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SMALL ENTERPRISES: KEY SOURCE OF EMPLOYMENT AND ECONOMIC GROWTH

МАЛА ПРЕДУЗЕЋА: КЉУЧНИ ИЗВОР ЗАПОСЛЕНОСТИ И ПРИВРЕДНОГ РАСТА

Summary: *Small enterprises, within the market economy, are initiators of economic development and an important part of every national economy. Due to the nature of private property, entrepreneurial spirit, flexibility and adaptability, as well as their potential to react to the challenges and turbulences in the environment, small businesses give a special contribution to economic growth and higher employment. Entrepreneurship and small business represent a significant and fundamental source for creation of new jobs and expansion of new business practices by providing a significant contribution to economic growth. This applies both to small businesses in the Republic of Srpska and the ones that are located anywhere in the world. The role of small enterprises is especially important in transition countries. During the global economic crisis, small businesses have, both in developed economies, and in the Republic of Srpska and BiH as a whole, proved to be resilient, although this period was characterized by a very poor business environment. The importance of entrepreneurship and small firms in developing national economies are often the subject of professional and empirical discussion. However, recent developments have further confirmed the views that small businesses, in dealing with all the negativities of poor business environment in times of crisis, more quickly adapt to changes compared to larger enterprises and companies. This quality of small enterprises gives enough reason to pay special attention to the theoretical and practical aspects of this phenomenon, in order to make appropriate business decisions and implementation of development policy as a more efficient model for faster economic development of the national economy. The subject of this paper is to define the importance of small businesses in the economic growth of developed and developing countries. Through researching analyses, this paper examines the role and importance of small enterprises in economies of the European Union (EU) member states and the Republic of Srpska and BiH, especially regarding its influence on the employment growth and added value in a period of economic crisis and post-crisis years. This paper aims to explore and emphasize the interdependence between growth of small firms and new added values, reviewing economic development and employment in both developed and economies in transition. This paper attempts to present the importance of effects of analyzed economic indicators as a result of small enterprises in two separate periods (the period of global crisis and post-crisis period) and provide guidance and recommendations to policy makers on economic role of small firms in macroeconomic stability of the economy.*

Keywords: *small enterprises, employment, newly created value, entrepreneurship and crisis.*

JEL classification: *M21, O12*

Резиме: *Мале фирме су у тржишној економији покретач економског развоја и важан дио сваке националне економије. Због карактера приватног власништва, предузетничког духа, флексибилности и прилагодљивости као и њиховог потенцијала да правовремено реагују на изазове и турбуленције у окружењу, мале фирме дају посебан допринос привредном расту и већој запослености. Предузетништво и мали бизнис представљају значајан и основни извор за креирање нових послова и ширење нове пословне праксе дајући значајан допринос привредном расту. Ово се односи како на мале фирме у Републици Српској тако и на оне које су лоциране било где у свијету. Улога малих фирми је посебно важна у земљама које су у транзицији. Мале фирме су се, како у развијеним економијама тако у Републици Српској и БиХ у цјелини, током глобалне економске кризе показале као еластичне, иако је овај период карактерисао веома лош пословни амбијент. Значај предузетништва и малих фирми у развоју националних економија често су предмет стручних и емпијских расправа. Међутим, задња дешавања додатно су потврдила ставове да се мале фирме приликом суочавања са свим негативностима лошег пословног амбијента у условима кризе брже прилагођавају промјенама у односу на већа предузећа и компаније, што даје довољно разлога да се овом феномену посвети посебна пажња са теоријског и практичног становишта у циљу доношења адекватних пословних одлука вођења развојне политике као ефикаснији модел за бржи економски развој националних економија. Предмет истраживања у овом раду је дефинисање значаја малих фирми у економском расту развијених и земаља у развоју. Приликом овог истраживања у раду се сагледава улога и значај малог бизниса држава Европске уније (ЕУ) те Републике Српске и БиХ, посебно у погледу утицаја на раст запослености и новостворене вриједности у периоду економске кризе и пост кризним годинама. Циљ рада је да се истражи и укаже на међузависност раста сектора малих фирми и новостворене вриједности, сагледавањем привредног развоја и запослености како у развијеним тако и у економијама у транзицији. У раду се настоји предочити значај ефекта анализираних економских индикатора као резултат малих фирми у два одвојена периода (период глобалне кризе и пост кризни период) и дати смјернице и препоруке креаторима економских политика о улози малих фирми на макроекономској стабилности појединих економија.*

Кључне ријечи: *мале фирме, запосленост, новостворена вриједност, предузетништво, криза.*

JEL класификација: *M21, O12*

1. INTRODUCTION

High unemployment and low economic growth rates as a result of economic slowdowns and stagnation in recent years, even today represent some of the major challenges for the most countries on the path of faster reconstruction and development. Developed countries long ago recognized that entrepreneurship and small enterprises¹ represent one of the main pillars of economic stability and economic development. In recent years, policy of economic development of the Republic of Srpska has recognized the sector of small and medium enterprises as one of realistic directions of macroeconomic stability. The changes that follow up process of reforms have decisive influence on development of private entrepreneurship and growth of unemployment is expected and inevitable occurrence in the transition economies. It should be pointed that the development of small businesses is very important for countries in transition, so, great interest for this sector of the economy that show governments of specific countries is not surprising. A market framework is characterized by a very uncertain and unfavorable economic environment in the Republic of Srpska and BiH, leading to changes in all aspects of performing economic activities. Small companies, due to their size, flexibility and adaptability are able to react quickly on changing market conditions. It has been shown that small enterprises are a key element for increasing the competitiveness of economy through the generation of growth and creating new jobs. Their importance and complexity is reflected in the numerous affecting factors, from economic and technological, including hiring and development up to stability of society. The development of small firms strengthens the overall forces of the economy, resulting in a material independence, and thus the existence of population. Therefore, small businesses should be incorporated in the overall economic and social system to ensure its effective functionality and development as a prerequisite of economic development and social welfare.

Despite the fact that nobody disputes direct contribution that small businesses provide employment and newly created value, perhaps there is inseparable and equally important widely accepted conviction that there is a close link between entrepreneurship and economic growth. Even though entrepreneurship is not exclusively the domain of small companies, the two terms are often not separated in the political and academic discussions and, whereby it is considered that small firms are the initiators of change and represent significant sources of innovative activities. The sector of small enterprises stimulates industrial development and provides a disproportionately large share of new jobs. For this reason, many economists and politicians now have an intuitive opinion that there is a positive impact of entrepreneurship and small companies on the growth of gross domestic product and employment (Wennekers and Thurik 1999, 29). Until today, this "intuitive thinking" has not yet been clearly confirmed by empirical research and evidence.

Nowadays, small businesses are extremely important for each national economy because of several reasons. Crucial reason and determination of states and governments for the development of entrepreneurship and small companies is that it proved to be one of the healthiest ways to create new jobs, GDP growth and rising living standards of the population, enabling individuals who have this potential to start their own business. It is certain that every successful business assumes new jobs and increases value added. Unfortunately, unfavorable business environment is one of the reasons why this sector in some countries is not sufficiently developed.

Countries that implement reform processes are often faced with rising unemployment, where stagnation in employment should be mitigated by creating new jobs, primarily the entrepreneurial sector in the form of small companies. Convenient and stimulating business environment is a key driving force for development of the entrepreneurial sector in order to be capable to reduce adverse effects of the restructuring process and contribute to economic stabilization and reduction of unemployment. This paper will point to trends that are characteristic of employment and value added in developed countries and the Republic of Srpska, with special emphasis on the unfavorable business environment and insufficient development of small businesses as limiting factors of economic development.

¹ According to the OECD, small enterprises are "non-subsidiary independent companies that employ a certain number of employees" (OECD 2005, 27). Although the limit of employees varies from country to country (for example, in the US, those companies with less than 500 employees, in the Netherlands, with less than 100 employees), perhaps the most widely used is definition of the European Commission, with term "small and medium-sized companies" – SMEs.

2. ACTUAL BUSINESS CLIMATE AS A SOURCE OF UNCERTAINTY FOR SMALL ENTERPRISES

The recovery of the world economy continues, but with high unemployment in developed countries and a low level of GDP growth. Although the economic recovery in developed countries is relatively slow, with a lot of unknowns in the economy of the euro zone, it reduces the risk that the world economy returns into recession. The economic policy of most countries that have successfully emerged from the economic crisis is still expansionary, extent of expansiveness is reduced, and grade of reduction varies considerably from country to country.

According to IMF projections, the global growth of the world economy in 2015 should achieve a rate of 3.3%, while for 2016 it envisages 3.8%. Euro zone countries emerged from recession in the second quarter of 2013, with high unemployment rates. It is estimated that economic growth in the euro zone in 2014 was at the level of 0.8%. Expected real GDP growth of the economy of the euro zone at the end of 2015 was 1.5%, while for the year 2016 it foresees growth of 1.7% (International Monetary Fund 2015, 4).

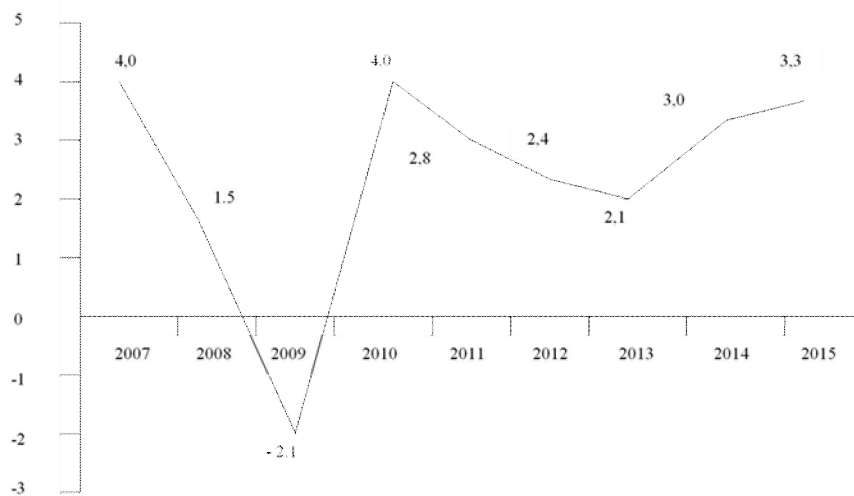
Slow and unsatisfactory recovery of the world economy in 2013 and 2014 was not sufficient to improve significantly the labor market activity. In 2013, most countries of the European Union again registered an increase in the number of unemployed, and the unemployment rate in the EU (28 countries) is one of the largest recorded in the last two decades. According to official data of the European Commission, unemployment in the EU 28 reached maximum values in 2012 (10.5%) and in 2013 (10.9%), with a slight decrease in 2014 (10.2%) (European Commission 2015). According to labor force surveys in the Republic of Srpska and BiH there was recorded slightly lower unemployment rate in 2013 and 2014 (27.5%) compared to 28.0% in 2012 (Agency for Statistics BiH 2014, 31). However, despite this, BiH is among the countries with the highest unemployment rates in the region. All other countries in the region recorded an increase in the unemployment rate. Generally, labor supply in the labor market was much higher than demand, which contributed to the increasing number of unemployed.

Emerging markets recorded a further slowdown in growth of several determining factors, including lower commodity prices and stricter external financial conditions, structural bottlenecks, economic rebalancing in China and adverse economic impact of current geopolitical factors. The recovery in economic activity in most developing economies is expected in 2016, primarily through the overcoming of the major limiting factors.

There is reasonable fear about possible stagnation of the European economy which could have negative impact on already exhausted world economy, particularly on insufficiently strong economy including the economy of the Republic of Srpska, as well as the entire region, whose economies are quite related to the economy of the European Union. It is almost impossible to consider all the negatives and predict the consequences if those forecasts come true, not only for Europe but for global economy, especially because a number of countries have still not overcome consequences of the last economic crisis. All the negativity currently facing the significant number of countries in the world as a consequence of the economic crisis, with possible negative effects of a new crisis may further reduce the business results of companies.

In spite of moderate optimism in official statements that crisis in the euro zone is restrained, and that economy has emerged from recession, there still remain fears that a possible longer slowdown of economic growth could have a negative impact on plurality of small and underdeveloped economy, especially on the countries of the region. The document UN/DESA - "World economic situation and prospects 2014" presented the new growth forecasts for the world economy in 2014 and 2015. Forecasted slight recovery of the global economy in 2009 was accompanied by a continuous decline of GDP in the last three years since 2010, when the global economy came out of recession with growth of 4% to 2.1% in 2013 (United Nations 2013, 4-5). Figureical presentation of the GDP growth rate trends at the global level is shown in Figure 1.

In this UN document, the latest figures of the GDP growth rate at the global level are estimated at 3%, predicted state of the world economy with a slightly poorer prognosis compared to the previously forecasted growth rate (3.2% realistic forecast) in 2013.

*Figure 1 Global GDP growth rates, 2007-2015.**

* The growth rate for 2013 is partly estimated. Levels for 2013 and 2014 are UN predictions.

Source: World Economic Situation and Prospects 2014

New pessimistic forecasts of global growth slowdowns in developed economies, especially the euro zone may further aggravate the business climate in the region and bring into question slight increase in economic activity that was initiated after economy of the Republic of Srpska had come out of recession. The economy has paid a high price of previous events, so possible standstill of the economy of the EU countries with which the Republic of Srpska has a significant foreign trade exchange would further weaken the local economy. Despite a slight recovery in market activity, acute problems of the domestic economy are weak economic activity and high unemployment.

Economic activity and slight growth of the world economy of 3% in 2014 and 3.3% in 2015, as well as possible problems of recovery of the world economy were the subjects of debate of world's most famous economists, experts and leaders of the world's largest economies on a traditional meeting in Davos at the end of January 2015. The main topic of the conference which brought together around 2.500 experts from all around the globe was the economic situation in Europe which is slowly emerging from the crisis and the risk of international conflicts that most threaten stability in the world in the next ten years. John Drzik, president of the company 'Marsh Risk and Global Specialties' stated geopolitical risks as the riskiest factors. Risks such as interstate conflicts and failed states intensify, which eventually spill over to the commercial sector in the form of trade sanctions, customs and trade wars. Urbanization has been highlighted as the next major risk, which in many parts of the world is increasing the problems of infectious diseases, water supply and social instability. Therefore, risks posed by new technologies such as cyber-crime should not be left out of sight, and they are estimated this year to cost the world nearly \$ 400 billion (World Economic Forum 2015). It is to expect that conclusions from this meeting give basic sketch of the road that will move the world economy, as well as guidelines for tackling unemployment. However, it would be unrealistic to expect that some epochal developments radically launch a worldwide economy and resolve accumulated problems including unemployment on the global level.

Economic entities in the system of the market economy, principally, behave rationally and through business strategies try to achieve their goals based on the efficient allocation of production factors in order to maintain their social responsibility. In times of crisis most companies, at any cost, try to overcome the crisis by neglecting the corporate responsibility, unplanned layoffs and reduction of existing costs. The current economic crisis in BiH is only partly a consequence of the global economic crisis. Namely, BiH economy develops in very unstable and problematic transitional circumstances, with continuous challenges imposed by changing macro and micro economic assumptions.

3. UNEMPLOYMENT - THE KEY PROBLEM OF MACROECONOMIC STABILITY

The global economic crisis and recession have worsened situation on the labor market and employment prospects in many countries. Global economic growth is very slow, productivity is still recording moderate substantial progress, but unemployment is rising. Economic growth in the EU is not sufficiently strong to reduce unemployment, so that the unemployment rate in 2014 was 10.2% for the EU and 11.6% for the euro zone (European Commission 2015). This represented insignificant decrease compared to the record levels of unemployment in 2013, 10.9% for the EU and 12.0% for the euro zone, still in 2015 stabilization is predicted for the labor market, and slightly decrease of unemployment in this developed economy. It is assumed that there will still remain large differences in the level of unemployment among member states. Insufficient volume of business activity in the private sector, slow recovery of major industries that were most affected by the crisis was not enough to stop decrease in the number of employees in the Republic of Srpska and BiH as a whole. On the contrary, in the course of 2012 and 2013 an increase was registered in unemployment and only small decrease in 2014. This is a clear indicator that the labor market in BiH suffers more serious consequences of the crisis from 2009 and that its recovery will be longer than it might be assumed. All the companies which have made layoffs re-employ workers with much more difficulty because they suffered financial damage. On the other hand, the employment offices in addition to laid-off workers have steadily upward trend of newly arrived workforce based on the completion of education. All together indicates that the biggest challenge in 2015, both for the Republic of Srpska, Bosnia and Herzegovina, and for the countries in the region, will be creating new jobs.

Unemployment is coming as a consequence of the crisis at the global level, with current high values in the EU. Although significantly lower than the rate of registered unemployment (which is close to a rate of 50%), the unemployment rate in BiH measured by international standards up to 28% (based on The Labor Market Survey published by the Agency for Statistics of BiH, which also includes unregistered employment) is extremely high with a disturbing deterioration trend. In the region, only Macedonia records somewhat higher unemployment rate than BiH, but with an improving trend. Detailed data on unemployment trends in six countries of the region are presented in Table 1.

Table 1 Unemployment rates in the region countries, 2008-2016. (According to ILO standards)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Albania	12,5	13,1	12,5	11,5	13,4	13,4	14,0	13,7	13,5
Bosnia and Herzegovina	23,4	24,0	27,7	27,6	28,0	28,0	27,5	27,0	26,5
Croatia	8,3	9,0	12,2	13,2	16,1	16,9	17,1	17,3	16,9
Macedonia	33,8	32,2	32,1	31,2	31,3	29,0	28,5	27,4	26,6
Montenegro	16,8	19,1	19,7	19,7	20,0	19,2	-	-	-
Serbia	14,7	17,4	20,1	23,7	23,1	23,0	19,7	20,7	22,0

The data in gray cells represent the IMF forecasts.

Sources: 2008-2011: International Monetary Fund 2013;
2012-2016: International Monetary Fund 2015

IMF presented the unemployment rate of 28.0%² for BiH in 2012 and 2013, with a slight decrease in the projections for the next three years, and that gives the highest unemployment rate compared to selected countries in the region, excluding Macedonia. According to IMF projections, in the next three years the unemployment rate will decline in BiH and Macedonia (slightly at a faster rate), so it can be assumed that in 2016 the unemployment rate in these two countries will be approximately 26.5% for BiH and 26.6% for Macedonia) This indicator is significantly worse in BiH

² There are two sources of monitoring data on unemployment: 1) labor force survey - ILO unemployment rate is calculated on the basis of data collected by the Labor Force Survey (collects data on the economic activity of the population on the basis of internationally comparable methodology framework, i.e. the statistical standards of the International Labor Organization also applied by Eurostat) and 2) administrative-unemployment rate is calculated as a ratio of unemployed persons and the active labor force.

than the regional average, the euro zone and the EU. It is clear that reduced economic activity in correlation with the growth of unemployment is the most serious obstacle to faster economic recovery in BiH.

The recession caused by the economic crisis had an impact on reducing the number of employed persons in BiH, whereby there was an increase in entry at the labor exchange register. During 2013 and 2014, bureaus in Bosnia and Herzegovina registered a significant number of newly registered unemployed persons. The inability of economy in BiH to absorb newly arrived workforce resulted in a rise in the total number of unemployed in 2013, with a slight decline in 2014. The average number of registered unemployed in BiH was 518,746 persons in 2007, while at the end of 2013, that number increased by 34,735 and reached a level of 553,762 persons who seek employment (Labour and Employment Agency of Bosnia and Herzegovina 2014). Unemployment has increased in the Federation of BiH by 1,717 persons (0.44%), in the Republic of Srpska by 788 persons (0.5%), while in the Brčko District of BiH it has decreased by 498 persons (3.8%). In 2014 it notes decrease in the number of unemployed for 6,650 persons and amounts to 547,112 unemployed in BiH. Out of this amount, 40,747 persons have a university degree (including PhDs and Masters). The share of female population in the registered unemployed amounted to 50.9%, or in absolute terms 278,504 unemployed females (Agency for Statistics of Bosnia and Herzegovina 2015, 1).

More than half of newly registered persons at the bureaus of Republic of Srpska and Federation of BiH have come due to termination of employment. The most frequent cause of termination and registration of persons in the Bureaus of Employment is technological surplus (31%). Although the labor market and the number of unemployed persons in the Republic of Srpska are gradually stabilizing, high unemployment rate and low level of GDP are still the critical problems of macroeconomic stability.

In 2012, the economy and the population of Bosnia and Herzegovina went through difficult economic temptations that characterize decline in production, employment, exports, consumption and business activity in general. However, it can be argued that present specific position of BiH is characterized by efforts to overcome the crisis and unfinished market reforms, at the same time, a challenge to establish essential foundations of a sustainable economic structure along the lines of a more stable economic recovery.

A range of other indicators can be given for each of the Western Balkan countries, which testifies to the very serious and in some cases dramatic economic crisis. Entrepreneurs and governments in the Western Balkans are confronting illiquidity in the economy as a constant problem. The number of illiquid companies is constantly growing and seriously endangers their business. Number of registered companies, shops and entrepreneurs is almost without increase, and in some countries it is constantly decreasing, resulting in a higher number of workers seeking employment and rising of unemployment rate. One of the main causes of the poor results of the transition process and economic crisis of the Western Balkans and BiH may include poor results of privatization that was carried out with control and advice, primarily from the IMF and with foreign consultants.

Data from various countries show that of the total number of new jobs, almost 90% were created in the private sector, making it a truly accelerator of growth and pointing to the fact that national economies should promote private investments and thus employment in private sector. Governments of various countries implement different policies to alleviate the impact of actual crises on jobs, although all of them have, as a main goal getting out of the vicious circle which makes limited employment opportunities, slow economic growth and reduced development.

4. SMALL ENTERPRISES IN THE FUNCION OF ECONOMIC DEVELOPMENT

Course of deliberation of the contribution of small businesses to economic growth, should be analyzed through the reasons why this topic now occupies a more prominent place in professional and scientific considerations, than it was the case a few decades ago, and contribution of David Birch for change in this approach³ (Deakins and Freel 2012, 42). Birch' work has undermined widely accepted belief that large corporations are the main drivers of growth in the economy (Birch 1981, 87). In his

³ For this purpose, usually one or two breakpoints events are indicated (at least within the framework of Anglo-Saxon economies of Great Britain and North America). The first is, without a doubt, the work of David Birch "The Job Generation Process" published in 1979.

research, based on data from corporations 'Dun & Bradstreet' which are related to more than 5.6 million companies, Birch found that small businesses, in the period between 1969 and 1976, created more than 80% of new jobs in the US economy, and without hesitation concluded that large companies are no longer the main creators of new jobs for Americans (Birch 1981, 8).

In 2012, out of 20.4 million registered enterprises in the European Union, 99.8% were small and medium enterprises (SMEs), what makes this sector the key to economic development, growth, innovation and employment. Out of this number, only 43,450 companies have more than 250 employees, and 18.7 million enterprises employ less than 10 workers - these are so-called microenterprises. SMEs employ 66.5% of total employees in the economy, and participate with some 57.6% of value added in the European economy. In recent years, SMEs are creators of new jobs, while large industries, in average, decreased number of employees. Thus small businesses play an important role in the European economy and constitute the most dynamic force in the economy of the European Union.

In 2012, the GDP of European Union dropped by 0.3%, and GDP per capita remained at the same level as in the 2007/08. (International Monetary Fund 2013, 4). Signs of slow recovery of the EU economy were observed through the growth of GDP in the second quarter of 2013. It is also specific that in 2013, SME sector shows encouraging signs, although not yet fully strong recovery.

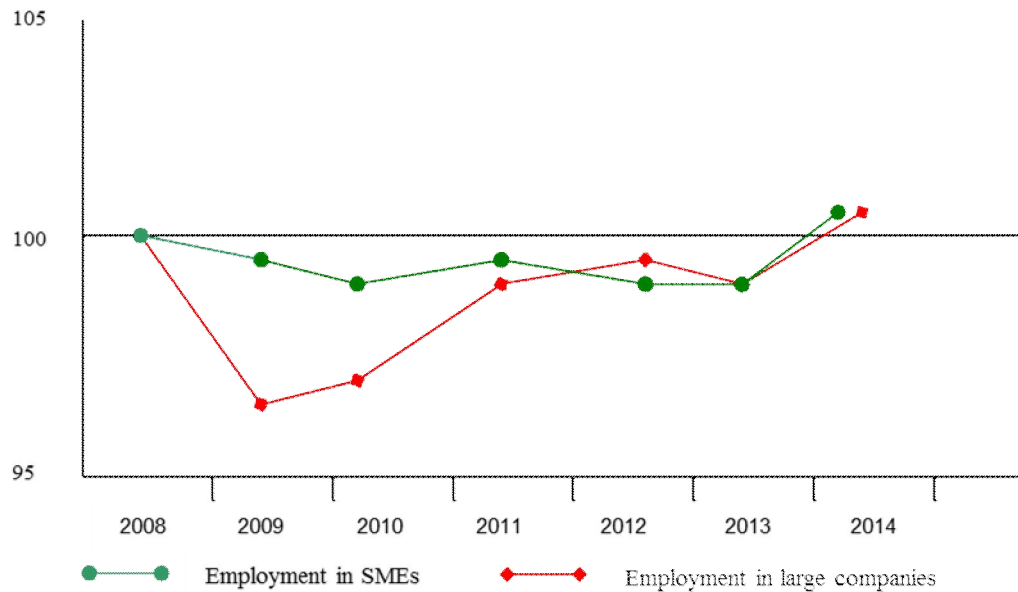
The year 2013 is likely to be a turning point for small and medium-sized enterprises in the EU. After five years of insufficient growth, it is expected that 2013 will be the first year since 2008 with the combined increase of aggregate employment and the growth of value added in the sector of small and medium enterprises. It is expected that in the EU, at the end of 2013, the total number of employees in SMEs increases by 0.3%, with rise of value added by 1%, compared to 2011. According to preliminary projections, positive developments and the continued recovery of the sector are expected in 2014. (European Commission 2013, 8). These predictions are accompanied with other positive signals. Noting all characteristics of small businesses in economic development in recent years, an increasing number of EU countries give importance and support to the SME sector, which is slowly taking the lead role in the growth of employment and value added. The period of economic crisis is regarded as one of the worst periods for development of small businesses in recent times. Unless there occur significant deterioration in the business environment and unanticipated disturbances of the economic system, the development of small firms will mark the end of one of the most serious crises that the SME sector has overcome in recent history. Thereby it confirms the thesis about the key role of small companies on economic growth, job creation and high resistance to the crisis.

Although consequences of the crisis from 2008-2009 still affect growth and employment in the SME sector, experience of increasing number of countries shows that small enterprises assume the role of growth and stability in the economies. Considering the enormity and complexity of the crisis, SMEs have proved to be quite resistant to these business conditions. Over the period 2008-2011, SME sector was resisting the crisis better than large companies. In 2012, small enterprises in EU countries lost 0.7% of jobs in relation to 2011, and decline of GDP share was 1.3% in 2012 (European Commission 2013, 7-11). Decrease of employment and added value varies significantly between Member States. About half of the 28 EU member states have recorded a slight increase in employment in 2012. The losses of jobs in SMEs were mainly concentrated in poorer and more vulnerable economies which have had more problems with public debt.

From the very beginning of the crisis in 2008, SMEs in the EU significantly less reduced workforce and proved to be more resilient than large enterprises. In 2009, large companies lost 1.7 million jobs, while SMEs lost about 677 thousand. However, after 2011, large enterprises increased their share in GDP, and in 2012 they surpassed SMEs - although only slightly - also, in employment share. Small companies, who have lost relatively less jobs in recent years, went through a difficult period in 2012.

Employment in the SME sector proved more resilient to the crisis of 2008 compared to the resistance of jobs and employment of large enterprises. Period 2009-2012 proved to be extremely challenging for employment in small firms. In 2012, the SME sector lost 610,000 jobs, of which, 387,250 refer to the micro enterprises. Despite the obvious difficulties and the negative trend in employment, small enterprises have recorded a smaller number of job losses than large companies.

Figure 2 Trends in employment by size of enterprise in the EU28 (2008 =100)

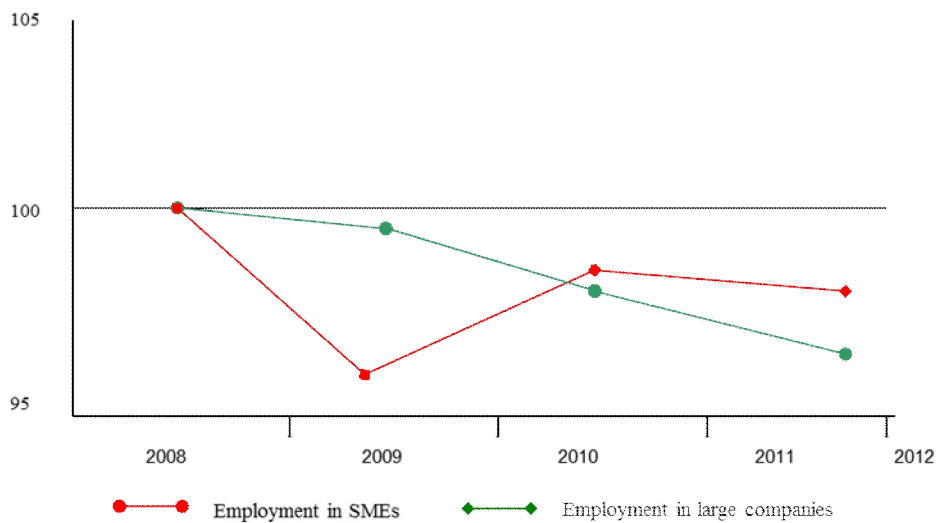


Source: European Commission 2013

In 2009, in the worst stage of the crisis, majority of small firms had the biggest decline in economic activity and employment in the EU and the Republic of Srpska. Despite the biggest drop in employment, data presented on the Figure 2 and Figure 3 show that larger drop in unemployment was recorded in large companies compared to the SME sector, in the EU economy, and in the Republic of Srpska, as well. Economic activity in the EU has improved since the second quarter of 2013, while the trend of economy growth in the Republic of Srpska was observed in the first quarter of the same year. SMEs have been generator of economic activity in these economies, because they showed significant growth in employment relative to large enterprises (Figure 2 and Figure 3). Predictions for the next period indicate that SMEs continue to generate a higher rate of growth in the field of employment and added value.

At the end of 2008, the Republic of Srpska registered 13,493 enterprises, of which 99.5% were small enterprises. In the same period, of the total number of employees small enterprises were employing about 75% of employees, which gives a slightly higher rate compared to the SME sector in the EU. The economic crisis, beside all the negativity in the business environment, did not significantly affect the number of SME companies in 2009 compared to large enterprises whose number decreased by 8.3%. In spite of the demonstrated elasticity and resistance to the negative effects of the crisis, small enterprises in the Republic of Srpska failed to retain existing economic activity, which resulted in a drop in employment. The largest decline in employment was recorded in 2009 compared to 2008, as a result of sudden impact of the global financial crisis. In 2010, the number of employees in SMEs in the Republic of Srpska amounted to 102,720, which represents 42% of the total number of employees in the Republic of Srpska. The largest number of workers employed in SMEs was in medium-sized enterprises 41.6%, followed by small enterprises with 36.8% and micro enterprises with 21.5% of the total number of employees in SMEs (Ministry of Industry, Energy and Mining of the Republic of Srpska 2012, 10-17).

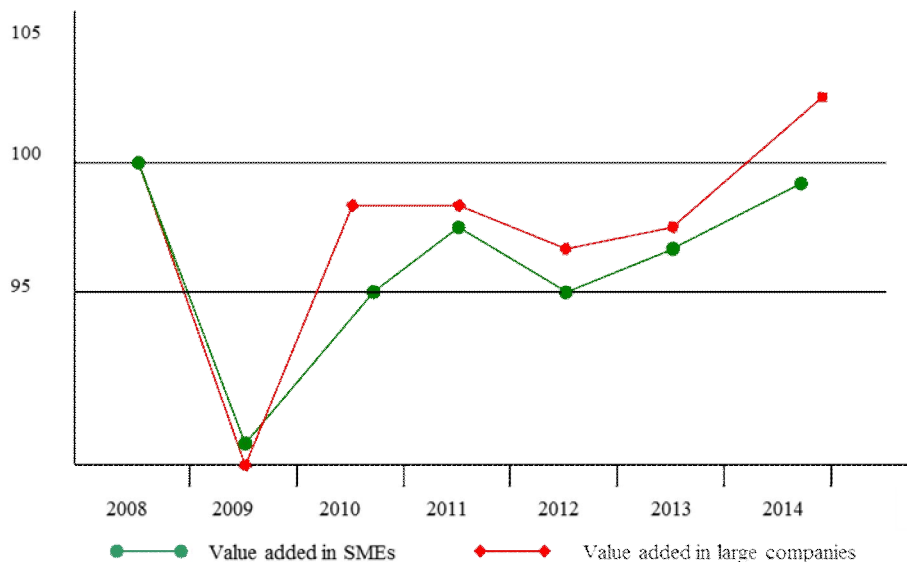
Figure 3 Trends in employment by size of enterprise in the Republic of Srpska (2008=100)



Sources: Ministry of Industry, Energy and Mining of the Republic of Srpska 2009, 2010, 2011

In 2011, employment in large enterprises decreased by 1.5% of total number of workers. Reducing in number of employees in SMEs, in 2011, relative to 2010, was recorded in all sectors of activity, while the largest decrease in the number of employees was recorded in the sector of wholesale and retail, repair of motor vehicles and items for personal use, where the number of employees was reduced by 2,006 and in manufacturing by 1,771 workers, what makes a total of 57.0% of the total decrease in the number of employees in SMEs⁴ (Ministry of Industry, Energy and Mining of the Republic of Srpska 2012, 10-17).

Figure 4 Trends in the value added by size of enterprises EU28 (2008=100)



Source: European Commission 2013.

In 2009, EU countries recorded a decline of added value of 10% in average, while the dynamics of the fall was approximately the same for all companies, regardless of size. After falling in

⁴ Significantly reduced number of employees in the Small businesses was in the sectors of construction, with a reduction of 714 employees, and real estate business, where number of employees was reduced by 600 workers, in 2011 compared to 2010.

2009, the value added began to recover slowly during 2010, but after a small recovery, a downward trend in added value in the SME sector was noticed in 2011. Economic stagnation in the EU after a moderate recovery in 2011, affected an increasing number of economies at the beginning of the next year, whereby loss of the value added in SMEs was 1.3%, while large companies lost 0.3%, compared to the previous year. Review of the value added by size of enterprise is presented in Figure 4.

5. CONCLUSION

Research has shown that small firms are more resistant to the crisis than large companies and that, in the analyzed period, SMEs recorded a smaller decline in employment of large enterprises. Small businesses constitute the backbone of economic growth and reduction of unemployment in developed, as well as in the transitional economies. However, their insufficient competitiveness in the Republic of Srpska, what is also characteristic for most countries in transition, has a significant impact on low GDP and high unemployment rate. In the analyzed period 2008-2014, in observed economies (both developed and developing - transitional), small enterprises have made a greater contribution to economic growth and employment, in resolving these two global problems of today. Despite the obvious difficulties which small enterprises have faced during the global crisis in all the years in the observed period, we registered a smaller decline in the number of small enterprises, value added and employment, than it was in large enterprises.

In an effort to highlight the role and importance of the SME sector in the growth and development of the national economy, based on the presented analysis it can be concluded that small enterprises, undoubtedly have great importance in solving the unemployment problem, the success of business and economic development of society, but they are not the only, nor the most important factor for addressing these problems. All this indicates the need to objectify the key factors and subjects of development of our economy and the realistic position of small enterprises in the development of the national economy. Existence of a strong and healthy sector of small businesses is crucial for economic growth and development of market economies. Since they are characterized by greater innovation, flexibility and adaptability to changeable business conditions, small businesses have significantly contributed to employment of workforce and increasing of economic growth.

Small businesses, as the basic generators of employment and development of the economy, play a key role in the economy of the EU and the Republic of Srpska. According to official statistics in the EU and the Republic of Srpska, almost identically, around 99.8% of all companies are small enterprises, and thus they are a priority of the development of the entire economy. Their importance is particularly reflected in the fact that the European Commission recognized small enterprises as main pillar of economic development and employment growth. In order to maintain and improve the competitiveness of its economy, creators of economic policy measures, regardless of the strength of the economy of the country, have plenty of reasons to put the focus on small enterprises as an engine of economic development and job creation.

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