

THE ROLE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE DEVELOPMENT OF ENTREPRENEURSHIP

Vesna Novakovic¹
Mirjana Milovanovic²
Tanja Škorić³

SUMMARY

This paper is about entrepreneurship and the importance of entrepreneurship in economic processes in an economy. When a person decides that his career is entrepreneurship and the entrepreneurial process gives answers to the key questions, what do I want to achieve, what are my goals, where am I now and where do I want to go? The subject of research is the concept of entrepreneurship, its complexity and importance for the development of the economy. We defined the problem by the question to what extent the state plays a role in the development of entrepreneurship, as well as the influence of small and medium-sized enterprises on the development of entrepreneurship.

KEY WORDS: entrepreneurship, small and medium enterprises

ULOGA MALIH I SREDNJIH PREDUZEĆA U RAZVOJU PREDUZETNIŠTVA

SAŽETAK

Ovaj rad govori o preduzetništvu i značaju preduzetništva u ekonomskim procesima u jednoj privredi. Kada osoba odluči da joj je karijera preduzetništvo i preduzetnički proces daje odgovore na ključna pitanja, šta želim da ostvarim, koje ciljeve, gdje sam sada i gdje želim stići? Predmet istraživanja je pojam preduzetništva, njegova kompleksnost i značaj za razvoj privrede. Problem smo definisali pitanjem u kojoj mjeri država ima ulogu u razvoju preduzetništva, kao i uticaj malih i srednjih preduzeća na razvoj preduzetništva.

KLJUČNE RIJEČI: preduzetništvo, mala i srednja preduzeća, Zapadni balkan,

-
- 1 Ph.D Associate Professor (University Apeiron , Vojvode Pere Krece 13, 78000 Banja Luka) Bosnia and Herzegovina. ORCID: 0000-0002-9495-7940, vesna.p.novakovic@apeiron-edu.eu
 - 2 Ph.D Assistant Professor (Banja Luka College, Miloša Obilića 30, 78000 Banja Luka) Bosnia and Herzegovina. ORCID: 0000-0003-3746-5517, mirjana.milovanovic@blc.edu.ba
 - 3 MA, Assistant (University Apeiron , Vojvode Pere Krece 13, 78000 Banja Luka) Bosnia and Herzegovina. ORCID: 0009-0006-2434-5419, tanja.l.skoric@apeiron-edu.eu

ENTREPRENEURSHIP

It is believed that Richard Cantillon⁴ is the first scholar who defined entrepreneurship in his paper "Essay on the Nature of Trade in General" (Baletić, 1982). He defines an entrepreneur as a person who is willing to take the financial risk of a business venture in order to create a profit (Milovanović & Dušanić-Gačić, 2023). This definition reflects the role of entrepreneurship in Europe during the eighteenth century, when the paper was created. The indispensable author who established entrepreneurship as a driver of economic changes is Jozef Schumpeter⁵ (Brown & Thornton, 2013). In the twentieth century, he connected the dynamic aspect of entrepreneurship with innovation and economic development. According to Schumpeter, economic development occurs in the following five cases:

1. By introducing a new product or improving an existing one;
2. By introducing a new production method or improving the existing one;
3. By creating a new sales market, especially the export market;
4. By introducing new raw materials, semi-finished materials
5. Creating a new way of organizing business.

On the other hand, from the point of view of the individual, entrepreneurship represents attitudes towards life, willingness to act in order to realize the vision, it shows willingness to take risks. First of all, a clear picture of what one wants to achieve, for a long period of time, is necessary in order to create new values (Hisrich, Peters., & Shepherd, 2017).

Every person is a potential entrepreneur. The review of the literature shows us that there is still no uniform opinion of scientists whether entrepreneurship is a talent or entrepreneurship as a skill can be acquired and mastered during the educational process. This paper supports the opinion that entrepreneurship can be mastered, and not that an entrepreneur is born. If appropriate conditions are set, if individuals are given a chance, they can believe that they will succeed (Aulet, 2015). Therefore, it is necessary to have systemic support for entrepreneurship, to stimulate creativity and readiness for risky ventures. The entrepreneur must also be operational, i.e. he must be able to carry out the planned activities, both independently and with the coordination and organization of immediate executors, i.e. with the ability to transfer his enthusiasm and vision to his associates, in order to achieve the desired success through their involvement.

One of the more complete definitions of entrepreneurship is that entrepreneurship is the process of creating something new with new value, with the willingness to take financial, psychological and social risks. The result of creating new value is receiving a reward such as monetary and personal satisfaction, as well as the independence that results from the investment. This definition most completely covers the concept of entrepreneurship. It includes the process of creating new value, emphasizes that entrepreneurship requires dedication of a certain time and effort, undertaking risky ventures, and the most important part is to receive a certain reward for everything invested. The reward is independence, followed by personal satisfaction and making a profit as a measure of success (Hisrich, Peters., & Shepherd, 2017).

4 Richard Cantillon was Irish-French economist, lived from 1680 - 1734,

5 Jozef Schumpeter austrian economist, lived from 1883 - 1950

Today, an entrepreneur is considered a person who has decided to start a business venture, is engaged in starting a business, or has a business that has been started for less than four years (Popescu, 2013). Just as an entrepreneur creates ideas and implements them, he realizes them, encountering many obstacles in order to reach his set goal. An entrepreneur must possess many skills to be the first to recognize a chance, an opportunity, an opportunity, either through insight or through intuition. Education is extremely important in terms of an entrepreneur's ability to deal with problems encountered during the business process, as well as adapting to new situations. Research shows that the wider knowledge base possessed by human capital enables a wider network for discovering and generating potential opportunities (Hisrich, Peters., & Shepherd, 2017). Hisrich gives us an overview of the skills required for entrepreneurship. Skills are grouped into three units:

1. Technical skills that include verbal communication, monitoring the environment, ability to organize, ability to build a network of acquaintances, management style, etc.
2. Business management skills include: planning and goal setting, decision-making ability, marketing, finance, accounting, management, control, negotiation ability, growth management, etc.
3. The characteristics of an entrepreneur that distinguish him as a person are: the ability of internal control, willingness to take risks, innovation, oriented towards changes, perseverance, persistence, he is a leader who has the ability to manage changes.

Personal characteristics, interests and individual strength of an individual also determine the motivations for engaging in entrepreneurship. Our decisions about how to make use of our own opportunities, whether to work hard or to be idle, whether to take one job or another, whether to enter into an enterprise or avoid it, whether to save or spend, affect it. whether a person will squander his opportunities or use them and encourage and improve them (Fridman & Fridman, 1996). Aulet (2015) states that there are three myths about entrepreneurship that need to be changed, that is, refuted. The first myth is that individuals start businesses and that the entrepreneur is the lone hero is the standard story we've been hearing lately. However, research shows that successful companies are born thanks to teamwork. Another myth is that all entrepreneurs are charismatic and that their charisma is the key to success. Research shows that charisma is difficult to sustain, although it contributes to success, more important for an entrepreneur is the ability to communicate and success in sales. A third myth is that there is an entrepreneurial gene and that some people are simply destined to be entrepreneurs. However, such a gene does not exist and will not be found. There are real skills that increase your chances of success, and those skills can be learned. People can adapt and learn new behaviors, new processes, new procedures, thus entrepreneurship can be divided into certain procedures, processes, behavior models, learning models that can be mastered. His evidence for the presented points are students attending the Massachusetts Institute of Technology. Namely, from 2006 to the present, over 900 new companies are founded almost every year by students who graduated and obtained a degree at this prestigious institution. The companies in question employ over three million people, and have a total annual income of over two billion dollars, which makes them the 11th largest economy in the world.

THE COMPLEXITY OF ENTREPRENEURSHIP

The importance of the study of entrepreneurship, as well as the practice of entrepreneurship, has grown the most in recent times due to three factors: its irreplaceable role in enabling innovation, its capacity to create capital and new jobs, and its function as a powerful engine for social change (Novaković, Peulić, & Matijević, 2020). Entrepreneurship encompasses life attitudes, including the willingness and courage to act in order to achieve a vision and the willingness to take risks (Novaković & Macanović, 2020). Successful entrepreneurship requires success in many different fields and in their very complex and complicated interaction. When looking at the characteristics of modern entrepreneurship, it can be said that it is extremely complex. Although today entrepreneurship is talked about in all spheres of economy and society, it is presented somewhat idealistically, but its complexity is forgotten. Namely, there is an exceptional uncertainty of changes on the economic level, so that time is becoming an increasingly important factor, because due to the uncertainty, it is necessary to react more and more quickly. Flexibility and adaptability based on information technology changes must be taken as an important factor in business, on the other hand, markets are becoming fragmented, large companies are being reorganized, through the creation of smaller autonomous organizational units. The new organizational structure negates the traditional hierarchy, strengthens the trend of the formation of small and medium-sized companies, which can quickly respond to changes through the acceptance of an agile approach and a lean approach (Reis, 2013). "Hierarchy works perfectly under conditions of stability and predictability, but ... those organizations face the obvious risk that one day some insider, someone new, will change the rules of the game by successfully launching new, revolutionary strategies., etc. IKEA is that worked in the furniture industry, Toyota in the automotive industry, Southwest in air transportation (Nordstrom & Ridderstrale, 2004). Companies increasingly view business partners as business associates. The interdependence of economic entities on the world market is increasing, the role of the worker is changing from a repetitive production process, the emphasis is increasingly placed on the innovative work of the employee. An entrepreneurial company must have and encourage creativity, innovation and entrepreneurial spirit (Nordstrom & Ridderstrale, 2004). However, it is necessary to clearly see what obstacles it is possible for the company to face during the course of business, so that at the very beginning it is clear to the entrepreneur that the business he has started will take a lot of energy, time, dedication and that entrepreneurship is extremely complex and complex. If the obstacles and problems encountered by the company are responded to in time, if the company is not sluggish, but reacts agilely and uses and perceives these obstacles as an opportunity, it can be a competitive advantage compared to other students in that economic branch. What characterizes and defines successful companies is the fact that when mistakes are made, they are reacted to much faster, because everyone makes mistakes, sooner or later (Reis, 2013). Competition constantly imposes the need to improve both technology and organization in companies. "As Schumpeter once said: 'Change is the only constant in the evolution and development of the capitalist economy,' while innovation itself propels the company on 'the gales of creative destruction.' In truth, this last phrase was taken by Schumpeter from Werner Sombart (Novaković, 2012). Schumpeter portrayed the entrepreneur as someone who breaks the lull and brings economic changes.

THE ROLE OF THE STATE IN THE DEVELOPMENT OF ENTREPRENEURSHIP

In order to make a clear division of entrepreneurship, it is necessary to unite both theory and practice in entrepreneurship. When taking into account the theoretical study of entrepreneurship and its application in practice, we can distinguish:

1. Individual (external), which is based on the market competition of small and medium-sized enterprises and usually represents a combination of ownership, management and differences in one person or entrepreneurial group (*entrepreneurship*);
2. Internal (corporate) entrepreneurship associated with limited competition and division of ownership, management and risk functions (*intrapreneurship*)
3. Social entrepreneurship is entrepreneurship that is understood through a broad shared social and societal context
4. Public entrepreneurship represents entrepreneurship in public institutions and
5. Youth entrepreneurship will be singled out as a potential type of entrepreneurship (Novakovic, 2012)

The role of the state in the development of entrepreneurship can be recognized in several segments, such as: defining administrative procedures, fiscal and parafiscal burdens, but also providing start-up grants that aim to specifically promote the establishment of new businesses. This money primarily serves to ensure existence during the time that is estimated for starting and stabilizing the business. The use of grants is still a fairly common approach in different countries to stimulate entrepreneurship and start-up activities, especially among young people. An exceptional contribution to understanding the role of the state in the development of entrepreneurship and the entrepreneurial economy was made by Mariana Mazzucato in the book "The Entrepreneurial State". Mazzucato states that the state should be armed with the intelligence necessary for devising and adopting bold measures. It was the state that was one of the sources of financing for the startup companies Intel and Kompak, when they started doing business. The Administration for Small and Medium Enterprises provided crucial loans and grants to companies in the early stages of development, including Apple, back in 1978 (Mazzucato, 2020). In the 1980s in the United States of America, the Law on the Development of Innovations for Small Businesses was adopted. The Research Innovation Program for Small Businesses - SBIR required that a state agency with a large budget direct part of those funds to support small, independent, commercial firms, and a large number of innovative companies were supported through this form of assistance (Mazzucato, 2020). The company leading development on the wings of state aid is the globally known Epl. Apple has perfected design and engineering technology first developed and funded by the US government and military. One of the rare public acknowledgments that the state is to blame for Apple's success happened at the 2007 Nobel Prize ceremony. Mazzucato showed that on the basis of technologies developed by the state and state agencies, the Apple company made its first generation iPod in 2001, and then in 2010.

THE ROLE OF SMALL AND MEDIUM ENTERPRISES IN THE DEVELOPMENT OF ENTREPRENEURSHIP

Although we have seen that entrepreneurship can be classified and recognized in the public sector, in large corporations, most often entrepreneurship is identified with the sector of small and medium enterprises. In order to get a clear picture of the role of small and medium-sized enterprises in the economic structure of a country, we can see the example of the European Union.

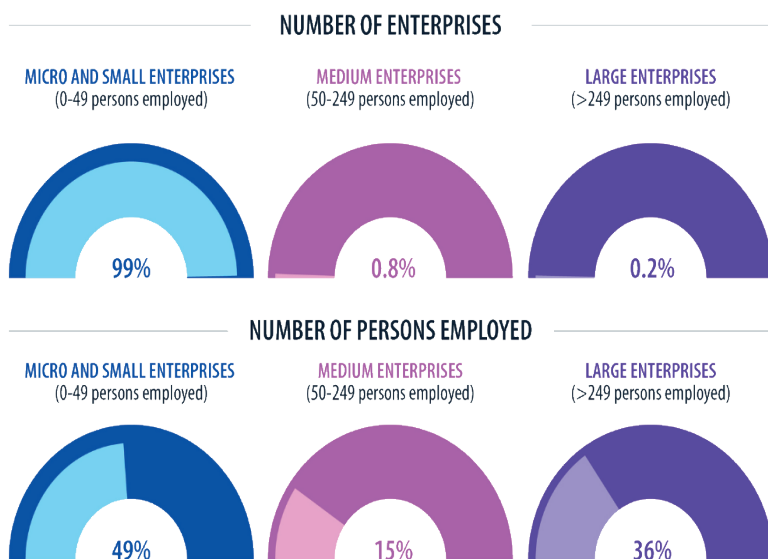


Figure 1 . Business economy by size class

Source: Authors adapted from (Eurostat, 2022) <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20221220-4>

In 2021, the European Union had 30.1 million companies⁶, employing 155 million people. Of these, 99% (29.9 million) were micro and small enterprises (0-49 employees), which together employed 75.3 million people, i.e. 49% of the total number of employees in enterprises (Figure 1). In 2021, the “industrial” sector accounted for only 8% (2.4 million) of the total number of enterprises, but generated more than one-third of turnover (€10.4 trillion, 34%) and employed about one-fifth of businesses workforce (32.8 million people, 21%). With 5.7 million enterprises, the “trade” sector represented 19% of the total; The 29.7 million employees who work there made 31% (9.8 trillion euros) of the total turnover. The “construction” sector represented 12% of the total number of companies, but only 6% (1.9 trillion euros) of the total turnover.

Almost two-thirds of companies (18.4 million companies, 61%) belong to the category of “other services”, which includes companies engaged in a variety of services from “trans-

⁶ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Enterprise_-_SBS

portation and storage” to “accommodation and food services”, “education”, “human activities health and social work” and “art, entertainment and recreation” (Figure 2).

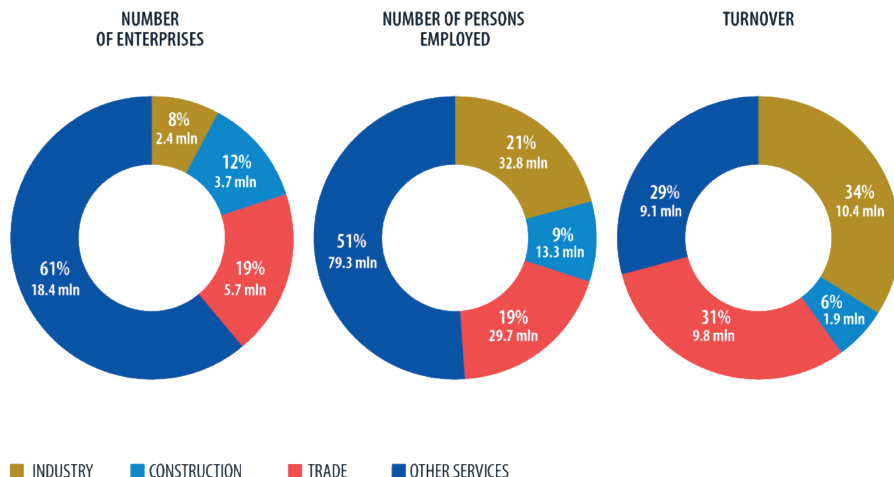


Figure 2. Business economy by size class

Source: Authors adapted from (Eurostat, 2022) https://ec.europa.eu/eurostat/documents/4187653/15387581/Business+economy+%28SBS%29_V2.png/

Although these companies employed more than half of the people (or 79.3 million, 51%), the turnover was less than one third (9.1 billion euros, 29%). 231,521 medium enterprises (50-249 employees) represented 0.8% of all enterprises and employed 23.3 million people. Although large enterprises (more than 249 employees) represented only 0.2% of the total number of enterprises, they employed more than a third of the business workforce (56 million, 36%). When we look at Bosnia and Herzegovina data show 97.3% of the total number of companies, and the number of entrepreneurs is 99.80% within small and medium-sized companies (Figure 3).

Data from Republic of Serbia shows that small and medium companies make up 99% of Serbian economy, they participate in GDP with 57.7 percent and employ over 65 percent of employees in the non-financial sector (Ministry of Economy of the Republic of Serbia, 2024).

The number of micro, small and medium-sized enterprises in Montenegro in 2020, was 28,241 enterprises, while micro, small and medium-sized enterprises account for 99% of total employment (Institute for Standardization of Montenegro, 2024). In 2022, the OECD prepared a report on the role of the small and medium-sized enterprises sector in the economies of the Western Balkans (OECD, 2023). Data with indicators on the participation of the sector of small and medium-sized enterprises in the number, added value, employment and export by economy can be seen in table 1.



Figure 3 . The structure of basic variables according to the size of companies and entrepreneurs in industrial activities

Source: Authors adapted from Agency for Ststistic of Bosnia and Herzegovina https://bhas.gov.ba/data/Publikacije/Bilteni/2024/SBS_00_2022_TB_1_HR.pdf

MKO		MNE		SRB		TUR	
Number	Share	Number	Share	Number	Share	Number	Share
Number of enterprises							
52 409	90.59%	35 878	96.30%	388 385	96.20%	3 112 048	94.19%
4 528	7.83%	1 110	2.98%	12 187	3.00%	160 976	4.87%
771	1.33%	229	0.61%	2 716	0.70%	26 145	0.79%
145	0.25%	38	0.10%	584	0.10%	4 919	0.15%
57 708	99.75%	37 217	99.90%	403 289	99.99%	3 299 169	99.85%
Employment							
123 332	31.79%	62 032*	-	439 762	29.70%	6 031 956	35.78%
87 533	22.56%	41 639*	-	246 883	16.16%	3 137 955	19.92%
75 967	19.58%	37 784*	-	278 816	18.80%	2 621 045	16.32%
101 106	26.00%	-	-	518 409	34.90%	4 161 861	27.98%
286 832	73.94%	141 455*	-	965 461	65.10%	11 790 956	72.02%
Value added (in thousands EUR)							
989 555	21.63%	964 261	53.00%	5 851 598	23.00%	13 710 468	13.14%
1 106 978	24.20%	-	-	4 060 721	16.00%	16 753 545	16.05%
1 009 547	22.07%	436 647	24.00%	5 144 574	20.20%	24 612 602	23.59%
1 468 896	32.11%	418 453	23.00%	10 367 359	40.80%	49 276 078	47.22%
3 106 080	67.89%	1 819 361	77.00%	15 056 892	59.20%	55 076 615	52.78%
Share of exports							
-	73.99%	-	-	10 223 930	60.50%	106 281 221	63.42%
-	25.88%	-	-	6 674 253	39.50%	167 154 059	36.60%

ALB		BIH*		
Number	Share	Number	Share	
Number of enterprises				
Micro	95 558	93.20%	24 792	77.38%
Small	5 674	5.5%	5 660	17.69%
Medium	1 173	1.1%	1 307	4.08%
Large	169	0.20%	272	0.85%
SMEs	102 405	99.80%	31 226	99.15%
Employment				
Micro	186 400	37.00%	65 963	13.30%
Small	111 347	22.10%	115 357	23.25%
Medium	114 767	23.04%	131 918	26.59%
Large	91 472	22.80%	182 676	36.86%
SMEs	412 514	81.90%	313 238	63.14%
Value added (in thousands EUR)				
Micro	1 011 521	22.20%	656 616	11.39%
Small	1 182 938	25.90%	1 294 211	22.41%
Medium	1 188 713	26.00%	1 569 971	27.18%
Large	1 181 881	25.90%	2 253 554	39.02%
SMEs	3 383 173	74.10%	3 521 797	60.98%
Share of exports				
Large	-	36.00%	-	64.00%
SMEs	-	64.00%	-	49.10%

Table 1. Data on SMEs in the countries of the Western Balkans Source: (OECD, 2023) <https://eu4digitalsme.ba/wp-content/uploads/2023/04/4-SME-Policy-Index-2022-Pocketbook-2022.pdf>

Based on presented data we see that in every economies in Western Balkans participation of sector small and medium-sized enterprises according to number, employment and added values is in front of large companies.

CONCLUSION

The role of small and medium-sized enterprises in development entrepreneurship is exceptional significant. We saw that in economies in Western Balkan sector s small and medium-sized enterprises more prevalent in the relationship on large companies. If we

look classification of entrepreneurship on certain categories, we see that individually entrepreneurship stands out. We know that entrepreneurship undertaking risky actions, it creates additional values and profit for initiator business. Based on presented fact we can conclude that the sector of small and medium-sized enterprises is significant for development entrepreneurship in economies. Future research can be focused on examining the importance of the organizational structure in companies and the care of employees in the sector of small and medium-sized enterprises and examine to what extent the same is crucial for retaining a quality workforce in companies.

REFERENCES

1. Agency for Statistic of Bosnia and Herzegovina/Agencija za statistiku Bosne i Hercegovine (2024). Strukturne poslovne statistike 2022. From: https://bhas.gov.ba/data/Publikacije/Bilteni/2024/SBS_00_2022_TB_1_HR.pdf [accessed July 23 2024].
2. Aulet, B. (2015). *Disiplinovanost preduzetništvo: 24 koraka do uspješnog startapa*. Sarajevo: Mate.
3. Baletić, Z. (1982). *Cantillon, Richard - Opća rasprava o prirodi trgovine*. Zagreb: Centar za kulturnu djelatnost.
4. Brown, C., & Thornton, M. (2013). How Entrepreneurship Theory Created Economics. *The Quarterly Journal of Austrian Economics*, 16(4), 401-419. From: https://cdn.mises.org/qjae16_4_2.pdf [accessed July 23 2024].
5. Eurostat. (2022). *Early 2021 data on businesses more detailed & complete*. From: <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20221220-4>. [accessed July 29 2024].
6. Fridman, M., & Fridman, P. (1996). *Sloboda izbora*. Novi Sad: Global book.
7. Hisrich, R., Peters, M., & Shepherd, D. (2017). *Entrepreneurship eight edition – international edition*. McGrawHill.
8. Institute for Standardization of Montenegro. (2024). *Micro, Small and Medium Enterprises (MSMEs)*. From: https://isme.me/sr_ME/mikro-mala-i-srednja-preduzeca_c43 [accessed August 15 2024].
9. Mazzucato, M. (2020). *Preduzetnička država*. Novi Sad: Akademski knjiga.
10. Milovanović, M., Dušanić-Gačić, S. (2024). Analysis of Economic and Business Indicators of Entrepreneurship in Republic of Srpska, *STED Journal*, 6(1), 15-23. <https://doi.org/10.7251/STED2401015M> From: <https://journals.indexcopernicus.com/search/article?articleId=3963664> [accessed August 15 2024].
11. Ministry of Economy of the Republic of Serbia. (2024). *Sector for the development of small and medium enterprises and entrepreneurship*. From: <https://privreda.gov.rs/ministarstvo/organizaciona-struktura/sektor-za-razvoj-malih-i-srednjih-preduzeca-i-preduzetnistva> [accessed August 15 2024].
12. Nordstrom, K., & Ridderstrale, J. (2004). *Fanki biznis*. Beograd: Plato.
13. Novaković, V. (2012). Mogućnost razvoja omladinskog preduzetništva u Republici Srpskoj. *EMC REVIEW - Economy & Market Communication Review*, 3(1), 87-104. <https://doi.org/10.7251/EMC1201071N>. From: <https://doisrpska.nub.rs/index.php/economyandmarket/article/view/330> [accessed August 15 2024].
14. Novaković, V., & Macanović, K. (2020). Family business through aspects of entrepreneurship and branding. *Društvene devijacije*, 5 (1), 616-326. Banja Luka: Centar modernih znanja. <https://doi.org/10.7251/ZCMZ2001615N>. From: <https://doisrpska.nub.rs/index.php/drustvenedevijacije/article/view/8381> [accessed August 15 2024].
15. Novaković, V., Peulić, V., & Matijević, G. (2020). Innovation as an initiator of economic

development. *EMC REVIEW - Economy & Market Communication Review*, 10(1), 230-249. <https://doi.org/10.7251/EMC2001230N>.

From: <https://doisrpska.nub.rs/index.php/economyandmarket/article/view/6930> [accessed August 18 2024].

16. OECD (2023). *SME Policy Index: Western Balkans and Turkey 2022: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris. <https://doi.org/10.1787/b47d15f0-en> From: <https://www.oecd-ilibrary.org/docserver/b47d15f0-en.pdf?expires=1724050642&id=id&accname=guest&checksum=A11139119ED22C85145DC810E9202D36> [accessed August 18 2024].
17. Popescu, N. E. (2013). Entrepreneurship – Some General Knowledge. *Expert Journal of Economics*, 1, 28-32. From: <https://oaji.net/articles/2014/482-1392667244.pdf> [accessed August 18 2024].
18. Reis, E. (2013). *Lean Startup*. Zagreb: Mate.