

The room for improvement competitiveness and innovation

Miroljub Hadžić

Professor, Singidunum University, Belgrade, Serbia, Faculty of Business,
mhadzic@singidunum.ac.rs

Petar Pavlović

Public Policy Secretariat, Government of The Republic of Serbia,
petarpavlebgd@gmail.com

Abstract: Last four years Serbian economy seems recover from the Global economic crisis, which caused a zero rate of growth in six years period (2009-2014). The economic development is mainly due to domestic demand increase, investment into infrastructure and increase in foreign direct investments. The macroeconomic stability is improved and for the first time in the medium term it is comparable to European standards. However, it is important to note that even the rate of growth achieved in the last year and projected for this year (4,4 and 3,5% respectively) is below the need to shorten the difference in development level to developed economies and countries in transition, as well.

In line with overall recovery, the segment of small and medium scale companies and shops (SMEs) is improved, considering that the number of new established companies is increasing and more important, higher than number of closed legal entities. It is due to more chances for start - up and development and improved business environment. Although Serbian economy has improved business environment there is still room for improvement, especially considering the lack to European countries and some countries in the neighbourhood.

European Union has already defined the strategy in which innovations became the most important factor for development. Considering the level of use of Information, Communication Technologies (ICT) and the level of competitiveness of Serbian companies, including SMEs, there is even more room for improvement. One can say that development policies has been generally defined with an aim to support fast growing and innovative companies, but these need time to achieve full effect.

The room for improvement competitiveness and innovation of Serbian companies, included SMEs, should be find on all levels of decision making: national, regional, local and level of a firm itself.

Keywords: SMEE, innovation, competitiveness

1. Introduction

In the period 2009-2014 Serbia has faced with almost zero rate of growth (GDP increased 0,6% per year) [1]. Fortunately, it seems that development is secured as GDP increased last four years with increasing rate of growth. Macroeconomic stability is improved and now is comparable to European standard. In the period under consideration Dinar is more than stable, even one can say that it is appreciated in real terms. Serbia is successful in fight with its main economic problems; the public debt is decreasing and foreign debt, as well. After the end of a stand - by arrangement with IMF last year an advisory agreement was reached.

In line with increasing overall growth tendency one can recognize a positive trend in the business demography. Namely, from 2013 on there is a tendency of increasing number of new established economic subjects, companies and shops, and at the same time decreasing number of those closed economic subjects [2]. As a result the discrepancy between opened and closed companies is also increasing. The birth rate is improving as a result of improving business climate and business conditions. The overall rate of survival (in two years period) of companies and shops is also higher than before.

In spite of bright projections one can recognize that competitiveness of Serbian SMEs and other companies is much lower than EU average. An average Serbian SME has almost two times fewer employees than European one and more than three times less productivity [2]. Different international investigations and reports pointed improvement in its business climate, but at the same time noted a lot of room for improvement in market reforms [3,4]. Also, if one talks about innovations has to be aware that Serbia belongs to the group of moderate innovators countries [5] and can be satisfied with ICT infrastructure and its use, but not with e-trade, e-production and e-government.

The aim of the paper is twofold: firstly, to envisage the level of innovation activities with comparison to European countries and especially with countries within the Region and secondly, to analyze measures and instruments of the development policies in order to find space for improvement.

2. Development is secured

Last four years Serbian GDP is increasing (1,8%, 3,3, 2% and 4,4% per year, respectively) after six years of almost zero rate of growth (0,6% per year on average) [1]. This increase is due to domestic demand increase, an increase in investment into infrastructure, financed by the Government and an increase in Foreign Direct Investments, FDI. Although one can see the light at the end of the tunnel, as the development is secured, these respectable rates of growth are unfortunately too low for Serbia to catch up transitory economies in surrounding and developed countries, as well [16].

At the same time macroeconomic stability is improved and for the first time the inflation rate can be compared to the European standard (1,9%, 1,2% 3% and 2% increase per year, respectively) [1]. The main factor behind stability is due to painful measures introduced for consolidation of the public spending, among others cut in wages of civil servants and pensions, as well. Dinar is even more than stable (in other words it is appreciated), as there are more economic subjects interested for the appreciation of foreign exchange rate, FX rate (the government, debtors generally, importers) than those interested for its depreciation (exporters only) [15].

Serbia is still fighting with problem of excessive public spending and fortunately it was put under control, even faster than expected. After the maximal level of the budget deficit (it was even 6% of GDP in 2014), the budget spending achieved surpluses in the last two years (-3,7% of GDP, -1,4%, +1,3% and 1,5% of GDP, respectively). As a result the public deficit is decreasing from 74,7% of GDP in 2015 to 56% of GDP in 2018 [7].

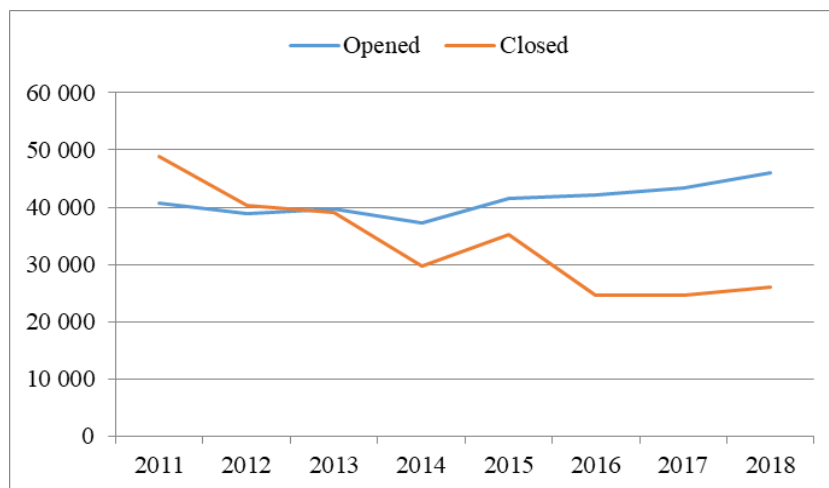
Considering Balance of Payment problem one can be satisfied also, as the foreign debt decreased as the share in GDP from 76% of GDP and its maximal level to 63% of GDP in the last year [1]. Although the trade deficit is increasing last two years, it is more than offset by positive balance of services, by FDI and remittances of our citizens working and lived abroad. So, foreign currency reserves of the Central Bank and commercial banks are increasing and are more than necessary to finance import [8].

Serbia signed in 2015 a stand-by arrangement with International Monetary Fund, IMF in order to secure foreign currency reserves and foreign exchange rate with credit of 1,2 billion \$. Due to positive tendencies in the economy this arrangement

was finished almost without use of sources. So, in front of decision - makers a question was opened whether to arrange a new contract with IMF or not. Among those who were against new arrangement were trade unions, the government itself and commercial banks. At the same time the Central Bank, professionals and employers advocated for a new contract. Finally, an advisory arrangement was agreed, without a credit line [8].

3. SMEs is improving

In better economic environment entrepreneurs could find more chances for start-up and development of their companies and shops, which can be seen from Graph 1. It seems that for small and medium scale companies and shops, SMEs from 2013 on the business conditions are clearly improving. Business demography shows data of new established companies and shops, on the one hand, and data of closed companies and shops, on the other hand. The number of those new opened companies and shops increased each year, while at the same time the number of closed companies and shops decreased. More important is the fact that the discrepancy between opened and closed economic agents is also increasing. Net effect of business demography (number of new established minus those closed) from 5 hundred in 2013 reached 18 thousand economic subjects in 2018[9].

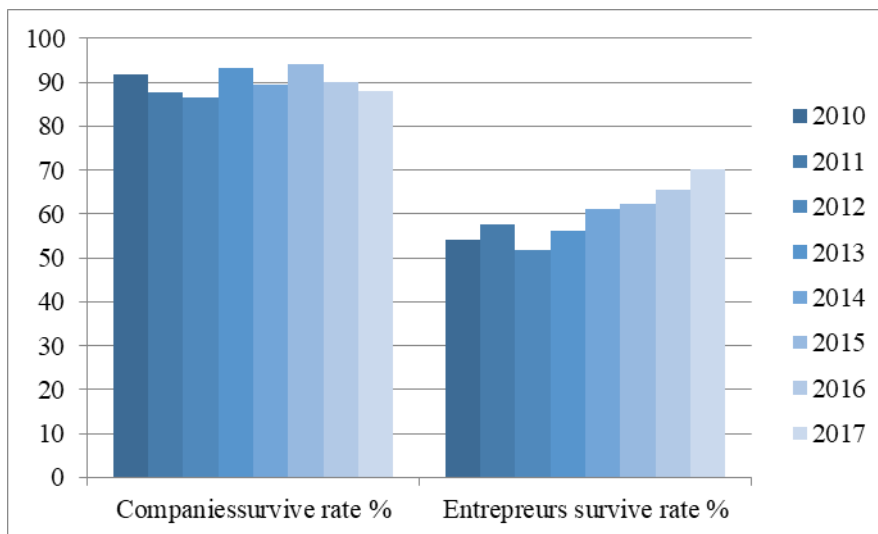


Graph 1 Serbia – Business Demography
Source: Agency for Business Registry of RS

One has to be aware that business demography is somewhat better for companies than for shops, which can be expected. On each 10 closed companies 304 are opened and for entrepreneurs this ratio is 10:16 (on each 10 closed shops new 16 shops are opened) [2].

Generally speaking, the birth rate is rather stable during last several years (between 11,7 and 13,2%), while the death rate is decreasing (from 12 to 7% in 2018), which once again prove that overall business climate is improving and business condition, as well [2].

Similar, the overall rate of survival, which points that economic entity established has survived next two years, is also higher last year in comparisons to the previous period (74% in 2017 to 64% in 2013). It is important to note that the rate of survival is higher for companies than for entrepreneurs (88% and 70% respectively) [2].



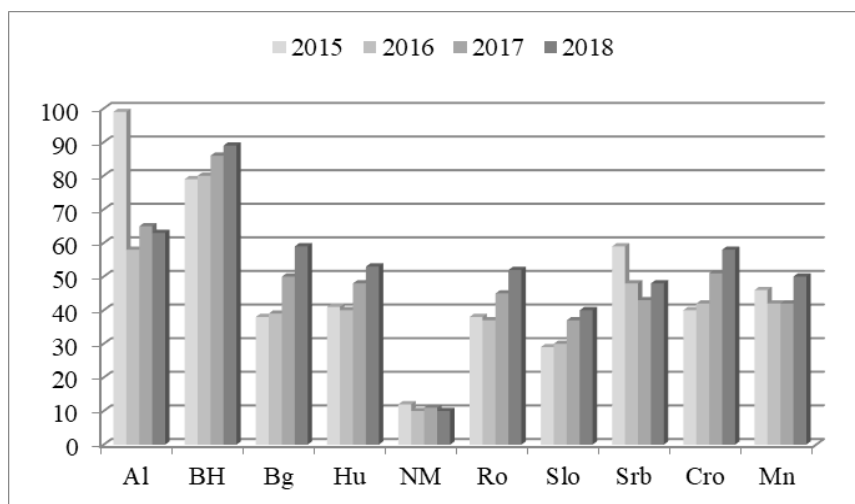
Graph 2 Serbia – The Rate of Survival
Source: Agency for Business Registry of RS

4. Low Competitiveness

In spite of improved overall economic situation and upward tendencies one cannot be satisfied if look at the competitiveness of Serbian firms on the world market, e.g. it is much lower in comparison to the EU average. SMEs are not exception. Serbian SMEs has 2,5 employees on average, while in EU is 4 employees. Productivity is 3,7 times lower than in EU. Considering productivity Serbia is only better than Bulgaria within the Region [2].

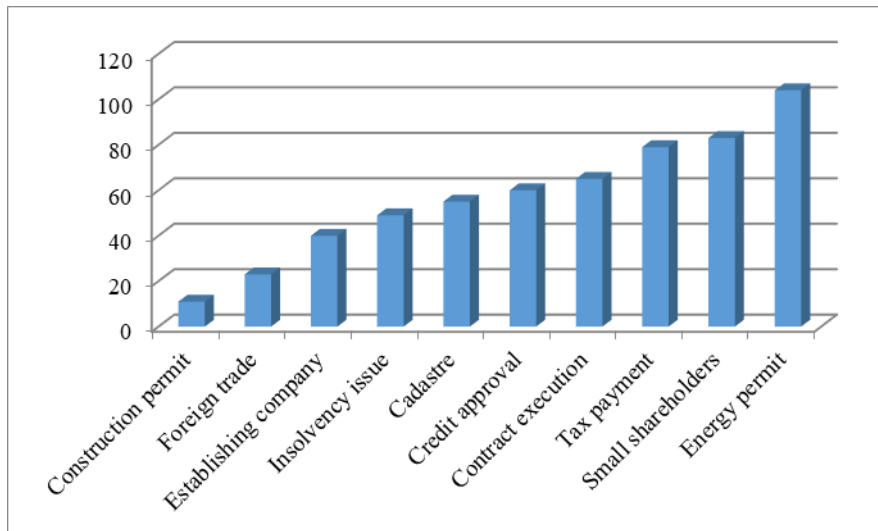
Different reports prepared by international financial institution or associations pointed out that Serbia improved its market reforms, but unfortunately less than transitory economies in the surrounding. In other words, there is a lot of room for improvement.

World Bank prepared its “Doing Business Report” on regular basis. The last report put Serbia on the 48th place, which is five points lower than a year earlier [3]. According to this report Serbia was better than majority of countries within the Region of South West Balkan, but worse than North Republic of Macedonia and Slovenia. It has improved several important market procedures and institutions, mainly administrative procedures related to construction permit and shorten the period for approval and cadastre of immovables. At the same time procedure of foreign trade staid the same as it was. The important room for improvement was noted in several fields: minor shareholders safeguard, insolvency problem, contract execution, credit approval and especially, energy permit, as the procedure is too complex and time consuming [3].



Graph 3 – The Rank on Doing Business List
Source: World Bank, Doing Business Report 2019,

World Economic Forum, WEF and its Global Competition Report in 2018 put Serbia on 65th place, with index of 60,9 out of 100[4]. Its position was improved for five places in comparison to the year earlier and it is the best position from 2010 on. According to the Report Serbia is better placed than other ex - Yugoslav republics, except Slovenia, and it is worse than Bulgaria and Romania from the Region. The main finding is that macroeconomic and financial stability were the most improved, but at the same time administrative procedures are generally worsened. It is worth noting that index of innovation was improved, although it is still modest. Serbia is relatively competitive in number of international innovation per head, number of patents and research and development, R&D, but it is important to note that level of private investments in R&D is pretty low [17].



Graph 4 – Serbian Rank

Source: World Bank, Doing Business Report 2019

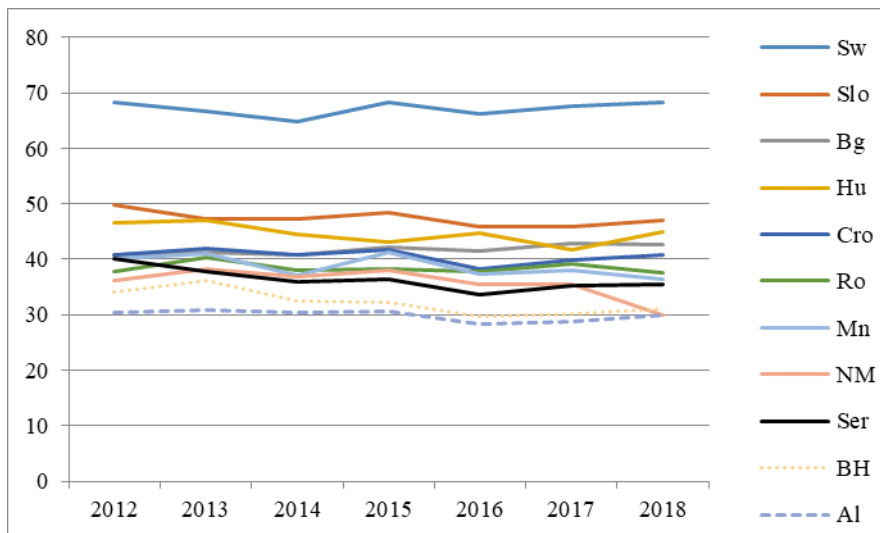
4. Level of Innovation activity is modest

Innovations are seen as the main contributor to the social, economic and intellectual development. Fast development of Information Communication Technologies, ICT and their implementation, transformed economy and society into informatics economy and society. All industries were transformed in qualitative and quantitative term, with new products and services, which gives platform for information society [10]. Cornell University, INSEAD and World Intellectual Property Organization, WIPO conducted from 2007 so - called Innovation index measuring innovation country performances and successfulness in innovation. Global Innovation Index, GII included 84 criteria, with two sub-

indices, Innovation Output which points innovation potential and Innovation Input, which points innovation level of output.

According to the last Report Serbia still has low level of innovation activities. It was put together with other 17 countries in the group of “moderate innovators” [5]. All countries within the Region during the last several years experienced stable innovative performances. However, it is important to note that all developing countries, like countries in transition, have worse performances in comparison to developed countries.

Serbia was in 2018 placed as the 55th out of 130 countries and is better placed for seven places in comparison to the year earlier. However, its innovation index is 0,33 only, while EU average is 0,5. Moreover, in comparison to ex - Yugoslav republics its position is not prominent. As it can be seen from Graph 5 its position is better than Bosnia and Herzegovina and Albania only [5].



Graph 5 – Global Innovation Index

Source: Cornell University, INSTEAD, World Intellectual Property Organization (WIPO), Global Innovation Index 2018

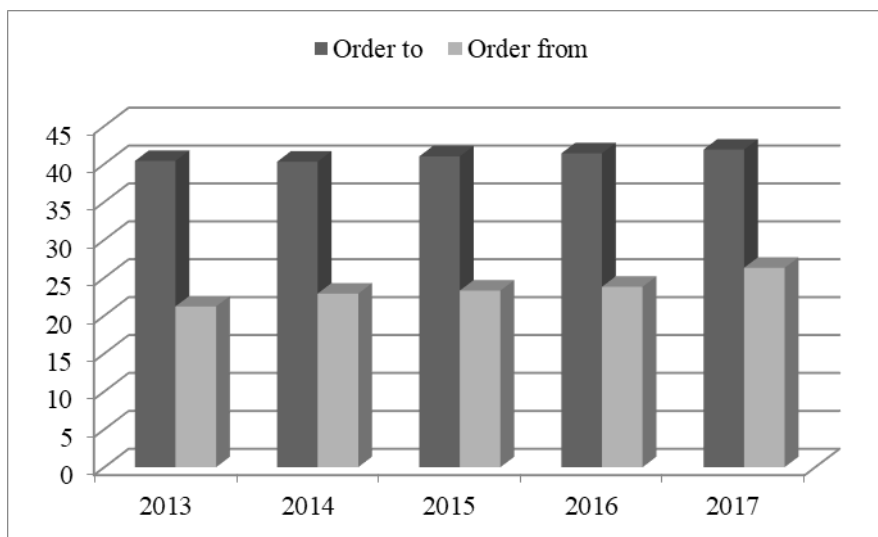
According to sub-index Innovation abilities Serbian index is 44 (the rank 56th) with indices as follows: Institutions 67 (the rank 50th), Human capital 32 (58), Infrastructure 50 (48), Market sophistication 39 (101), Business sophistication 29 (79). According to the sub-index Innovation output its index is 27 (and the rank is 58th) with indices as follows: Knowledge and technological abilities 27(59), Creative abilities 28 (64) [5].

The main problems which Serbia is facing with are low level of human capital, knowledge and technological abilities, creative abilities, market sophistication and business sophistication. In order to support changes more investments have to be R&D and infrastructure oriented, especially private one. Financial sophistication is also important issue, with enabling easier credit approval and establishment of microcredit institutions. Support of cooperation between big and small companies can help a lot, also [18].

Generally speaking, Serbian position is good one in ICT development and its use [11].

In Serbia 72% of all households possessed PCs in 2018 (68% and 66% in 2017 and 2016, respectively) [6]. At the same time Laptop possessed 48% of households (44% and 39%, respectively). Mobile phone possessed 93% of households (91 and 90%, respectively). Use of ICT is also respectable, as Internet connections had 73% of households in 2018 (68% and 65% in 2017 and 2016). DLS connection to Internet had 51% of household in 2018 (49%, and 46%, respectively), cable connection (43, 43 and 45%), and mainly by mobile phone (68, 54 and 47%) [6].

According to ICT access and its use Serbian companies are even in better position.



Graph 6 Order to and order from using Internet

Source: Statistical Office of RS, ICT use in Serbia in 2018, Belgrade, 2018

PCs are using all companies in Serbia (99% in 2018, 100% in 2017 and 2016). In 37% companies $\frac{3}{4}$ of all employees PCs used once a week, in 15% of companies $\frac{1}{2}$ employees and 18% of all companies $\frac{1}{4}$ of employees PCs used at least once a week. Internet connection had all companies in the period under consideration, of

which 99% of companies had broadband internet connection, while mobile access 75% of companies [6].

Web sites possessed 83% of all companies in 2018 (80% in 2017 and 81% in 2016). However, when one considers its use than the clear picture is not so favourable [11]. Namely, as can be seen from Graph 6 less than one half of companies use internet as a channel to acquire necessary products and services and around ¼ of all companies only use internet to sell their products and services. So, the share of Internet trade (e-trade) in total trade considering order received through Internet is as follows: 1/4 of trade even 73% of all companies, 1/5 of trade 14% of companies, ¾ of trade only 8% of companies and more than this only 6% of all companies. Social networking as a mean of communication use 40% of companies and cloud only 16% of all companies [6].

Conclusion

Overall economic situation during the last four years is improving, considering growth of GDP, very stable macroeconomic environment and successful fight with two main economic problems: budget deficit - public debt and foreign debt. As a result, an advisory arrangement with IMF was signed. At the same time one can be aware that the growth rate is not high enough for catching up other transitory economies and developed countries, as well [16].

Entrepreneurs recognized improved macroeconomic situation and better business conditions, so as a result the number of new established companies and shops is increasing, while the number of those closed in meantime is decreasing. Moreover, the discrepancy between new and closed economic entities is higher and higher.

Generally speaking, together with perpetuation of development market reforms got momentum, which is recognized by different international financial institutions and associations in their reports. However, one has to recognise that other transitory economies improved their business conditions also, some of them even faster than Serbia. Those reports pointed out that the main room for improvement is related to minor shareholders safeguard, insolvency problem, contract execution, credit approval and especially, for energy permit.

Serbian companies and entrepreneurs are facing not only with low competitiveness, but also with modest innovation abilities. Unfortunately, the main problems are related to human capital, knowledge abilities, innovation abilities, market sophistication and business sophistication [17]. Additionally, ICT infrastructure and hardware is in place, but considering its use through e - trade it is still on the low level.

In order to improve competitiveness and innovation level prerequisites are as follows: firstly, to overcome existed and present prejudices and enable easier ICT use [11]; secondly, to motivate producers and consumers for their ICT use; thirdly,

to continue with market reforms in order to make more favourable business environment [18].

The legal framework also has to be improved [12]. Law on electronic sign was enacted, but it needs time to be fully implemented. Especially, the relation banks: traders: consumers, and its legal framework needs improvement [13]. For new generation important issue is the introduction of IT education together with entrepreneurship [10].

Some changes and improvement are necessary on the company level as well [14]. Employers have to be aware that ICT use is not any more a matter of the good image of a firm, but simply a matter of its survival on the market [11]. So, among others, they have to improve interaction with customers, and introduce client relation management, CRM [13].

References:

- [1] Statistical Office of RS , Economic trends in 2018, An Assessment, 2018
- [2] Report on SMEE Development, Ministry of Economy, The Government of Serbia, 2018
- [3] World Bank, Doing Business Report 2019,
- [4] World Economic Forum, The Global Competitiveness Report, 2018
- [5] Cornell University, INSTEAD, World Intellectual Property Organization (WIPO), The Global Innovation Index 2018
- [6] Statistical Office of RS, ICT use in Serbia in 2018, Belgrade, 2018
- [7] Ministry of Finance of RS, Current Economic Trends, December 2018
- [8] National Bank of Serbia, NBS, Inflation Report, February 2019
- [9] Agency for Business Registry of RS, Data on economic subjects 2018
- [10]Đorđević G., Impact of ICT and Information Society on Economic and Social Development, Socioeconomica, No 2/2012
- [11]Hadžić M., Mladenović Krulj M., Mladenović V., E – Banking in Serbia – great potential, Synthesis 2016, International Conference University Singidunum
- [12]Radojević T., Čelarović M., E - banking use in Serbia, Finances , Banking and Insurance, 2009
- [13]Sanchez – Franco M.J., The Moderating effects of Involvement on the relationship between satisfaction, trust and Commitment, Journal of Interactive Marketing, 23/2009
- [14]Agarwal R., Rastogi S., Mehrota A., Customer perspective regarding e-banking in emerging economies, Journal of Retailing and Consumer Services, No16/2009

- [15]Boljanović, S., Hadžić, M., Impact of foreign direct investments on Serbian industry, *Industrija*, No.3., 2017
- [16]Hadžić M., Zeković S., Usporeni rast i razvoj Srbije do 2020. godine – uzroci i posledice, *Obnova strateškog prostornog mišljenja, istraživanja i upravljanja u Srbiji*, Knjiga 2, IAUS, Posebna izdanja br.74, 2014
- [17]Ministry of Economy and Regional Development RS, Republican Bureau for Development, *Strategy of Industrial Development of Serbia in period 2011-2020*, 2011
- [18]Faculty of Economics, *Macroeconomic Analyses and Trends and Konjunktur-Barometer – Economic Institute*, USAID. Belgrade, Serbian Post-Crisis Economic Growth and Development Model 2011-2020, 2010