

THE INNOVATIVE ACTIVITIES FOR THE RESILIENCE OF THE SMEs IN THE REPUBLIC OF SERBIA

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ABSTRACT

Today's business environment is characterized by numerous challenges and changes. The challenges arising from changes in the global business environment can be addressed through the development of an innovation-based economy. The Republic of Serbia belongs to the group of moderate innovators with an economy characterized by the growth of the level of innovation, which is still lagging behind the EU average. Innovation categories in which the Republic of Serbia stands out the most are innovators, company investments and effects on sales, as well as ICT training and innovation activities of small and medium enterprises. The main goal of this paper is to analyze the current state of innovative activities in the sector of small, medium enterprises and entrepreneurs (SMEEs) in the Republic of Serbia and the factors that affect this situation. In the article the authors concluded that, entrepreneurial resilience is a dynamic adjustment process that enables business owners to “look and move forward” that can be supported by the good innovative policy.

Key words: innovation, SMEEs, Serbia

JEL Classification: O3, L3

INTRODUCTION

In today's business conditions, one of the most important factors for the survival and development of companies and entrepreneurs is innovation. They are the key to a company's success, because with their development, companies adapt to changes and at the same time respond to market demands, which are becoming more complex every day. The definition of innovation mainly refers to the development and successful transformation of invention into a useful product (innovation of products) or technique (innovation of the process) which are believed to be worth presenting in the market, or using within the company[1]. Innovation is one of the most important sources of competitive advantage and many companies see innovation as a means to profitable growth that will improve the performance and position of companies. Competitive advantage should therefore not be increased by reducing costs, but by quality production, innovation, continuous product and service development, comprehensive service concept or ability to respond quickly to customer requirements[2] because competitive advantage has been an important issue in management and strategic planning in recent years[3].

The role of innovation is particularly important in transition countries facing problems of high unemployment, low economic activity, insufficient competitiveness and lack of investment, and where large inefficient state-owned enterprises are still present[4].

The authors [5] believe that innovation is at the heart of every organization's success, because it enables the organization to improve product quality and reduce costs, increase efficiency and increase sales. It can also provide enterprise resilience [18]. The majority of companies mostly use the innovative project management strategy, which via efficient planning and coordination can help a firm use its resources and the available time in a much more productive way[17]. According to one number of scholars one of the biggest lessons the pandemic has given us, is that innovation is a non-negotiable function for organizational resilience, especially if an enterprise is to maintain its longevity [19].

The analysis of innovation in the SME sector is a very current topic in all countries, as shown by studies of many authors from around the world and from our country [6][7][8][9].

SMES SECTOR IN THE REPUBLIC OF SERBIA

The sector of small, medium enterprises and entrepreneurs (SMEEs) is undoubtedly of great importance both at the national and international level. Today, this sector has a tendency to make more use of intensive production processes than large companies and thus significantly contribute to increased employment, income generation and poverty reduction[10]. In addition, the SMEE sector makes fuller use of its staff and equipment, maintaining a lower level of inventories.

The advantage of the SME sector in relation to large companies is reflected in the ability to reduce production costs through narrow specialization. Starting a small business requires a relatively small initial capital, the time required to build production capacity is shorter, and capital turnover is significantly faster than in large

companies[11]. Thanks to their flexibility and easier entry and exit from the market, SMEs take advantage of market opportunities faster and easier.

The global economic crisis that Serbia faced in 2009 caused a halt in the positive trends of economic development, which was reflected in the decline of economic and foreign trade activity of Serbia, rising unemployment, reduced investment, changes in the number of small, medium enterprises and entrepreneurs, etc. However, since 2014, the entrepreneurial sector has been recovering with a slight increase in employment, so that the level of employees in 2018 almost reached the level from the pre-crisis period. Serbian Government in March 2015 has adopted the Strategy for support to development of SME, entrepreneurship and competitiveness for the period from 2015. to 2020. in order to improve the development of entrepreneurship, increase the number of small and medium companies, increase employment and train SME to answer the increasing pressure of competition in the market[12].

In the period from 2008 to 2018, the number of companies and entrepreneurs in the Republic of Serbia varied (Figure 1).

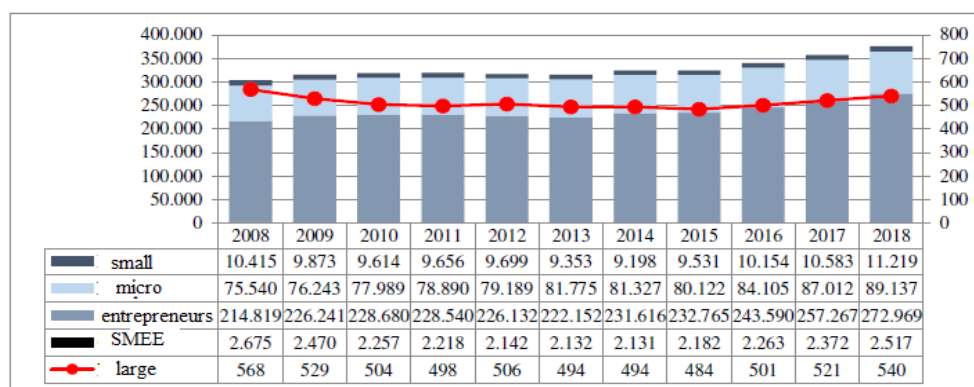


Figure 1. Number of economic entities in the period from 2008 to 2018.

Source: Report on SMEE for 2018, 2021.

Table 1 shows the movement of productivity, labor costs and employment in the period from 2008 to 2018 in the SMEE sector.

Table 1: Trends in productivity, labor costs and employment in the period 2008-2018 in the SMEE sector

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	growth rate 2018/2017	average growth rate 2008-2018
productivity	1480,3	1366,3	1443,6	1446,5	1502,1	1398,9	1465,3	1455,0	1534,2	1548,8	1620,5	4,6	0,91
labor costs	916,8	918,8	921,9	923,9	942,3	916,9	933,2	939,4	963,7	993,5	1047,5	5,4	1,34
employment	940,159	872,540	814,585	786,873	782,026	768,550	761,539	801,719	837,532	873,462	917,116	5,0	-0,25

Based on the movement of average labor productivity (whose average growth rate in the observed period was 1.1%) and labor costs (0.9%), the non-financial sector increased its competitiveness compared to the pre-crisis year of 2008. In contrast to the non-financial sector, compared to 2008, the competitiveness of the SME sector decreased, as average labor costs increased by (1.3%), labor productivity (0.9%), with a lower level of employment (2.4% compared to 2008).

ANALYSIS OF THE INNOVATIVE ACTIVITIES OF THE SMEE SECTOR IN SERBIA

The work of a company on the realization of innovative activities leads to the improvement of the overall performance of that company, the competitiveness of the company, but also the competitiveness of the state. According to the Global Competitiveness Index - GCI (Report on Global Competitiveness of the Economic Forum - WEF 2019), Serbia is ranked 72nd, which is 7 places lower than in 2018. In relation to other countries in the region, the Republic of Serbia is ranked 57th in the world in terms of innovation performance for 2019, which is 2 places lower than the year before.

Table 2: Global Innovation Index of Serbia and neighboring countries 2014-2019

Country	2014(143)		2015(141)		2016(128)		2017 (127)		2018(126)		2019(129)	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Leader - Switzerland	64,78	I	68,3	I	66,28	I	67,69	I	68,41	I	67,2	I
Slovenia	47,23	28	48,49	28	45,97	32	45,8	32	46,97	30	45,3	31
Bulgaria	40,74	44	42,16	39	41,42	38	42,84	36	42,7	37	40,4	40
Hungary	44,61	35	43	35	44,71	33	41,74	39	44,9	33	44,5	33
Croatia	40,75	42	41,7	40	38,29	47	39,8	41	40,7	41	37,8	44
Romania	38,08	55	38,2	54	37,9	48	39,16	42	37,6	49	36,8	50
Montenegro	37,01	59	41,23	41	37,36	51	38,07	48	36,5	52	37,7	45
Macedonia	36,93	60	38,03	56	35,4	58	35,43	61	29,9	84	35,3	59
Serbia	35,89	67	36,47	63	33,75	65	35,34	62	35,5	55	35,7	57
Bosnia and Herzegovina	32,43	81	32,31	79	29,62	87	30,23	86	31,1	77	31,4	76
Albania	30,47	94	30,74	87	28,38	92	28,86	93	30	83	30,3	83

Source: Authors based on - The Global Innovation Index, Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO) Reports: 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019

The innovative activities of SMEs in the Republic of Serbia are not sufficiently developed, but the innovation of SMEs in the surrounding countries also lags behind

the more developed EU countries. The reason is that small countries have limited funds for the development of innovation [15].

Table 3: Innovation indicators of the Republic of Serbia[13]

Group		Performance in relation to the EU 2010 in 2018		In relation to the EU 2018
		2011.	2018.	2018.
	Total innovation index	43,7	63,7	58,5
I	Human Resource	29,2	66,8	54,7
	Attractive research systems	31,7	35,2	31,3
	An environment conducive to innovation	27	63	39,9
II	Financing and support	38,5	40,1	36,7
	Company investments	80,4	95	79,7
III	Innovators	50,9	87,4	96,3
	Networking	35,3	65,6	63,2
	Intellectual property	25,1	23,8	24,5
IV	Impact on employment	36,6	39,8	38,1
	Sales impacts	46,9	69,3	67,3

The innovative performance of small and medium enterprises is measured by the following indicators [13]:

– *Innovation of SMEs in products and processes* – the number of SMEs that have introduced a new product or new process in one of their markets. Technological innovation measured by the introduction of new products (goods or services) and processes is key to innovation in production activities;

– *Marketing and/or organizational innovations of SMEs* – the number of SMEs that have introduced new marketing innovation and/or organizational innovations in one of their markets. This indicator shows the extent to which SMEs innovate through non-technological forms of innovation;

– *Innovation activities of SMEs within the company* – This indicator measures the extent to which SMEs that have introduced a new or significantly improved product or production process have innovated internally;

– *Cooperation of innovative SMEs with others* – this indicator measures the extent to which SMEs are involved in cooperation in the field of innovation. It measures the flow of knowledge between public research institutions and companies as well as between different companies;

– Developing strategies for strengthening SMEs resilience.

Based on the above indicators, Serbia has a better performance than neighboring countries except Slovenia. Weak cooperation with the commercial sector, the education sector and with researchers stands out as a problem in the development of innovative activities of SMEEs in Serbia. The Report on Small, Medium Enterprises and Entrepreneurship states that "the analysis of innovation and openness of SMEs in the surrounding countries shows a significant lag compared to more developed EU countries, i.e. that this sector in Serbia is often not very innovative" (Figure 2).

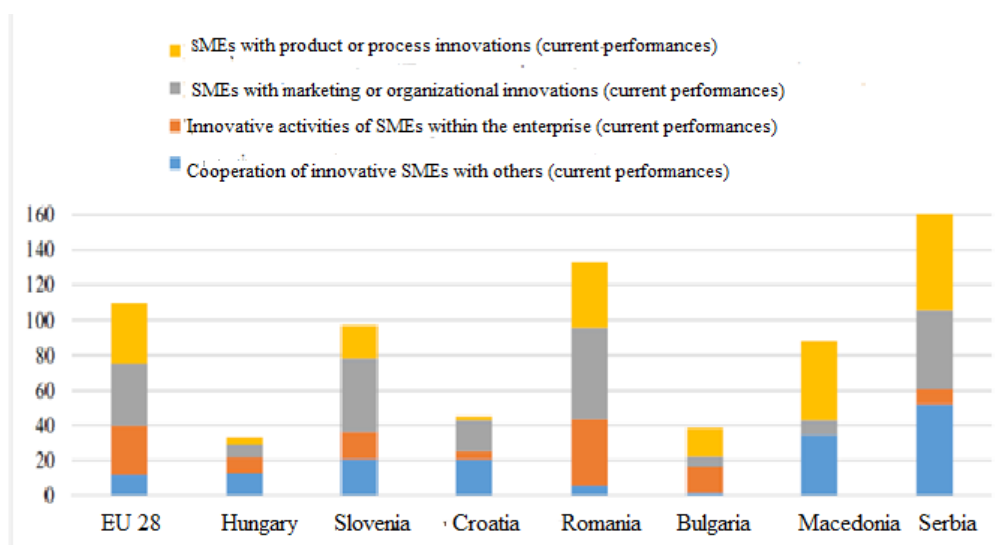
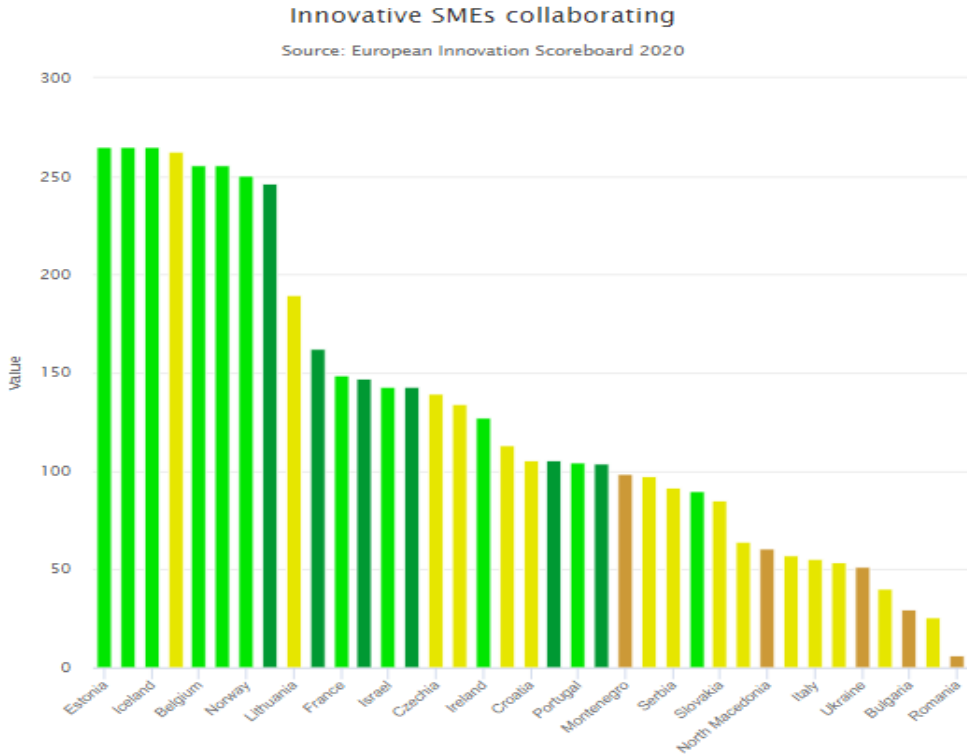


Figure 2. Innovation indicators of SMEs in Serbia and neighboring countries in 2018

Source: Ministry of Economy, Report on small, medium enterprises and entrepreneurship for 2018, MP - research according to the European Innovation Scoreboard 2019

Figure 3 shows the cooperation between innovative SMEs in Serbia and selected countries.



Source[14]

Figure 3. Innovative SMEs collaborating

Innovation in companies that do business in Serbia is a prerequisite for its competitiveness because these innovations enable companies to create added value, meet the needs of consumers and the needs of the company. Good innovation policy will allow the introduction of changes and innovations in the way of doing business with the aim to improve the situation and achieve a competitive edge [16]. In addition, the recent studies in Serbia (2018) have shown that Serbian organizations have a low resilience level [18]. So, entrepreneurs and managers should deal with high rates of failure of small companies and pay greater attention to their liquidity, money flow and seasonal fluctuations. Also, if Serbia wants to make economic progress and development, it is necessary to develop a competitive economy based on knowledge, innovation and new technologies [8].

CONCLUSION

The sector of small, medium enterprises and entrepreneurs (SMEs) is a very important factor of economic development, it affects employment, as well as the reduction of

regional disparities. Innovations in this sector in Serbia are at a low level, because the development of innovations is far behind compared to the same sector in developed countries. In order to improve the innovative activity of this sector, it is necessary to create favorable conditions for innovation, raise awareness of the need for innovation, create a favorable climate that supports and encourages innovation. In the process of developing innovation in the sector of small, medium enterprises and entrepreneurs, the state should provide conditions for the development of innovation and enable an innovative climate. At the first place, it needs an adjustment process that enables business owners to “look and move forward” and be more resilient. In line with this, the resilience thus emphasizes the importance of flexible and more innovative enterprises. Policy makers and theorists in this field should propose various models to improve the adaptive capacities of SMEs by concentrating on identification of risks and opportunities for strengthening their institutional and innovative capacities.

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