

Strengthening the Competitiveness of Serbian Economy and the Corporate Market Restructuring¹

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ABSTRACT – Chronically poor competitiveness of Serbian market during the global economic crisis has become a basic weakness of Serbian economy. Therefore, the negative effects of the crisis in Serbia felt widely, exposing the deep structural problems of Serbian economy, but also imposed new challenges to be out passed. Accordingly, the authors of this paper aims to diagnose and analyze the basic economic indicators, business conditions and the competitiveness of the Serbian economy, and, on the strength of the study results, provide recommendations on how to speed up the recovery of the economy. Namely, the base for competitiveness stature relies on sustainable growth and development, that should be based on the implementation of the reindustrialization strategy while intensifying the process of business and market restructuring, bringing the new agricultural policy, including the implementation of modern irrigation systems, implementation of the adopted system framework for solving the problem of illiquidity and adjusting the level of public spending with real economy potentials.

KEY WORDS: *Competitiveness, Restructuring, Growth and Development Sources*

Introduction

Entering into recession phase has underscored many weaknesses of the Serbian economy, especially poor competitiveness. Serbia failed to make a good hand of global vantage and develop adequate institutional and evolutional performances that should provide a climate in which the adverse effects of the global crises were less perceptible. The negative effects of the global financial and economic crises deepened the economy burning questions – unemployment, double digit inflation, followed by a jump in food prices and weakening of dinar, while inflows of foreign direct investments declined. Hence, the main objective of this paper is to analyze the situation, business conditions and competitiveness of the Serbian economy in the period of the global economic crises. On the basis of that analysis, this research tends to reveal key weaknesses, but also to appoint potential growth and development sources of the Serbian economy in the upcoming period, and thus provide the basic guidelines for the development of the economy after the crisis.

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Competitiveness is one of the most analyzed economic phenomena and the development of the concept of competitiveness starts with the classical economists (Smith, 1776; Ricardo, 1817) who have identified the availability of production factors, such as land, capital, natural resources and labor as the primary determinants of competitive advantages. Weber (Weber, 1905) explains the differences in the economic performance of individual countries with certain socioeconomic factors, such as the composition of the value and religion, while Schumpeter (Schumpeter, 1942) emphasizes the role of entrepreneurship, innovation and technology. Drucker (Drucker, 1969) develops the concept of management as a key factor of competitiveness and Solov (Solow, 1957) emphasizes the role of education and technological innovation for long-term economic growth.

At the macroeconomic level, national competitiveness – namely the competitiveness of countries, is defined as the capability of certain country to achieve more rapid economic growth than others and to increase the public wealth so that its economic structure converts more efficiently and adapts to changing conditions of international trade (Bienkowski, 2006).

Trabold (Trabold, 1995) analyzes four important aspects of national competitiveness: the ability to sell on the global market (export), the ability to attract investments (location), the ability to adapt the economy and the ability to create and increase disposable income. While the „Porter's diamond of competitiveness“ (Porter, 1990, 1998) analyzes four primary components that affect the level of competitiveness at the macro level: the quality of factor conditions, the context in which the company's strategy and rivalry is carried out, the quality of demand conditions and the existence of related and supporting activity (in the presence of developed clusters). This analysis became the basis of a new global index of competitiveness NGCI (New Global Competitiveness Index), which focuses on the determinants of the level of productivity that the economy can sustain, where the level of productivity is the ultimate carrier of national prosperity (Porter, Delgado, Ketels and Stern, 2008).

Mitrović B. and Stefanović Z. (2007) indicate that the factors that affect competitiveness can be considered as macro (state and its measures to stimulate competitiveness) and microeconomic (the very competitiveness of companies, which is partly a result of these state measures). In addition, low competitiveness of the Serbian economy is to a large extent caused by the delayed transition, long-term isolation from the world market, long-term disinvestment and technological gap compared with developed economies.

Unlike the macro approach, methodology for measuring competitiveness at the micro level is based on the analysis of specific indicators related to the market position of the analyzed company (Porter, 2005; Thompson and Strickland, 2011). With the market share of the company, as an indicator of competitiveness various financial ratios related to profitability indicators, assessment of product quality, market image, technological and marketing capabilities, production capabilities, financial strength, relative costs of production, human resource potential, and the like are used (For more details: Domazet, Stošić, Zubović, 2011, page 79-88).

In this study we analyzed the competitiveness of the Serbian economy during the world economic crisis, based on research findings by the WEF (World Economic Forum) (International Competitiveness Index), World Bank (*Doing Business*), and „multi-country“ comparisons with other Western Balkan countries. In addition, special attention is paid to the critical review of the results of the historical analysis, comparative analysis and



benchmarking, but primarily on the analysis of secondary data obtained from empirical and quantitative research of prominent international institutions such as the WEF and WB. Such a methodological approach represents explorative and descriptive research in respect to competitiveness issues of countries in transition, with a focus on Serbia during the global economic crisis.

The research was conducted with the aim to provide guidance for increasing the competitiveness of the Serbian economy, namely its economy real growth and competitiveness potential. The starting hypothesis of our study is that the competitiveness of Serbia lags behind other transition countries of the Western Balkans. The fact is that Serbia has made significant system adaptations and changes, being aware of its obligations towards the EU, but in comparison with other countries of the Western Balkans, Serbia is lagging behind in substantial changes in economic policy and basic competitiveness indicators (primarily institutional factors, goods market efficiency, the complexity of operating conditions and infrastructure) since it requires a proactive economic policy based on job creation, investments, improving infrastructure and predictable business environment.

Consequently, the work is designed in accordance with the scope and objectives of the research. After the introduction, the second part presents an analysis of key indicators of the Serbian economy and business conditions analysis conducted by the World Bank. The third section presents the results of the analysis of the competitiveness of the Serbian economy, while in the fourth part of the paper the authors propose a potential source of growth and development, which could contribute to improved competitiveness of Serbia, with a particular focus on the process of market restructuring. At the end, concluding remarks and recommendations of the authors, with accompanying literature are presented.

Analysis of current situation and business conditions in Serbian economy

The basic prerequisite for the effective recovery of the Serbian economy is the diagnosis of the actual problems. This part of the paper analyzes basic economic indicators of the Serbian economy, of which the following are indicated as essential:

- After modest economic growth over the period 2009-2011, during the year 2012 there was a decline in economic activity of about 2%. The most recent macroeconomic forecasts are announcing a slight growth rate of gross domestic product (GDP) in 2013, and this projection is primarily based on exports of Fiat vehicles and better agriculture season.
- Industrial production in 2012 declined by about 4% compared to 2011. Adverse trends in industrial production, particularly pronounced in the first months of 2012, have continued, indeed with less intensity, in the second half of the year. Industrial production in the coming months in 2013 highly depends on the „fate“ of two capital projects: addressing issues in Smederevo Iron Works and the production of the Fiat factory in the city of Kragujevac.
- Despite the negative trends in the area of manufacturing, exports in 2012 rose by 4.6%.



- Budgetary funds assigned for subsidizing agriculture in 2012 amounted to about 49.5 billion dinars. According to the announcements of the line Ministry, most of the agriculture budget in 2013 will be directed towards the development of animal husbandry, as well as on enabling of existing and construction of new irrigation systems, so that we can conclude that policymakers positioned agriculture as a development priority for Serbia (IES, 2013).
- In the monetary area, the practice of keeping the restrictive monetary and credit policy, which was aimed at NBS attempting to control the pressure on the national currency exchange rate depression, as well as to keep inflation within the targeted limits for 2012 ($4\% \pm 1.5\%$) and financial stability in the country. However, inflation went far through the targeted framework in 2012, and amounted to just over 12% (NBS, 2012). The most important factors that caused such inflation trend lie in increased cost pressures on food prices, the rise in import prices and the depreciation of the national currency in the period behind.
- The budget for 2013 anticipates total revenues amounted to 956.4 billion dinars, which is 15.3% more than those provided for in the budget rebalance for 2012. On the expenditure side, total expenditures in 2013 were 4.3% higher than the total expenditures anticipated in the budget revision for 2012. Consequently, the deficit is planned to be significantly reduced - from 203.6 billion dinars in 2012 to 121.9 billion in 2013.
- A special issue of the Serbian economy is the level of foreign direct investment (FDI), which in 2012 amounted to just over 1 billion euros of FDI. As a comparison, 1.827 billion euros investments in 2011, speaks volumes about the preferences of investors to develop their businesses in a stable and predictable business environment. Here we must note the fact that significantly affected the reduction in FDI in 2012, which has, as an election year, resulted in more than a half of the year to be lost in waiting for the government to be established.
- Serbia's total foreign debt at the end of September amounted to 24.8 billion euros and thus exceeded the high level of debt of 80% of GDP in 2012. This is very alarming fact, but not the final, because the borrowing continued in the last quarter of 2012, wherefore during 2013 we can expect more negative balance when it comes to Serbia's foreign debt.
- Foreign exchange rate - After significant depreciation in the first quarter of this year, the dinar continued to devalue. In the first three quarters, Serbian currency dropped by 13.2%, which was followed by an action of the monetary authorities. This caused the strengthening and stabilization of the currency in early 2013 (NBS, 2012).
- Employment is the burning issue of the Serbian economy. Employment in Serbia, during the period of crisis that started in 2008, dropped by more than 300 thousand (approximately 15%), or on average for about 2% per year. Analysis of activity and employment rates in the crisis period 2008-2012 indicates a worrying tendency of increased unemployment rate from 14.4% in 2008 to over 26% in late 2012, as well as the increasing rate of inactivity of the population from 37.3% to 40.3% over the same period. It must be noted that a distinct increase in the unemployment rate was



recorded during the period 2009-2011, while in 2012 the labor market was partially stabilized. Observation of the author is that employment will not significantly increase even during 2013, due to the predicted low growth of the Serbian economy (RZS, 2013).

Table 1. General indices of economic trends in Serbia, 2008-2012

	(previous year = 100)				
	2008	2009	2010	2011	2012
GDP - at constant prices	103,8	96,5	101,0	101,6	98,0
Physical volume of production					
Industry	101,1	87,9	102,5	102,1	96,6
Agriculture	108,5	101,0	99,4	100,8	82,5
Construction	104,2	80,1	93,7	121,0	103,7
Domestic retail trade constant prices	106,7	85,1	100,5	82,0	97,5
External trade					
Export, mill. EUR	115,5	80,2	124,0	114,2	107,4
Import, mill. EUR	118,1	69,8	109,7	114,7	106,2
Employees	99,9	94,5	95,1	97,2	98,9
Consumer prices	111,7	108,4	106,5	111,0	107,8
Average net salaries - real	103,9	100,2	100,7	100,3	101,4

Source: RZS - Statistical Office of the Republic of Serbia (multiple sources from 2008-2013)

With this, not at all bright economic indicators, hereafter is the analysis of business conditions in Serbia. Namely, the existing economic and market environment in Serbia is negative and insufficiently competitive compared to the other countries in the region. Particularly, the World Bank study, presented in the report „Doing Business 2013“ in which the business conditions were analyzed based on 10 parameters in terms of ease of doing business (starting from the business startup, securing permits, employment, possibilities of crediting, through the protection of investors, contracts, up to the closure of business) indicate that the business environment in Serbia is quite negative - ranked on the 86th place in the global list of 185 countries. Existing Serbia's ranking in terms of business conditions is caused by numerous factors, among which are the following (Stošić, I. and Erić, D., 2012):

- For establishing a company in Serbia, it takes 6 different procedures, and on average 12 days.
- To obtain different types of licenses, such as for construction, electricity or telephone connections, permissions of various inspections or other authorities to start a business, entities are faced with 18 procedures, for the fulfillment of which they have to spend approximately 269 days. In this regard, Serbia significantly lags behind an average which is valid for the countries of the Central and Eastern Europe, holding the infamous 179 place among 185 countries in the world.



- Registration of property requires 6 procedures and takes an average of 11 days. Thanks to reforms in 2011, the time for registration is shortened, which helped Serbia to improve its ranking, and now holds the 41st place in the world.
- When it comes to getting loans, Serbia has a very solid position in terms of this indicator and occupies 40th place.
- In terms of investor protection, Serbia ranks 82nd place, and in this respect no reforms was observed during the last years.
- The Republic of Serbia is among the countries with a complex system of taxes and fees - the number of annual payments is 66 and for the preparation, calculation and payment of taxes and other mandatory benefits companies spend even 279 hours, while the overall system is not transparent enough. No major changes have been registered in that respect for the past five years, and in this regard, Serbia holds the unenviable 149th position.
- In terms of foreign trade liberalization Serbia occupies 94th place, but since 2007, no major reforms were recorded in this area.
- The efficiency of the legal system is unsatisfactory. To collect disputed claims under commercial contracts in the Republic of Serbia, it took an average of 635 days and 36 procedures, and the cost of collection of receivables from insolvent companies is very high (an average of 31.3%), and in terms of this indicator Serbia is ranked as 103rd in the world.

Despite significant progress achieved since 2000, Serbia lags behind many countries in the Western Balkans region. Pursuant to the analysts of the World Bank in the report „Doing Business 2013“, all the other countries of the Western Balkans (except for Bosnia and Herzegovina) are better positioned than Serbia - FYR Macedonia (23), Slovenia (35), Montenegro (51) Croatia (84), Albania (85), while Bosnia and Herzegovina is at position 126. However, according to the report „Doing Business 2013“, Serbia has improved its ranking by nine places (in the report „Doing Business 2012“ it was located at the 95 position). Last year, Serbia has made progress primarily in three areas (addressing issues of insolvency, enforcement of contracts and establishing an enterprise) and thanks to this belongs to the ten economies that have implemented most of the reforms in the past year. This positive step encourages that Serbia will continue towards the economic policy reform, which will be based on realistic potential of competitiveness growth, rather than on the nice wishes of its creators.

Analysis of Serbian economy competitiveness

For many years, Serbian is lacking in competitiveness in the global market, which is confirmed by the report of the World Economic Forum for 2011-2012. In other words, Serbia is ranked at 95th position of the 142 countries covered, and is located at the rear of the group of 28 countries that, through increased efficiency, strive to achieve economic growth and improve their overall competitive position. True, in 2011, Serbia has improved its ranking by one position, but it is still one of the most uncompetitive countries on the European continent. Among the countries of the Western Balkans, Bosnia and Herzegovina is the only that has a lower value of global competitiveness index (GCI). In addition, some countries,



such as for example Macedonia and Albania, are listed ahead of Serbia, and Bosnia and Herzegovina has significantly narrowed the gap, threatening to overtake Serbia as well.

Table 2. GCI index for Serbia and other Western Balkan countries (2008-2012)

GCI	2008-09		2009-10		2010-11		2011-12	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Albania	108	3.5	96	3.7	88	3.9	78	4.1
Bosnia and Herzegovina	107	3.6	109	3.5	102	3.7	100	3.8
Croatia	61	4.2	72	4.0	77	4.0	76	4.1
FYROM	89	3.9	84	4.0	79	4.0	79	4.1
Montenegro	65	4.1	62	4.2	49	4.4	60	4.3
Serbia	85	3.9	93	3.8	96	3.8	95	3.9

Source: World Economic Forum, 2011-12.

According to the World Economic Forum, the main bottlenecks for improving the competitiveness of Serbia are institutional factors, market efficiency, the complexity of business conditions and infrastructure.

Ranks and scores of basic twelve groups' competitiveness factors (pillars) for Serbia are the following:

Table 3. Serbian GCI by groups of competitiveness factors

Pillar	Groups of factors	2009-10		2010-11		2011-12	
		Rank	Score	Rank	Score	Rank	Score
1.	Institutions	108	3.4	120	3.2	121	3.2
2.	Infrastructure	102	2.7	93	3.4	84	3.7
3.	Macroeconomic environment	86	4.7	109	4.0	91	4.5
4.	Health and primary education	46	5.8	50	5.95	52	5.8
5.	Higher education and training	70	3.9	74	4.0	81	4.0
6.	Goods market efficiency	115	3.7	125	3.6	132	3.5
7.	Labor market efficiency	66	4.4	102	4.1	112	3.9
8.	Financial market development	89	3.9	94	3.8	96	3.7
9.	Technological readiness	61	3.5	80	3.4	71	3.6
10.	Market size	65	3.6	72	3.6	70	3.6
11.	Business sophistication	100	3.5	125	3.1	130	3.1
12.	Innovation	70	3.1	88	2.9	97	2.9
	Total	93	3.8	96	3.8	95	3.9

Source: World Economic Forum, 2011-2012.



The institutional framework in Serbia is still not good enough for the investment, and this arises from inefficient state regulation, the existence of corruption, problems in securing financing, low efficiency of courts and inadequate legal system, as well as inopportune application of antimonopoly legislation and underdeveloped infrastructure. Rankings and reviews the basic twelve groups (pillars) of competitiveness factors in Serbia is presented in table 3.

The indicators presented do not point out the progress and the ability of the Serbian economy to improve its competitiveness and evolve into more advanced stage of development. On the contrary, according to a total of 105 indicators, grouped into 12 pillars, competitive advantages (range of 0-50) are identified only in 13 indicators (or 12% of the total), while the weaknesses (ranking over 50) were found in the remaining 92 indicators (88% of the total number of indicators).

Of particular concern is the fact that, observed pursuant to the groups of competitiveness factors in the period 2008-2011, the competitiveness was either worsened, or simply not improved, concerning the majority of the factors other than infrastructure, and knowledge and use of technology. Thereby, it should be clearly underlined that the progress in infrastructure is entirely linked with the change of the methodology made by the World Economic Forum, which has included the number of mobile phone users (according to this factor Serbia ranks relatively well in the world with 28th place) in this group of competitiveness factors – which has significantly raised the average score for this group of factors in general. Naturally, this is not enough, particularly while having in mind that the other countries have made significant improvements – for example, for example, with significant public investments in last three years, increased the assessment of the road infrastructure from 2.4 to 3.5.

Table 4. The best and the worst competitiveness factors of the Serbian economy

Worst		Best*	
Factor	Rank	Factor	Rank
Protection of minority shareholders interests	140	Legal rights index	20
Extent of market dominance	139	Number of fixed telephony lines	26
„Brain drain“	139	Number of mobile phones	29
Efficiency of legal framework in settling disputes	137	Internet bandwidth	34
Effectiveness of anti-monopoly policy	137	Number of diseased with tuberculosis	34
Cooperation in labor-employer relations	136	New-born mortality rate	40
Nature of competitive advantage	136	Redundancy costs, weeks of salary	50
Firm-level technology absorption	136		
Willingness to delegate authority	136		



Worst		Best*	
Factor	Rank	Factor	Rank
Burden of government regulation	134		
Reliance on professional management	133		
Quality of port infrastructure	133		
Quality of airport infrastructure	132		
Extent of staff training	132		
Quality of roads	131		
Degree of customer orientation	131		

Source: World Economic Forum, 2011-12

Since 2008, in Serbia, the most deteriorated are the efficiency of labor market, the efficiency of goods market, institutions and business conditions. Particularly significant decrease was noted in terms of the labor market (down from 66th to 112th position), as well as in terms of the complexity of business conditions (down from 100th to 130th position). Serbia has the lowest ranking in terms of protection of minority shareholders, the degree of dominance in the brain drain market, the efficiency in resolving jurisdictional disputes, the efficiency of antimonopoly policy, cooperation of employers and workers, natural comparative advantages, the use of technology in companies, corporate management efficiency, quality of harbor and airport infrastructure, training of employees, company investment in research and development, the efficiency of government investments, and business ethics in the company. Namely, in respect to above stated indicators, Serbia is ranked 130 of 142 world countries. On the other hand, Serbia is ranked favorably when it comes to the protection of rights index, the number of fixed telephone lines, mobile phones, the use of broadband Internet, a series of health indicators, and firing costs.

Bearing all this in mind, it must be said that Serbia is in a very unfavorable competitive position. According to most of the indicators, Serbian competitiveness is ranked below the average of the countries in the second stage of development, which means that it is far from the average of the of the EU member states.

Sources of Serbian economy competitiveness improvement

Sustainable growth and development of Serbian economy that will lead to increase of economy competitiveness, must rely on the implementation of reindustrialization strategy (Djukić, 2012:1-18), while intensifying the process of business and market restructuring, bringing the new agricultural policy, including the implementation of modern irrigation systems, implementation of the adopted system framework for solving the problem of illiquidity and adjusting the level of public spending with real economy potentials.

The process of industrialization in developed market economies is related to the change in the economic structure and development based on modern technologies and innovations, educated workforce and more efficient operations of companies (Dess, 2007). In this way special attention should be routed on two aspects: First, it is necessary to increase the investments in human capital and to strengthen the connections of economy and scientific



research institutions; second, it is important to focus on recuperating the technological capacity (De Wit, Meyer, 2004). It is necessary, in this regard, to be focused on the areas of high technology with respect to the so far dominant, low-tech industries (Stojanović-Aleksić, Erić, Šapić, 2010: 563-574). This involves a high level of priority and specialization of exports, which means mastering the production and sale of some basic products, the product of small groups or just some branches. Products, whose development should be supported, are those who are using the available factors in the most efficient and most productive way, as well as those that correspond to the structure of import demand of foreign trade partners of Serbia. In the short term, it requires rehabilitation of some existing, but reindustrialization, and installation of new enterprises (Kovačević, 2010). Building a competitive industrial structure, among other things, requires sophisticated and technologically innovative products, medium and high technological content, i.e. of higher added value. It is clear that all these changes will take time and investment (IES, 2013). In this regard, in order to increase the competitiveness and efficiency of industrial development in the future, the leaders of the development and export of Serbian industry should be: manufacture of motor vehicles and components, manufacture of machinery and electronic equipment, manufacture of information technologies, and food production. At the same time, certain products, particularly by small and mid-sized enterprises, must be developed for personal demand, but may also have significant export potential (textile products, leather products and footwear, ferrous and non-ferrous metallurgy, as well as products of chemical, pharmaceutical and defense industry).

Industrial policy, above all, must deal with (Mičić, Zeremski, 2011): strengthening of international competitiveness and growth in industrial exports, productivity growth, industrial restructuring and the establishment of an economy based on knowledge and innovation. These goals and priorities require true application of appropriate measures, as well as the other policies to be in operation or to be a part of the industrial policy. In respect to improvement of productivity and competitiveness, as the preconditions for effective development of Serbian industry, the development of industrial framework in terms of macro-economic conditions, infrastructure and institutions, is of significant importance. In addition, Serbia has to open up the market and to work up the competition that contributes to the development of intellectual capital, innovation and improved efficiency and flexibility of the labor market. Furthermore, it is necessary to have closer cooperation between business and science, as well as a greater investment in the training of personnel who are really needed in the economy. Moreover, it is necessary to give a concrete incentive for the development and strengthening of small and mid-sized enterprises, entrepreneurship and the development of industrial clusters.

Regulation of the business conditions and provision of a competitive environment is the basis of economic competitiveness. In this sense, the state needs to ensure macroeconomic stability, continued economic reforms, improving the efficiency of antimonopoly policy, reducing political risk, attracting of foreign investments and continued policy towards the European Union. Also, our economy needs a reduced and more efficient state administration, which should be fully oriented towards consumers. It involves the introduction of management systems and responsibility principles in all government systems, as the basis of the regulated business environment (Fabris, 2010). However, the state



cannot be solely responsible for the improvement of competitiveness and economic growth. Neither the entrepreneurs cannot stand idly by, but it is important for them to be proactive in the process of increasing the competitiveness of their companies. The passive role of the economy and the expectation that the state will be responsible for improving competitiveness and increasing exports is a mistake that is often repeated in the past and that has to be avoided in the future.

One of the competitiveness potentials in the foreign market is the introduction of international quality standards, as in a number of industries, such as construction, food and similar, operating in foreign markets is not possible without the implementation of these norms. In addition, linking businesses to export clusters has proved a successful strategy to increase competitiveness in the international practice, and in rare clustering examples in the Serbian economy. Such way of connecting provides a number of benefits, ranging from a safe source of supply, better strategic positioning, higher quality products, and providing more resources for penetrating foreign markets. In addition, most Serbian companies are not paying heed to design and are lacking of funds for education of employees. Only a small number of companies have set aside funds for their own researches, and innovations are extremely rare.

One of the most important generators of economic growth and competitiveness lies in the entrepreneurship within the family. The concept of family enterprises is particularly important in respect to the current situation in the Serbian economy, which is characterized by extremely high unemployment rate on the one hand, and by the lack of financial resources and absence of business climate that stimulates the uptake of risky and profitable business ventures, lack of competition, poor quality of products and a chronic illiquidity on the other. Serbian family businesses could take a significant role in creating a competitive market and reducing unemployment, which are currently the greatest economic and social problems of Serbia. The highest concentration of family enterprises in developed countries, is in the traditional economic sectors such as services and textile industry, small manufacturing and construction, while its share in the high technology sectors is extremely low due to the fact that in most cases they are not willing to take the risk and do not have the capital for necessary investments (Golubović, 2009:471-491). In the Serbian economy there are certain sectors and industries that have comparative advantages on which the economic growth and development of the country should rely on. In these sectors there is potential for the formation of a critical mass of family enterprises, primarily related to the agricultural sector, the food and textile industries.

The competitive advantages of the domestic economy are reflected in the available natural resources, low-cost and skilled workforce and a favorable geographical position (close to the EU and Corridor 10). Key obstacles to the development of dynamic family businesses in Serbia are tied to specific mentality and lack of preference for entrepreneurial activities, inadequately segregated enterprise capital from the money used for personal needs of family members, limited access to affordable financing, expressed suspicion in the banking sector and the lack of knowledge in respect to budgeting, business planning and production scheduling.

In addition, the crucial economic problems of Serbia lie primarily in the actual economy, inadequate structural changes and insufficient corporate restructuring and modernization of



production capacities during the first decade of the 21st century. A particular problem lies in the fact that in the period of intense transition changes (after 2000) the development of tradable products has been neglected. Many companies have continued manufacturing their traditional, at best „cosmetically“ innovated, products that are, as seen from the global point of view, in many cases of obsolete technology, non-adjusted to changing market requirements, and the like. This kind of offering structure provides no real chance for greater success even in the „normal“ market conditions, and especially not in the conditions of extremely sharpened market relations that are gradually, but inevitably, becoming more important in case of extreme market circumstances. Lingering restructuring of companies is the main reason for slow intensification of industrial production, and very limited changes in the volume and structure of Serbian exports.

A potential solution could be initiated with a process of market restructuring, since the company in the market economy is valid only if the market exists and if it is able to make a profit in a given business environment. Therefore, it is desirable to provide the new strategic leverage by market restructuring, i.e. through the innovation of the business portfolio, the structure of the target market and marketing mix instruments, in order to improve market position and value of the company. Consequently, market restructuring has to be an integral and indispensable part of a wider process of enterprise response to the negative effects of the global financial crisis. In addition, as part of the implementation of large-scale structural changes in the company, market restructuring must take the starting place. The method to overcome the problems and implement necessary changes in market restructuring, largely depends on the processes of carrying out the controlling, organizational, production and financial restructuring (Slatter, 2000). This attitude is primarily determined by the fact that the process of market restructuring directly expresses the role of marketing and establishes a business based on the integrated marketing concept.

Market restructuring as the competitiveness potential

Market restructuring is aimed at redefining the market, business lines, reorganization of the offering, changes in the marketing strategy, and varied role of marketing in the mix of business functions (Domazet, Stošić, Zubović, 2011:79-88). This is primarily directed at radical improvement of business efficiency, satisfaction of market demands and gaining the competitive advantage. Through a series of structural changes in the market orientation and marketing activities, market restructuring strategy involves defining of the basic methods to enable the company to flexibly meet the needs of the environment and acquire competitive advantage in the redefined the market, business area and/or modified program portfolio. The formulation, selection and implementation of these changes are the core of the successful implementation of the market restructuring process. This is a very complex set of issues and problems, especially if one takes into account the negative effects of the global financial crisis and economic situation in neighboring markets, but also the actual situation in the enterprises, which were not adequately prepared, neither in concern with the management nor with the technologies, for new, disadvantageous, business conditions.

A complex process such as market restructuring should be carried out systematically in order to minimize the adverse impact of the business environment, emphasizing the internal



strengths of domestic companies. Changing market orientation can be conditioned by (Todorović, Stošić, Milosavljević, 2000):

- Stagnation or disappearance of existing focus markets
- Trespassing the limits of critical success factors
- Erosion of competitive advantages
- Changing of certain technology and inputs procurement factors
- Emerging of new competitors
- Development of new markets and the like.

The structure of the competitive environment has a direct impact on the choice of the course, the methods and pace of restructuring, therefore it is necessary to anticipate and analyze the strengths that determine the current and future characteristics of the business environment within the particular industry. Competition in particular industry depends on five main of competitiveness factors (Porter, 1996), namely: the intensity of competition, the possibility of substitute products, conditions for entering the market, negotiating power of the buyers and providers. The cumulative strength of these powers determines the profit potential of the industry in question. It ranges from the intensive, for example in the software industry, telecommunications, recycling, through the medium intensive industries, such as field services and equipment, or beverages industry, up to the textile industry, where there is no room for high-refundable. In a competitive market, maneuvering for a better position is unlimited and the entrance to the particular industry is straightforward. However, this type of industrial structure offers poor chance for long-term profitability. The weaker the collective strengths are the prevalent is the possibility for superior individual characteristics.

Knowledge of the fundamental sources of competitive pressure provides the preparatory practice for the company management, which will define the strategic agenda in the situation of adverse market conditions. Strategic program shall highlight the critical strengths and weaknesses of the company, initiates the company positioning within the industry, reveal areas where strategic changes may be the most lucrative, and emphasize the points where the economic trends are most promising, whether as the possibility or as the threat.

The manager creates a plan of action which may include:

- *The company positioning* in order to obtain the best defense line from the competitors; and/or
- *The impact on the balance of power* by the strategic moves, which aim to improve the company position in the market; and/or
- *Anticipation of changes* in the business environment, with the hope that this will, by choosing an appropriate strategy for the new competitive balance, surprise the competition.

The first approach takes the structure of the particular industry as given, and aligns it with the strengths and weaknesses of the company. The strategy can be considered as the organization of the defense line against the competition, and seeking for the position within the industry where these powers are the weakest. Knowledge in regard to the company



potentials and the impact of competitive factors will „light up“ the areas where the company should confront its competition, and where it should avoid it. If the company is a manufacturer with low production costs, it can choose to deal with powerful buyers, but it should not sell the products that are subject to competition, or in other words it should reduce the threat of product substitutes. When mastering the forces that are driving the competition, the company may consider an offensive strategy. Innovations in marketing can improve brand identification or otherwise, can make the product differentiate. Capital investments in large-scale facilities or vertical integration are affecting the entry barriers. The balance of powers is partly the result of external factors and partly under the control of the company. Industrial evolution is strategically important since it brings changes in competition sources. The pattern of the product life cycle, for example, changing the rate of growth, product differentiation is in decline when the business becomes more mature and the company tends to be vertically integrated.

Products and technologies that have been considered as „the hit“ in the world of innovation are now becoming the subject of interpretation and replication by the competitors, thus ensuring that they are widespread. The period of time that was required to imitate the product is now shortened, so the standardization of high technology products has become conventional. For this reason, in developed Information Technology industry a vertical integration is inherent, both in respect to production and software development. This very significant trend considerably improved the size of the economy and the amount of capital required to be competitive in the branch, which has increased the entry barriers and can influence on expelling some smaller competitors out of the industry. The process of defining the new strategic orientation should not be rigid, and the strategic orientation must be distinguished with adaptability, since it is a prerequisite for creating competitive advantage in the long run. Obviously, the trends that are carrying the label of the highest strategic priorities are those that affect all important sources of competitiveness.

Conclusions

The global crisis is not, as some experts believed, bypassed Serbia, but it has dramatically demonstrated all the weaknesses of its economy. Namely, according to the most macroeconomic indicators Serbian economy is positioned on the European bottom. Heavy duty working conditions and fragile competitiveness were manifested even more due to recession. The main problems for improvement of the competitiveness of Serbian economy are institutional factors, goods market efficiency, the complexity of operating conditions and poor infrastructure. The institutional framework in Serbia is still not good enough for the investment, by virtue of inefficient state regulation, the existence of corruption, problems in securing financing, low efficiency of the judiciary and inadequate legal system, as well as of the inappropriate application of antimonopoly legislation and underdeveloped infrastructure.

With all these problems, potential growth and competitiveness of the Serbian economy should be sought in the development of institutions and business infrastructure that are harmonized with the EU regulations, the implementation of proactive economic policy that will provide predictable and internationally competitive macroeconomic business conditions, adjusting the level of public spending with the real potential of the economy,



restructuring of the Serbian economy that is focused on more intense industrial and agricultural growth, developing and strengthening of small and mid-sized enterprises, stimulating of foreign direct investments by transparent business conditions, establishing a knowledge economy and innovation as the dominant criteria for a potential market success, the development of competition, intellectual capital and other intangible factors, efficiency and flexibility of the labor market and greater investment in education, development of leadership, management and cluster approach to foreign markets, as well as the improvement in efficiency of the antimonopoly policy.

Export-oriented industry, led by agribusiness, automotive and software industry (IT communication in general) is the priority for Serbian industrialization. This model should play a fundamental role in the creation of Serbian strategy and planning, with regard to high and positive correlation between long-term, dynamic and sustainable economic growth and export industries. This especially refers to small and open transition economies. This should provide the improvement of basic development indicators and implementation of most socio-economic objectives, defined as macroeconomic stability, growth in employment and reducing the number of citizens living below the poverty line, reducing the deficit in external transactions, growth of labor productivity and international competitiveness, as well as the dynamic development of other economic activities, which would create the necessary conditions for a stable, balanced and sustainable economic development on the long-run.

In addition, it is required to undertake a series of structural adjustments and significant changes of the economy that will bring it closer towards the pure market orientation. This aims to secure competitive advantage on the one hand, and satisfaction of demanding customers on the other, since the reconditioned market (concerning declination in aggregate demand), strengthens the need for the implementation of the „intensive“ change in business, which is largely based on market restructuring. Namely, market restructuring, implemented through a series of structural changes, can enable enterprises and thus the economy, to gain the capacity to adapt to market demands and to enable them to meet the changing needs of the business environment and gain the competitive advantage through product portfolio that will be created in the accordance with the market requirements.

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Izvori konkurentnosti privrede Srbije i tržišno restrukturiranje kompanija

REZIME – Dugogodišnja slaba konkurentnost Srbije je, tokom perioda svetske ekonomske krize, postala bazična slabost privrede, te su se negativni efekti krize u Srbiji osetili u velikoj meri, razotkrivajući duboke strukturne probleme privrede, ali i nametnuli nove izazove u pogledu njihovog prevazilaženja. Shodno tome, cilj autora ovog rada je da dijagnostizira i analizira osnovne ekonomske indikatore, uslove poslovanja i konkurentnost privrede Srbije i da, shodno rezultatima, da predloge kako ubrzati oporavak privrede nakon kriznog perioda. Naime, osnova povećanja konkurentnosti privrede je održiv rast i razvoj koji se treba zasnivati na realizaciji strategije reindustrijalizacije uz intenziviranje procesa poslovnog i tržišnog restrukturiranja, donošenju nove agrarne politike uključujući i implementaciju savremenih sistema za navodnjavanje, sprovođenje donetog sistemskog okvira za rešavanje problema nelikvidnosti, kao i prilagođavanje nivoa javne potrošnje realnim mogućnostima privrede.

KLJUČNE REČI: konkurentnost, restrukturiranje, izvori rasta i razvoja

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