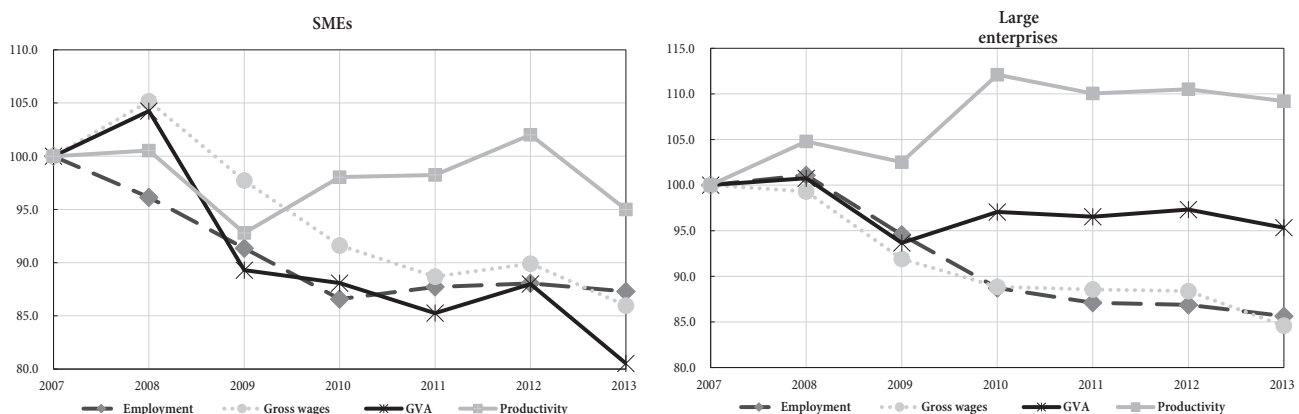
- 1) *Unfavorable business environment.* Indicators of business demography statistics show a slow recovery of the entrepreneurial sector from the negative effects of the crisis, and point to the fact that the anti-crisis measures and actions, taken by the government, have not led to significant

improvement in the business environment and better conditions for entrepreneurship development. The unfavorable conditions for the development of entrepreneurship in Serbia are reflected in a reduced number of new SMEs (entrepreneurs and enterprises), as well as fast-growing enterprises and gazelles, which significantly reduces the opportunities for job creation, productivity growth, and competitiveness of the economy. Although the rate of survival of enterprises improved in 2014, low purchasing power, reduced aggregate demand, difficult access to financial market, unfavorable conditions of financing, as well as the persistent institutional, administrative, and regulatory constraints have led to the fact that out of 100 companies, established in 2012, 67 survived the first two years, whereas 33 enterprises stopped working. Unfavorable conditions are even more manifested with entrepreneurs, where even 38.8% fails within two years.

Although the negative tendencies, recorded from 2008, were interrupted in 2013, the main indicators of business demography deteriorated again in 2014 (number of established and closed enterprises, i.e. the net effect, the rate of establishment and the rate of closing of enterprises), indicating reduced opportunities for the development of the entrepreneurial sector of the economy.

- 2) *Low investment activity and low investment efficiency.* In the period 2007-2012, the investment

Figure 1: The effects of the crisis (index 2007 = 100)



Source: Author's calculations based on SORS database

in fixed assets of the entrepreneurial sector decreased by 37.8%, at an average annual rate of -0.3%, due to an average annual decline of entrepreneurs (-7.8%) and small enterprises (-1.0%), although the investment with the micro and medium-sized enterprises recorded average annual increase by 8.5% and 5.9%, respectively. In 2012, 277.1 billion RSD were invested in the development of the entrepreneurial sector, which is 19.0% more than in 2011 (investments of small and medium-sized enterprises increased by 51.1% and 39.9%, respectively, while investments of entrepreneurs and micro enterprises decreased by 11.5% and 7.2%, respectively). However, it is significantly less than the investment of large enterprises (351.3 billion RSD – an increase of 22.5%), indicating a low level of investment within the entrepreneurial sector, which significantly limits the implementation of development opportunities of the potentially most dynamic sector of the economy. The low level of investment within the entrepreneurial sector is accompanied by low investment activity (4.5% of turnover) and low investment efficiency (26.3% of GVA), which points to structural problems and adverse conditions in which the entrepreneurial sector in Serbia operates.

- 3) *Low level of industrial and export competitiveness.* Industrial competitiveness predominantly affects the overall competitiveness of the economy, and is the basis of export competitiveness. The Serbian

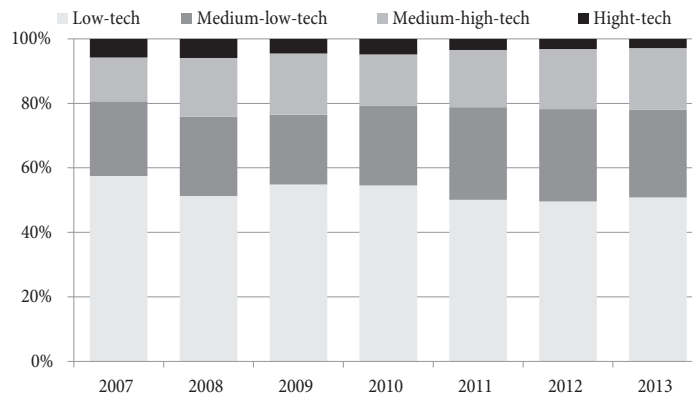
manufacturing industry predominantly consists of sectors characterized by lower technological intensity and lower productivity (labor- and resource-intensive activities), and the situation is less favorable in the entrepreneurial sector than in large enterprises. In 2013, medium-high-tech and high-tech companies accounted for only 10% of production firms in the entrepreneurial sector, employing 17% of workers and generating 21% of GVA, which is less than the large production companies, where medium-high-tech and high-tech companies accounted for 28%, employed 32% of workers, and generated 27% of GVA (see Table 1). Unfavorable trends in employment, GVA, and productivity in the period 2007-2013 show low competitiveness, as well as a reduced pace of development of production-oriented entrepreneurial sector. Overall productivity of manufacturing firms within the entrepreneurial sector decreased by 5.0% in 2013, compared to 2007 (slightly increased only in medium-high-tech sector, by 1.1%, and high-tech sector, by 0.7%, and decreased in low-tech sector, by 6.6%, and medium-low-tech sector, by 1.8%), and only the medium-high-tech sector achieved positive growth of GVA, accompanied by an increase in productivity and stable level of employment, which indicates that it is a dynamic sector that enhances its competitiveness. The situation regarding the trend of GVA significantly worsened, compared to 2012, because GVA in the entrepreneurial

Table 1: Structure of the manufacturing industry according to technological intensity and size of the company in 2013

		SMEs	Large enterprises
Number of enterprises	Low-tech	62.6	46.6
	Medium-low-tech	27.8	25.5
	Medium-high-tech	6.7	25.0
	Hight-tech	2.9	2.9
Employment	Low-tech	58.3	39.3
	Medium-low-tech	25.1	28.3
	Medium-high-tech	13.1	28.7
	Hight-tech	3.5	3.7
GVE	Low-tech	52.0	48.2
	Medium-low-tech	26.8	25.2
	Medium-high-tech	16.0	19.8
	Hight-tech	5.1	6.8

Source: Author's calculations based on SORS database

Figure 2: Structure of export manufacturing enterprises entrepreneurial sector towards technological intensity



Source: Author's calculations based on SORS database

part of the economy declined in all sectors, and was accompanied by a drop in employment and productivity, indicating reduced dynamics of the entrepreneurial sector, and the deterioration of its competitiveness.

In 2013, the entrepreneurial sector of Serbia recorded a deficit of 419.1 billion RSD (91.5% of deficit of the non-financial sector) in foreign trade with the world, with the export-import ratio (55.3%) significantly below the average of the non-financial part of the economy (72.4%) and large enterprises (94.6%). Decrease of foreign trade activity of the entrepreneurial sector by 8.2% led to a fall in its share in the structure of exports and imports of the economy, and more intense decline in imports (-10.6%) than exports (-3.5%) contributed to the real decrease in foreign trade deficit of entrepreneurial sector by -18.1%, compared to 2012.

Companies from the manufacturing industry achieved a surplus in 2013 by 169.6 billion RSD, despite the deficit of firms from the entrepreneurial sector, of 24.8 billion RSD. Within the entrepreneurial sector, only companies in the field of low-tech production achieved surplus from commodity exchange, due to the above-average surplus, achieved in *The production of food products*. The greatest impact on the level of the deficit in the production part of the entrepreneurial sector was exerted by companies operating in *The production of computers, electrical, and optical products (High-tech)* and *The production of motor*

vehicles and trailers (Medium-high-tech).

The foreign trade balance of manufacturing firms in the entrepreneurial sector predominantly consists of low-tech and medium-low-tech products, with a share of 70.4%, which is less favorable situation in relation to large companies, where these products in foreign trade exchange account for 48.2%. Even worse is the situation in the export structure, as low-tech and medium-low-tech products in the export structure of manufacturing enterprises from the entrepreneurial sector account for 80.0%, while that share in large manufacturing enterprises is 47.5% (see Figure 2).

In 2013, the production companies from the entrepreneurial sector decreased foreign trade exchange by 4.5%, and particularly unfavorable situation was in exports of high-tech products¹ requiring highly qualified labor, which recorded decline by 15.2%, compared to 2012 (see Table 2).

In the transition period, the entrepreneurial sector's structure of production and exports of high technology products of greater added value, whose production required highly skilled workers and where knowledge is the main factor of competitiveness, did not improve. The competitiveness of production and exports of the entrepreneurial sector, based on the factor intensity, is low, because of the prevailing products at the lower stages of processing (finalization) and

¹ Manufacture of basic pharmaceutical products and pharmaceutical preparations and manufacture of computer, electronic and optical products

Table 2: Foreign trade exchange - real rate of increase/decrease 2013/2012, %

	Foreign trade exchange			Export			Import		
	SMEs	Large	Total	SMEs	Large	Total	SMEs	Large	Total
Economy	-8.2	16.3	2.4	-3.5	32.8	14.3	-10.6	4.1	-4.8
Manufacturing industries	-4.5	26.8	12.8	-4.5	37.2	19.9	-4.4	14.1	5.1
Low-tech	-5.8	4.5	-1.2	-2.1	7.5	2.3	-10.4	0.4	-5.7
Medium-low-tech	-8.4	-6.3	-7.2	-9.4	-3.4	-5.7	-7.6	-10.1	-8.9
Medium-high-tech	4.5	86.9	59.3	-1.6	120.3	83.8	9.3	50.9	35.5
Hight-tech	-5.4	-14.4	-9.7	-15.2	-14.7	-14.9	-2.9	-14.1	-6.7

Source: Author's calculations based on SORS database

lower added value (raw materials and labor- and resource-intensive products), on the basis of which countries like Serbia cannot build a competitive advantage on the global market in the 21st century. Therefore, it is necessary to change the structure of production and exports in favor of price- and quality-competitive products at higher level of finalization, which is possible only by investing in knowledge, research and development, the development of own and implementation of the most advanced modern technology, which will lead to the growth of productivity, reduction of production costs, more efficient use of factors of production, improved product characteristics, growth in export revenue, i.e. export, and overall competitiveness of Serbian economy.

- 4) *Unfavorable sectoral structure.* The dominant share of enterprises from the non-tradable sector (with relatively low investment and rapid turnover of capital intended for the domestic market) within the entrepreneurial sector, and the small number and low business performance of companies in the tradable sector (products intended for foreign trade), indicate low business, financial, and development performance of the entrepreneurial

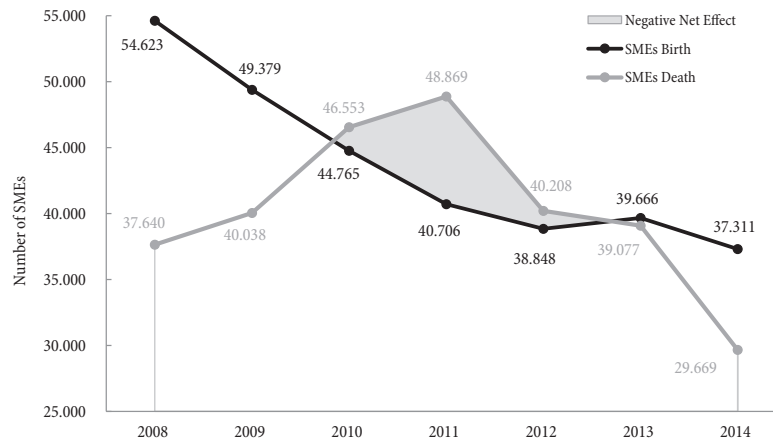
sector in Serbia. The change in the sectoral structure of entrepreneurial sector in favor of the production of products intended for international trade is one of the main prerequisites for increasing competitiveness and faster development of the entrepreneurial sector in Serbia (see Table 3).

- 5) *Uneven regional distribution of activities of the entrepreneurial sector.* Large disproportion in development among regions and areas is a great long-term developmental obstacle to Serbia. Although the entrepreneurial sector dominates in all regions and most areas in Serbia, there is a pronounced concentration in the economically developed regions and areas. The entrepreneurial sector of the most developed Belgrade region makes 1/3 of the total, employs 1/5 of total labor of non-financial part of the economy, and is 2 times more productive compared to Southern and Eastern Serbia, 1.7 times to the region of Šumadija and Western Serbia, and 1.3 times to the Vojvodina region. There is a large disproportion in development among regions, as evidenced by the large differences in productivity (2.3:1) in the entrepreneurial sector between the most developed (Belgrade) and the least developed (Pčinja) region.
- 6) *Unfavorable international position.* Unfavorable

Table 3: Business indicators of enterprise sector by sectoral structure in 2013

Sector	Number of enterprises		Employment		Turnover		GVA	
	number	%	number	%	billion RSD	%	billion RSD	%
Enterprise sector	315,412	100.0	768,550	100	5,713,9	100	964.0	100
<i>Non-tradable sector</i>	257,238	81.6	497,399	64.7	3,909.7	68.4	657.4	68.2
Construction	23,240	7.4	57,400	7.5	348.3	6.1	78.1	8.1
Trade	94,605	30.0	214,897	28.0	2,577.1	45.1	256.4	26.6
Professional, scientific act.	36,926	11.7	55,345	7.2	262.2	4.6	90.4	9.4
Other non-tradables sectors	102,466	32.5	169,757	22.1	722.0	12.6	232.4	24.1
<i>Tradable sector</i>	58,174	18.4	271,151	35.3	1,804.2	31.6	306.6	31.8
Manufacturing	50,044	15.9	217,296	28.3	1,290.5	22.6	239.0	24.8
Other tradables sectors	8,131	2.6	53,855	7.0	513.6	9.0	67.7	7.0

Source: Author's calculations based on SORS database

Figure 3: Number of births and deaths of SMEs in Serbia, 2008-2014

Source: author's calculations based on SBRA database

international position of the national economy, due to slow and inefficient structural reforms, negatively affects the development and competitiveness of the entrepreneurial sector and its positioning in relation to the EU and the neighboring countries. Basic (number of enterprises, business activity, GVA, productivity, level of foreign trade exchange, exports and imports) and derived (employment by the company, GVA per employee, average firm size, etc.) performance indicators, as well as most indicators of business demography and development of entrepreneurship, have deteriorated compared to last year, and are less favorable in Serbia, compared to the average and the majority of EU countries and advanced neighboring countries. Due to the general deterioration in business conditions, a significant decline in employment and gross wages did not increase productivity, or the competitiveness of the entrepreneurial sector in Serbia.

The quality of entrepreneurial development in Serbia

Business demography

Since 2008, as a result of the economic crisis and the deterioration of economic conditions (reduction in external and domestic demand, decline in investment, increased business risk, illiquidity, investment costs, as well as fear of failure), the number of new business entities decreased

and the number of closed business entities increased², with the trends in respect of establishment and closing differing for enterprises and entrepreneurs. Unlike enterprises, whose net number increased in the period from 2008 to 2014 (except in 2011), in the period from 2010 to 2013, the number of entrepreneurs who stopped working was greater than the number of new entrepreneurs (see Figure 3).

At the end of 2014, 331,059 active enterprises³ operated in Serbia (215,367 entrepreneurs and 115,692 enterprises), which is by 7,642 (2,034 entrepreneurs and 5,608 enterprises) more than in 2013. More favorable business demography in 2014 is reflected in the total net effect (1.3 to 1.1, respectively). The ratio of the number of established and closed business entities (net effect) in 2004 shows that for every 10 closed businesses entities, 13 new were established, with this ratio being more favorable for the enterprises (for 10 closed enterprises, 31 new were established) in relation to entrepreneurs (for 10 closed entrepreneurs, 11 new were established).

Positive trends were observed with entrepreneurs – the number of closed entrepreneurs was lower, compared to 2013, by 25.9%, which caused the positive net result of established and closed entrepreneurs in 2014 for the first time in the last five years. The ratio of closed and established

² The largest number of enterprises was deleted from the Registry of Business Entities, in accordance with the Law on Bankruptcy, through the application of the provisions on the automatic bankruptcy (a total of 16,572 enterprises), and most entrepreneurs were deleted on the basis of Article 91 of the Company Law, due to blockade of the business account for a period longer than two years (13,355 in 2013 and 2146 in 2014).

³ 7,740 business entities in the process of liquidation and 2,062 business entities in the process of bankruptcy.

Table 4: Number of births and deaths of SMEs (enterprise and entrepreneurs) in Serbia, 2008-2014

		2008	2009	2010	2011	2012	2013	2014
Births	Entrepreneurs	43,375	39,365	35,296	32,236	30,200	30,931	29,102
	Enterprise	11,248	10,014	9,469	8,470	8,648	8,735	8,209
	SMEs	54,623	49,379	44,765	40,706	38,848	39,666	37,311
Deaths	Entrepreneurs	34,572	36,441	37,165	35,288	32,853	36,520	27,068
	Enterprise	3,068	3,597	9,388	13,581	7,355	2,557	2,601
	SMEs	37,640	40,038	46,553	48,869	40,208	39,077	29,669
Net	Entrepreneurs	8,803	2,924	-1,869	-3,052	-2,653	-5,589	2,034
	Enterprise	8,180	6,417	81	-5,111	1,293	6,178	5,608
	SMEs	16,983	9,341	-1,788	-8,163	-1,360	589	7,642
Net effect	Entrepreneurs	1.3	1.1	0.9	0.9	0.9	0.8	1.1
	Enterprise	3.7	2.8	1.0	0.6	1.2	3.4	3.2
	SMEs	1.5	1.2	1.0	0.8	1.0	1.0	1.3

Source: Author's calculations based on SBRA database

enterprises in 2014 deteriorated, compared to the previous year, due to the reduction in the number of established (-6.0%), and growth in the number of closed enterprises (+1.7%). However, despite the negative demographic trends in respect of enterprises, the net effect of established and closed enterprises was more favorable in 2014, in relation to entrepreneurs (3.2 to 1.1, respectively) (see Table 4).

In the crisis period, divergent trends of values of basic business demography indicators were recorded – increasingly lower rates of establishment of enterprises/entrepreneurs and increasingly higher rates of closing of enterprises/entrepreneurs, which resulted in lower overall rates of establishment and higher overall rates of closing of SMEs (see Table 5). In 2014, the rate of establishment was higher than the rate of closing of SMEs, with the difference between the rate of establishment and rate of closing more favorable for the enterprises in relation to the entrepreneurs. More dynamic rate of establishment and closing of entrepreneurs in relation to enterprises points to the still unfavorable business climate, which reduces the positive effects of increased interest of people to start their own business. Somewhat better demographic situation in enterprises is the result of their greater resources and sources of funding, and, therefore, easier overcoming of the current business problems.

In 2014, the average of 3,109 new SMEs were founded per month (2,425 entrepreneurs and 684 enterprises), which is less favorable than the average in 2013, when the monthly average of founded SMEs was 3306 MSP (2,578 entrepreneurs and 728 enterprises). On average, in 2014, 46.3 SMEs operated per 1,000 inhabitants, and 5.2 were established per that number of people. When observing the active population, aged 15 to 64, 64.0 SMEs operated per 1,000 inhabitants, and 7.9 were established per that number of people (see Figure 4).

According to the density of SMEs, Serbia is slightly below the EU level (42.4 SMEs per 1,000 inhabitants), and, in respect of the neighboring countries, only Hungary and Slovenia have a greater density of SMEs than Serbia. SME in Serbia (which employs 2.4 employees on average) is almost half the average SME in the EU (4.2 workers), and the least of all the countries in the region. (See Figure 5)

The rate of survival of business entities (showing how many business entities, established in the year n , survives in the year $n+2$) in 2014 shows that 67.5% of the enterprises established in 2012 survived the first two years of operations, and higher survival rate of enterprises (89.5%), compared to the entrepreneurs (61.2%), indicates that the enterprises better adapted to market conditions

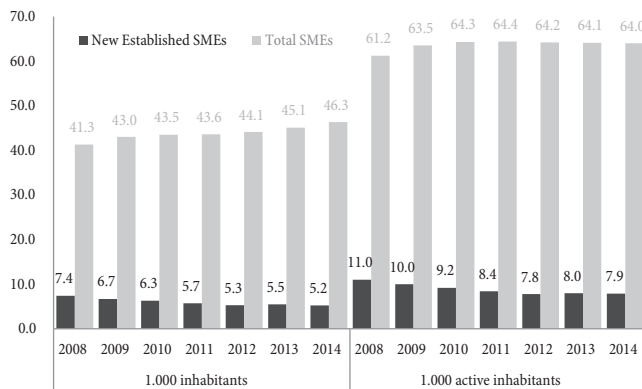
Table 5: SMEs birth and death rates*

in %		2008	2009	2010	2011	2012	2013	2014
Birth rate	Entrepreneurs	20.2	17.4	15.9	14.6	13.8	14.5	13.5
	Enterprise	12.8	11.3	8.6	8.1	8.2	7.9	7.1
	SMEs	18.0	15.7	13.5	12.5	12.0	12.3	11.3
Death rate	Entrepreneurs	16.1	16.1	16.7	16.0	15.1	17.2	12.6
	Enterprise	6.4	4.1	8.5	13.0	7.0	2.3	2.2
	SMEs	13.2	12.7	14.0	15.0	12.4	12.1	9.0

* The enterprise birth rate corresponds to the number of enterprise births in the reference period (t) divided by the number of enterprises active in t; The enterprise death rate corresponds to the number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t

Source: Author's calculations based on SBRA database

Figure 4: Density of new established and total SMEs in Serbia



Source: Author's calculations based on DG Enterprise & Industry, SORS and SBRA database

Figure 5: The density and average size of SMEs in Serbia and selected EU countries, 2014



and positioned themselves on the market more successfully than entrepreneurs. On the basis of the number of newly established SMEs in 2007 and 2014 (see Table 6), the following can be concluded:

- about 64% of new SMEs survive the first two years of operations and continue to work in the coming year;
- enterprises have a higher rate of survival (about 90%) than entrepreneurs (58%);
- SME survival rates were significantly lower in 2014 than in 2007, before the onset of the crisis.

Positive net effect, favorable rates of establishment and closing, as well as higher rates of survival of enterprises in relation to entrepreneurs suggests that the greater number of enterprises is established in response to a perceived market opportunity, as opposed to the entrepreneurs who often found their businesses out of necessity (e.g. self-employment).

Global Entrepreneurship Index

Global Entrepreneurship Index (GEI) is an indicator of the quality of entrepreneurship development and reflect the various aspects of the dynamic interaction that drives

productive entrepreneurship in a given country. Within GEI country-level entrepreneurship is defined as “the dynamic, institutionally embedded interaction between entrepreneurial attitudes, entrepreneurial abilities, and entrepreneurial aspirations by individuals, which drives the allocation of resources through the creation and operation of new ventures.” [2, p. 67] GEI consists of three sub-indices (reflecting attitudes, ability, and aspirations) and a total of fifteen individual pillars that. The entrepreneurial attitude (ATT) sub-index identifies the attitudes of a country’s population as they relate to entrepreneurship. The entrepreneurial abilities (ABT) and The entrepreneurial aspiration (ASP) sub-indices capture actual entrepreneurship abilities and aspirations as they relate to nascent and start-up business activities. ABT is principally concerned with measuring some important characteristics of the entrepreneur and the start-up with high growth potential and ASP refers to the distinctive, qualitative, strategy-related nature of entrepreneurial activity [2, p. 67].

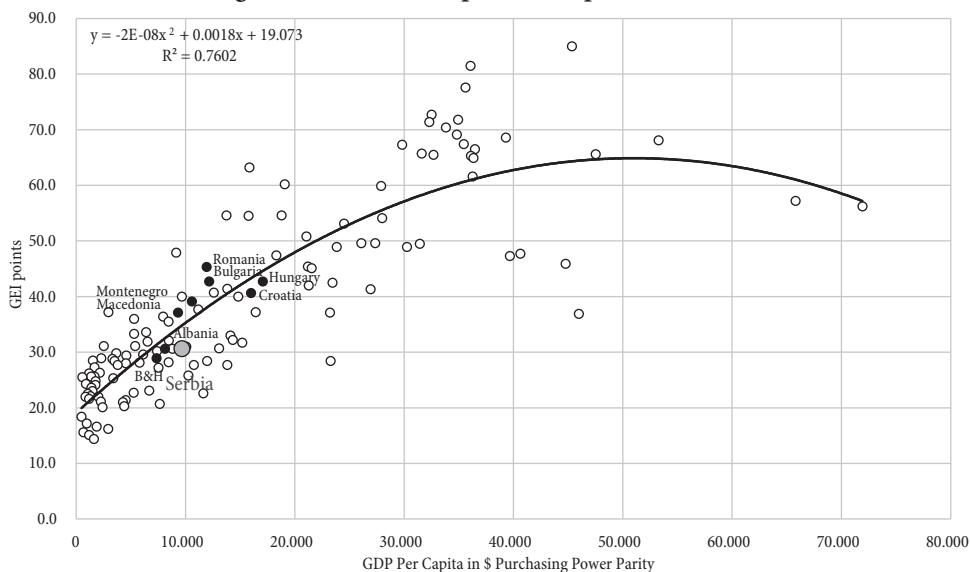
With a value of GEI of 30.6, based on the development of entrepreneurship, Serbia occupies the 78th position out of 130 countries surveyed in 2015. In respect of the

Table 6: Survival rates of business entities

Year (n)		2007	2010	2011	2012	2013	2014
Enterprises	established (in the year n-2)	13,484	11,386	10,010	9,469	8,470	8,648
	survives (in the year n)	12,405	10,315	8,772	8,189	7,897	7,742
	survival rates, %	92.0	90.6	87.6	86.5	93.2	89.5
Entrepreneurs	established (in the year n-2)	47,948	43,575	41,034	35,296	32,236	30,200
	survives (in the year n)	31,741	23,581	22,731	18,269	18,137	18,483
	survival rates, %	66.2	54.1	55.4	51.8	56.3	61.2
Total SMEs	established (in the year n-2)	61,432	54,961	51,044	44,765	40,706	38,848
	survives (in the year n)	44,146	33,896	31,503	26,458	26,034	26,225
	survival rates, %	71.9	61.7	61.7	59.1	64.0	67.5

Source: Author's calculations based on SBRA database

Figure 6: Global Entrepreneurship Index in 2015



Source: Author's calculations based on Global Entrepreneurship Index 2015 Report, p. 19-20

observed eight countries in the region (Albania, Bosnia and Herzegovina, Croatia, Montenegro, Macedonia, Romania, Bulgaria, and Hungary), Serbia is better ranked only than Bosnia and Herzegovina (83rd position) (see Figure 6 and 7).

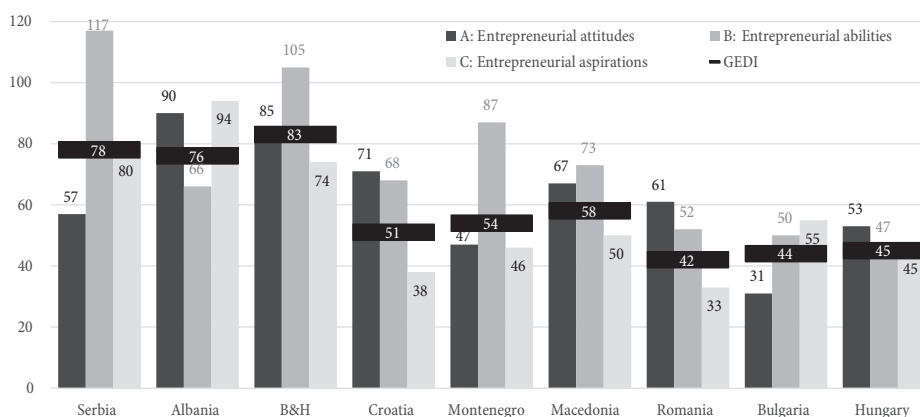
In relation to the achieved level of economic development, the level of GEI and the level of all three sub-indicators in Serbia are unfavorable, indicating an unfavorable entrepreneurial climate and limited opportunities for economic development. Compared to the neighboring countries, Serbia is relatively well ranked in respect of the sub-index measuring the attitude towards entrepreneurship (it is better ranked than Albania, Bosnia and Herzegovina, Croatia, Macedonia, Romania, and worse only than Bulgaria, Montenegro, and Hungary). Unfavorable situation exists in the pillar that measures entrepreneurial skills (Serbia is ranked higher only than

Albania), and the worst situation is in the pillar that measures entrepreneurial intentions, where Serbia is ranked 117th out of 130 countries in the world, and the worst in comparison to all other countries in the region.

Compared to the neighboring countries, entrepreneurs in Serbia perceive business opportunities in a better way, beginners possess better skills necessary to start business, network (link) more, and are innovative in developing new products and processes. The biggest weaknesses refer to the possibility of applying new technologies, low qualification of labor, the level of competition, ability to achieve rapid growth and internationalization of business, as well as the limited possibilities for financing by venture capital (see Figure 8).

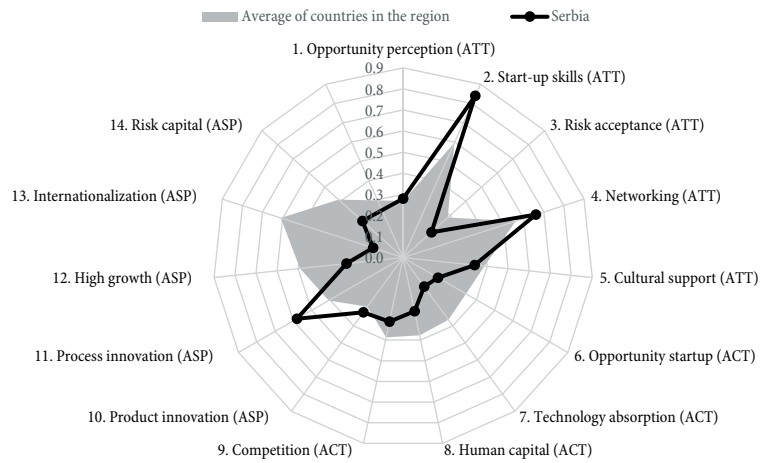
Adverse business conditions reduce the propensity for entrepreneurship, because they reduce possibilities

Figure 7: Global Entrepreneurship Index in 2015 – rank of selected countries



Source: Author's calculations based on global entrepreneurship index 2015 report, p. 19-20

Figure 8: Global Entrepreneurship Index 2015 – Serbia and average of countries in the region



Source: Author's calculations based on Global Entrepreneurship Index 2015 Report, p. 19-20

for identifying opportunities for starting a new business, increase the fear of failure (increasing the business risk), and reduce public support for the initiation and development of entrepreneurial activity. Activities directed towards promoting entrepreneurship and development of non-financial support systems have led to improvement of skills of beginners at the start of operations, as well as their networking – better connecting of entrepreneurs among themselves and with other participants in the economy (e.g. clustering).

Indicators that measure entrepreneurial skills indicate a lack of institutional development and unfavorable general business conditions in the economy. A large number of entrepreneurs start a business in order to ensure existence (self-employment), and not because of the perceived business opportunity. Low capacity to implement new technologies indicates insufficient level of education of entrepreneurs and limited opportunities for involvement of skilled labor, and low demand for the products characterized by higher technical complexity on the domestic market (lack of large systems where these products are needed for further production). The existence of unfair competition (gray economy and monopolies) is a significant factor that reduces the opportunities for the development of any form of entrepreneurial activity.

Entrepreneurs in Serbia are prone to innovation of products and processes, although they operate under conditions that: hamper rapid growth, internationalize business, and do not provide funding through modern forms of venture capital, which is primarily intended for the financing of fast-growing innovative companies with high growth potential and higher business risk.

High-growth enterprises and gazelles in Serbia

High-growth enterprises represent only a small share of the total population, but they generate a disproportionately large share of all new jobs [23], turnover, GVA, profits, and other performance indicators, i.e. they contribute most to economic growth, strengthening competition on the market, innovativeness, and competitiveness. Their contribution to job creation is especially appreciated during recessionary periods, because large enterprises make significant job cuts in such periods [18]. High-growth enterprises also have tendency to innovate and move towards innovation, which consequently increases productivity in the economy. High-growth enterprises are important even in developed countries and communities such as European Union, where the key policy priority for the EU, therefore, should be achieving high rates of enterprise growth rather than achieving high-rates of new enterprise entry [4].

Research of fast-growing companies in Serbia was carried out on the basis of quantitative analysis of the growth of companies in Serbia during the period 2009-2013 (i.e. 2006-2010), and largely relied on the methodological research of Serbian gazelles [11], [12] and dynamic entrepreneurship, as drivers of economic growth and development in Serbia [16]. The methodological framework of the research was based on relatively restrictive criteria that must be met by fast-growing companies: The enterprise worked continuously over the analyzed period of 4 years; The enterprises was a SMEs, and had a minimum of ten, and not more than 250 employees in the base year (2009 or 2006); Constant profitability; Growth in the number of employees, business

Table 7: Basic indicator of development high-growth enterprises and gazelles in Serbia

	2009		2013	
	Value	Share in economy, %	Value	Share in economy, %
High-growth enterprises				
Number of enterprises	167	0.2	167	0.2
Number of employees	4,910	0.5	10,444	1.1
GVE*	10,678	0.6	29,332.7	1.8
Profit*	2,923	0.8	10,345.8	2.3
Gazelles				
Number of enterprises	17	0.02	17	0.02
Number of employees	1,202	0.3	3,557	1.0
GVE*	2,228	0.4	7,393	1.5
Profit*	771	0.6	2,111	1.7

*in million RSD, constant price 2013

Source: Author's calculations based on SORS database

income, gross value added (GVE) in the last year (2013 or 2010), compared to base year, was at least 30%; Their business income was higher than average business income in economy; Their GVA per employee in last and base year was larger than average GVA per employee in the economy; The Enterprises was not part of a holding group and are not in majority ownership of the state (over 50%); Enterprises dealing with the following activities have been excluded: Real estate; Public administration and defence, compulsory social insurance; Household activities with employers; various goods; Extra-territorial organizations, and institutions, and Other services.

Based on the pre-defined criteria, 167 fast-growing companies operated in Serbia in 2013, including 17 gazelles (10% fastest growing high-growth enterprises according to Birch's indicator⁴). Although they have low share in the number of enterprises (0.2% of fast-growing companies and 0.02 gazelles), due to strong growth in the observed four-year period, they multiplied their share in the basic indicators of the economic performance (employment, GVA, and profit) (see Table 7).

Besides employing, on average, more workers per enterprise, fast-growing companies and gazelles achieve above-average productivity and profit per employee. Gazelles achieved the largest employment growth (3 times) and GVA (3.3 times) in 2013 compared to 2009,

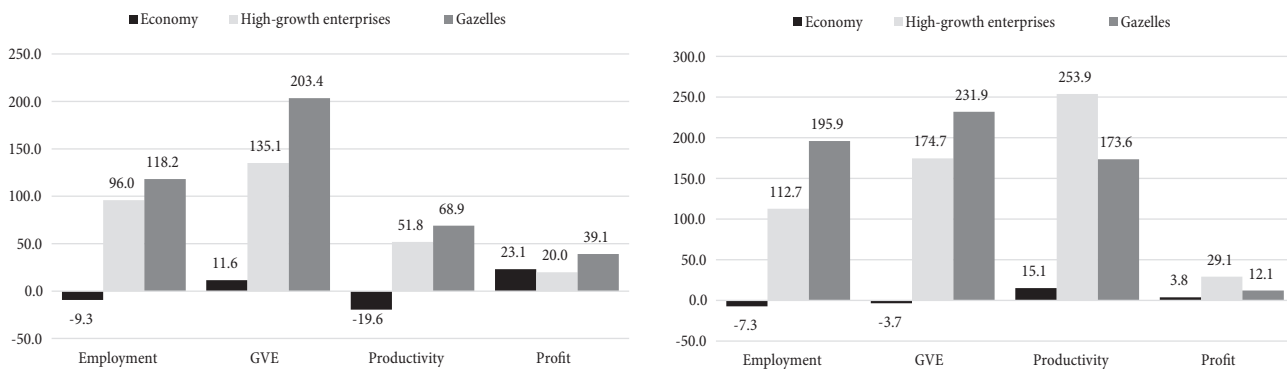
and stronger employment growth than GVA of gazelles, in relation to fast-growing companies, resulted in the fact that gazelles had slower productivity and profit growth than other fast-growing companies.

Compared to the fast-growing companies and gazelles that operated in the period 2006-2010, the number of fast-growing companies and gazelles in the period 2009-2013 decreased 3.2 times (from 529 in 2010 to 167 fast-growing companies in 2013, i.e. from 53 in 2010 to 17 gazelles in 2013). However, despite a very unfavorable business environment, fast-growing companies and gazelles that operated in the period 2009-2013 achieved, on average, faster growth (employment, GVA, productivity and profitability, except for gazelles, where profit increased to a lesser extent) than the fast-growing companies and gazelles in the period 2006-2010 (see Figure 9).

Plausibly, high-growth industry of high-technology may seem particularly suitable for emergence and development of high-growth enterprises, but they are actually equally likely to emerge in all industry sectors, and high proportion of high-growth enterprises is also found in services [4]. Except for a small number of high-growth enterprises and gazelles in Serbia, their technological structure and knowledge-based economy is unfavorable as well. Out of 17 gazelles in 2013, 8 gazelles came from the manufacturing industry (4 from the field of the low-technology, 1 from the medium-low-technology and 3 from the medium-high-technology), 6 from the service sector, and 3 gazelles from the field of construction. The absence of high-technology production companies and a small number of companies from the field of knowledge-intensive services indicate

4 The Birch's indicator (David Birch Employment Growth Index) is an economic indicator of employment that multiplies absolute enterprise job growth by relative enterprise job growth, which reveals the employment creation power of differently sized enterprises: The index used in the methodology is adapted for observation period of three years and is calculated by the following formula $X = (X_{i,t} - X_{i,t-3}) * (X_{i,t} / X_{i,t-3})$, where X stands for the absolute number of employees in a given year (t).

Figure 9: Growth indicators for non-financial business economy, high-growth enterprises and gazelles in period 2006-2010 and 2009-2013



Source: Author's calculations based on SORS database

that Serbia is not a country that bases its development on innovation and entrepreneurship, and that the development in Serbia is not based on the development of knowledge, technology, and their application through innovation.

Concluding remarks

Based on the conducted analysis of position and role that the entrepreneurial sector has in Serbia, it can generally be concluded that it significantly lags behind not only the average of the European Union, but also in relation to the new members of this integration. The very structure of the entrepreneurial sector in Serbia is unfavorable, because it is dominated by enterprises in traditional sectors of production and services that generate very little added value, which are mostly oriented towards business on the domestic market, and are trapped at the achieved level of development, with very poor prospects for advancement, raising productivity, and development based on knowledge, new technologies and business internationalization. The current financial and economic crisis has significantly impeded the functioning of the entrepreneurial sector, reduced demand for products and services, and significantly limited the sources of funding which these companies can rely on in addition to their own capital. It is not surprising, then, that the level of investment in the period 2007-2012 was negative within the entrepreneurial sector. Although there was some kind of recovery after that, it was certainly quite insufficient. Furthermore, the structure of the sector, which predominantly includes the production of non-tradable

goods and services, both in terms of share in employment, and the level of income and added value, indicates that our small and medium-sized enterprises are not ready for an international game, that they are at a low level of productivity and competitiveness, and are more oriented towards the ongoing survival than development based on innovation and new knowledge. Therefore, what follows are some of the basic measures that we believe should be taken urgently, in order to help the entrepreneurial sector not to quickly incorporate into global trends and global game, but to, in the medium term (up to 2020), allow for a gradual increase in performance of domestic SMEs, so that they could, in parallel with the expected further integration of Serbia into the EU structures, be prepared to function in the new circumstances. Unless such measures and policies are adopted and extremely effectively applied, entrepreneurial sector will, in the course of further integration of our country in the EU, be sliced and disappear under the impact of competition in all those activities that foreign companies find interesting for investment. The local SMEs would, in this case, be reduced to a collection of “crumbs which fell from the rich man’s table”, i.e. to bare endurance in the completely unattractive activities that barely allow mere survival on the trend of diminishing returns, with complete loss of developmental perspective.

Measures and activities for the promotion and development of the entrepreneurial sector in Serbia are an integral part of a broader development policy, which focuses on the development of a new growth model, based on increasing employment and investment, export growth,

cuts in public spending, the development of high-tech industrial production and services based on knowledge, i.e. on strengthening innovation and competitiveness of the economy as a whole. Accordingly, basic recommendations for the development of the entrepreneurial sector in Serbia are largely based on the creation of conditions for the development of innovative, fast-growing export-oriented enterprises, i.e. the following activities:

1. Creating a rounded support system for entrepreneurial development, with a focus on improving the business environment (removal of all kinds of obstacles faced by companies in the growth and development stages), by using the positive experience of highly developed countries of the EU and OECD.
2. Abandoning the policy of support for all SMEs (e.g. by improving the business environment, which aims to open as many new companies as possible) and the reduction of economic and social costs of bankruptcy and closing of enterprises (e.g. by giving “a second chance”), in favor of the policy of encouraging development of fast-growing and innovative companies (business infrastructure development, new forms of financing, etc.).
3. Change of the existing method of financing of the entrepreneurial sector, which is based on bank loans and state aid (subsidized loans, various forms of grants, subsidies, and soft loans), and focus on financing, which is based on a combination of private and public (domestic and foreign) sources, which are aligned with the various stages in the development of enterprises, and support the development of innovative and fast-growing companies (financing through equity and venture capital, business angels, issuing securities, vouchers for innovation, loans for research and development, validation and use of intellectual property and intangible assets as collateral for loans, etc.).
4. The advantage in providing resources and other assistance should be given to innovative and fast-growing companies, in relation to other companies.
5. The development of institutions for non-financial support to the development of entrepreneurship, and changing the structure of offered services, from basic

(standard) advice for starting a business, business planning, and daily operations of the company, to advisory assistance in the field of growth and development (strategic planning, risk financing, expansion into new markets and internationalization of business, involvement in local and global value chains, development of management skills that are necessary for entrepreneurs to successfully cope with the pressures on the human, technical, and financial resources resulting from the rapid growth of the company, etc.).

6. The development of an entrepreneurial culture through the introduction of entrepreneurship in formal education, and encouragement of potential and existing entrepreneurs to take risks and develop business.
7. Support and promotion of innovation, and internationalization of new and small enterprises, as potential sources of rapid growth, especially in combination with other sources of growth and development.

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