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Role of Small and Medium-Sized Enterprises in the Enhancement of the Serbian Textile Industry in Times of Crisis

Abstract
The current world economic crisis is one of the most destructive in the last century, and as such it has a negative impact on the overall world economic system, on individual national economies and especially on transition economies, such as that of Serbia. The experience of developed countries indicates the importance of small and medium enterprises in the process of fostering economic development. The current economic crisis is having a negative effect on the transitional economy that is Serbia. The textile industry is the most vulnerable to crisis, and output must be sought in the rapid inclusion of small and medium enterprises in economic trends and in the encouragement of faster development. Modern market textile business enterprises in Serbia, especially in times of economic crisis, are characterised by negative aspects that are reflected in the poor position of textile companies in the global market scene, in reduced competitiveness as well as in the lack of technology, trained staff and standards. The textile industry as a branch of the economy is likely to increase production as well as exports and to overcome the economic crisis because small and medium enterprises in the textile industry have a mechanism to better withstand global economic crisis.

Key words: *competitiveness, small and medium enterprises, textile and clothing industry, economic crisis.*

Introduction

There is an overall accepted opinion that European efforts to develop a new competitive economy will be successful if the focus is shifted on small and medium-sized enterprises. Beside the old members of the EU, the principles of the Charter are accepted by Norway and the 10 new states of the EU. The Republic of Serbia officially accepted the European Charter with respect to small enterprises at the Summit in Salonika in June, 2003, by signing the Thessaloniki Declaration. In this act, Serbia accepted an obligation to prepare an annual report about small enterprise sectors. The European Charter predicts the following ten concise principles [1] of the integral model for the support of the SMEs sector:

1. Education and training for entrepreneurs
2. Favorable and faster start-ups,
3. Better legal legislation and regulations,
4. Available capacities,
5. Promotion of on-line access,
6. Promotion of the business of small enterprises on domestic and international markets,
7. Taxes and financial issues,
8. Enhancement of technology capacities in small enterprises,
9. Models of successful electronic business and first-class support for small businesses,
10. Development of a stronger and more efficient representation of the interests of small enterprises.

The key factors for the success of a new product/service, as a precondition for the development of SMEs, are as follows : the superiority of a product/service compared to the competition, complexity, innovation, market activity, nature of the market, development and managment of the innovation process of a product/service, the properties of a project and project management, and the ability and resources of enterprises. These are the basic strategic issues for SMEs. All surveys conducted in the SME sector in Serbia since the official acceptance of the European Charter for small enterprises also confirm that these are the most important problems our country is faced with. After the Charter, the European Commission accepted (June 2008) a special Law concerning small enterprises, which establishes principles and actions for the integrated development of the SME sector. The commitment of the Republic of Serbia to join the EU requires adaptation to these developmental trends in the European Union. Since the development priority of Serbia is the implementation of SMEs, we believe that the strategy of supporting the growth and development of medium-sized enterprises is a logical action which deserves the attention of policy makers, particularly in the provision of favourable financing.

Strategic orientation of SME development in Serbia

Small and medium enterprises (SMES) are one of the leading forces for the sustainable economic development of every industry because they stimulate private ownership and entrepreneurial skills which (thanks to the flexibility) can quickly adapt to market changes, generate employment, create diversified economic activity, contribute to export and trade, and thus represent a pillar of economic development in transition. Until the outbreak of the world economic crisis, results achieved by SMEs in the sustainable development of the Serbian economy had showed an upward trend and given hope that after years of stagnation in our economy, it would be able to begin to compete with EU countries. The economies of some countries were observed before entering the EU, and they had a much lower degree of development compared to our economy. During the fast changes in the global economy and especially in the period of the global economic crisis, economic policy has to emphasise the importance of the following development interventions:

- Providing support to entrepreneurial activities;
- Providing a more favourable „price" of capital;
- Creating an environment that favours innovation and change;
- The conquest of new markets for the successful circulation of goods and services.

The economic progress and development of the Republic of Serbia requires to develop a competitive economy based on knowledge, new technologies and innovation. To achieve this goal, the enterprise is expected to make an important contribution to economic and social development, particularly in countries in transition, such as the Republic of Serbia. In addition, of particular importance is the willingness of SMES to quickly capture markets of the European Union, to adopt necessary standards and to reduce the difference in the level of development. The development strategy of competitive and innovative small and medium enterprises for the period 2008 - 2013 is a strategic document for creating policy for the development of small and medium-sized enterprises and entrepreneurship that defines the basic priorities and ways of its realisation in the coming years in a consistent and comprehensive manner. This time period was established keeping in mind that the strategy was adopted in late 2008, and that its full implementation will start from 2009. However, the document did not foresee the emergence of the global economic crisis, hence it does not take this into consideration However, with respect to the level of sustainable economic development in crisis situations, it can give us answers to some key issues. The strategy provides some possible answers to the following vital questions:
1. Where are we now?
2. Where do we want to get?
3. How can we achieve this?

Of course, the strategy remains to be realised, which is the most important issue for the sustainability of small and medium-sized companies in our country.

The experience of developed economies indicates the importance of small and medium-sized enterprises in the process of supporting economic development, as a means of reducing unemployment. The problem of unemployment comes into play especially during global economic crisis, where the OECD estimates that a large number of workers will be made redundant. The inefficiency of the domestic economy has caused that SMEs have more problems maintaining their own business. However, we should not ignore the global economic crisis, which is affecting the domestic market, making funding difficult and causing a reduction in foreign investment. As a further result, privatisation revenues have decreased compared to the period 2002-2006, which are a potential source of capital for SMEs. Of course, we can say that the textile industry is the most affected by the crisis, but output has to be sought by the rapid inclusion of small and medium enterprises in economic trends, thereby encouraging their speedy development. In recent years the structure of textile companies in Serbia has changed as a result of the privatisation process and the adjustment of nonflexible and large organisations to new market demands. The clothing and textile clothing industries no longer appear in the form of large garment plants, but as small and medium-sized enterprises that are now the forefront and becoming successful. Hence we now have a number of new, smaller textile SMEs that, with great effort on their part, have managed to create a niche in the market, their own collections, as well as trusted and recognisable brands. Some of them are shyly trying to sell their products on the EU and Russian markets, in particular for special benefits gained on the basis of signed protocols on cooperation.

Experience in the development of SMEs can serve neighbouring countries, which in a shorter time period have been able to engage these companies in the manufacture of a wide range of products, especially in the domain of small series. It is evident that the rapid and qualitative development of SMEs in the textile industry does not need great assets. First of all, it is necessary to improve the environment for doing business with the statutory amendment of legislation, the use of existing resources within the infrastructure, people, institutions and markets [2]. The SME development strategy in Serbia, with its spirit, principles and basic strategic directions, is compatible with the European Charter for Small Enterprises. The development of the SME sector is one of the key factors in the process of the European integration of Serbia. SMEs are an important source of commercial relations with other European countries and significantly help the process of the integration of Serbia into the broader European economic framework.

Key recommendations of the Council of Ministers of the EU for the further promotion of SME policy in Serbia are related to the central areas of the following sectors:
1. application of the principles of the European Charter for Small Enterprises and reduction of barriers to business administrative SMEs;
2. adoption of a new medium-term development policy for SMEs with an operational plan;
3. strengthening of the Council for SMEs;
4. increasing the innovation and competitiveness of SMEs.

The role and importance of competitiveness in terms of the world economic crisis

The competitiveness of the Serbian economy (including SMEs) before the occurrence of the economic crisis was at a very low level. According to reports by the World Economic Forum for 2008, the Global Competitiveness Index for Serbia was 3.90, which represented progress in the three preceding years. In the Global Competitiveness Report of the World Economic Forum, which included 125 countries, Serbia found itself in the third quarter, in 85th position [2].

The causes of the low competitive ability of our companies are reflected in the lack of innovation, high costs of the production process, the low level of technological equipment, the lack of investment in knowledge, the unfavourable market structure, the lack of rule of law and the rule of law, the presence of black markets, and corruption. Companies in Serbia base their exports (if there are any) on the low prices of not well-known products.

Considering that the parameters analysed show a low level of innovative activity in Serbian companies, and hence their poor competitive position on the market, as a rational solution it is recommended that there be radical reform of entire business methods, whose implementation must be helped by state apparatus. It is clear that the bad situation of Serbian companies exists in all spheres of the economic system of Serbia. Due to the inadequate functioning of the Serbian economy, the position of Serbia on the international market is poor.

The low level of both competitiveness of enterprises and the Serbian economy is of a great concern. It is necessary to realize the Improved Competitiveness and Innovation Project as soon as possible, which should represent the framework of strategic development of Serbian economy until 2012. The project should aim at improving the results of our companies through the elimination of the irregularities that have so far been presented, which would improve results and Serbia could take a much better place in the rankings compared to other countries. In the future, special efforts must be made in the direction of branding local products, the introduction of modern technology, encouraging innovative activities, promoting the motivation of employees, the introduction of incentive payment systems, promotion management, as well as investment in knowledge and intellectual potential.

An extremely important move could be made by the state in the provision of assistance in the form of education and the enforcement of tax incentives. By releasing some taxes, the state could significantly contribute to the development of small and medium enterprises and the overall economic system. Serbia is 85th in the world in terms of the competitiveness of the economy, and the way out of the crisis is through strengthening competitiveness. The generally accepted view is that without healthy competition there will not be the best recovery from the global economic crisis.

If the state provides a secure legal environment through the harmonisation of domestic laws with European legislation and the abolition of the existing threshold and restrictions, it will ensure legal certainty for long-term investments of foreign investors, fully complying with the principles and rules of free market competition and with the equalisation of the treatment of domestic and foreign investors. When we talk about attracting investment, it should be borne in mind that Greenfield investment barriers in our country are much larger than those to foreign investment through acquisition and privatisation. In addition to the above-mentioned low competitiveness in attracting direct foreign investment, Serbia has big problems with the competitiveness of its goods and services on the open market. Outdated technology, poor quality, unattractive packaging, a lack of certified products, low capability for credit sales and high prices are the main reasons why products from Serbia cannot compete with even those from countries in the region. The global competitiveness index showed that Serbia was 85th out of a total of 134 countries. Will Serbia (like the more advanced transition countries) manage to achieve a significant change in export structure towards increasing the share of products and stages of finalisation and, thus, maintain high rates of export growth? This will depend, to a greater extent, on the level of FDI (Foreign Direct Investment), but also the sector in which they will arrive.

Bridging the great technological gap requires an active approach to investment in productive technology solutions, education and innovation, leading to faster production growth than employment growth and increasing labour productivity.

The sector of small and medium-sized enterprises plays an important role in the development of the domestic economy. Most of the companies that operate in the market of the Republic of Serbia, according to the official indicators, are classified in the group of small and medium enterprises (SMEs). In the Republic of Serbia, small and medium enterprises comprise 99.8% of the total number of enterprises, 65.5% of employment, 67.6% of the turnover, and about 36% of the gross domestic product. Within the total export, the SME sector has a share of 50.2% of imports and 64% and 51.2% of investment in the non-financial sector. Micro enterprises dominate the SME sector with a share of 95.6% of the total number, employing nearly 50% of the total national workforce [4].

The development of the SME sector significantly improves the competitiveness of the national economy, which is one of the main priorities of the local economy. The most important role of the SME sector should be reflected in the development of competitiveness at the level of national economies in the function of promoting the international business of the domestic economy.

The Serbian government has adopted a development Strategy for the competitiveness and innovativeness of SMEs for the period 2008 - 2013. The above strategy should contribute to the further strengthening and effective use of development potentials of the SME sector, which will have a positive effect on economic growth in the Republic of Serbia. Such orientation should contribute to increasing competitiveness and exports, further strengthening the innovative capacity of enterprises, raising employment, and the dynamic development of more balanced regional development, [4].

Analysis of the textile industry in Serbia in the period of crisis

The structure of textile companies in Serbia has changed in the last few years due to privatisation and the adjustment of nonflexible and large organisations to new market demands. The process of privatisation was conducted faster in clothing industry than in yarn and fabrics manufacture industry due to finishing work ("lohn jobs") for European Union partners which were extremely important for Serbia for the purpose of using the capacities of clothing industry enterprises and which would secure its existence on the market.

Because of the severe conditions the textile industry has faced in the past decade, there has been a reduction in employees in the textile industry (the textile sector employs 34275 workers), which is also the case in the production of yarn, cloth and clothes. However, if these negative trends, which have lasted since the year 1989, continue, the number of workers could fall to only 15 - 20000 [5]. The number of employees in the period 2003 - 2008 constantly decreased. From 67,638 employed in the textile industry during 2003, the number of employees at the end of the period mentioned decreased to 34275, in other words by 49.33%. This is the result of a continuous decline in business activity in this area and the closure of a large number of companies in this field.

The number of employees in the textile industry as a percentage of the total employment in Serbia for 2003 was 4.2%, in 2004 - 3.59%, in 2005 - 3.2%, in 2006 - 2.87%, in 2007 - 2.58%, and in 2008 it was 2.4% (***Figure 1***).

It is a labour-intensive industry in which the workforce is an important factor in competitiveness. Labour costs in Serbia will, especially in the textile industry, be low next year, which will have a positive effect on the price competitiveness of export in these sectors. In addition, our competitive advantage is that we are closer to the EU market compared to countries from the Far East, and in comparison with Eastern European countries we have decades of experience in the production of textile and clothing products for European markets. The production of textile yarns, fabrics, and garments takes place in 1489 companies, which makes up about two percent of all companies.

The situation in the textile industry can best be seen by following the dynamics of industrial production. As can be observed over the years, textile production indexes have varied, with the tendency of a slow decline. The decline in production was the most pronounced during the year 2003. Greater instability in production can be seen in the production of textiles and textile products, as well as in the manufacture of clothing and items of fur (***Figure 2***).

The textile industry is the most affected by the crisis despite the low working capital and the average salary being the minimum in Serbia. Even before the outbreak of the economic crisis, this sector had the minimum average net salary in Serbia and operated with great difficulty in unfair competition (the level of the black market in the textile sector is 44% of the national total, and in southern Serbia it is 50.5% of the total turnover) [6]. Average net earnings in the manufacturing industry in August 2008 amounted to 27255 dinars, the average net earnings of yarn and cloth production - 12589 dinars, and the production of apparel products was 12019 dinars [7].

The modern market business of textile companies in Serbia, especially in times of economic crisis, is characterised by negative aspects that are reflected in the poor position of textile companies in the global market arena, reduced competitiveness, and a lack of technology, trained staff and standards. A significant part of the domestic textile and clothing industry today are companies classified, according to official indicators, as small and medium enterprises (SMEs). These companies are mostly privately owned, which creates good preconditions for successful market performance. Small and medium enterprises form strategic clusters in order to improve competitiveness in the market. These clusters of SMEs are trying to compensate for what each company is missing, such as personnel, finance, raw materials, new knowledge, technologies and so on. However, the state has an important role in the process of cluster formation.

In 2008, the textile industry, as a branch of the economy, exported goods worth a billion dollars, and clothing export was the third largest in Serbia in 2008. There is a great opportunity for production to continue to grow in this sector of the economy and to overcome the economic crisis, but it is necessary to suppress the black market, cut taxes, as well as speed up cash flow and the collection of receivables in order to prevent the collapse of companies producing textiles. To prevent an excessive and irregular import of goods from China, we should introduce appropriate measures to protect domestic textile industries.

The desire to join the EU requires a number of changes and corrections in the current way of doing business, as well as redefining the goals and vision of this industry. Besides developing strategies, it is important to solve and create preconditions for their implementation. This standardisation process involves the introduction of a complete textile industry which should be in line with EU standards. The prevailing competition in the world textile industry at the beginning of the twenty-first century imposes an inevitable need for a clear vision of how a company can become unique within its class, and how it is possible to satisfy customers more than the competition.

In order to create a stable market position and provide conditions for undisturbed growth and development, textile companies need to achieve a high degree of coordination between these business functions in-house. Becoming a world leader in certain areas of business involves extraordinary effort to optimise the business functions of marketing, research and development, and the quality of their joint action, which is reflected through:

- achieving world class quality of products and services,
- the development of a production program based on the results of their own development,
- achieving a high degree of flexibility in the development and production potential of the company.

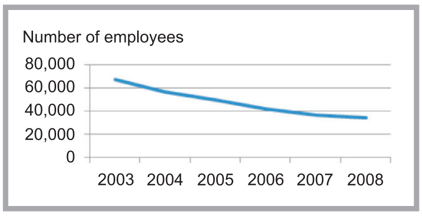

Figure 1. *Trend of employees in the textile industry for the period 2003 - 2008.*

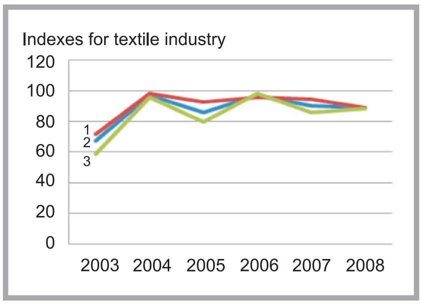

Figure 2. *Indexes of textile industry production in the period 2003 - 2008; 1 - production of textile yarns and fabrics, 2 - production of textiles and textile products and 3 - manufacture of apparel and fur.*

Problems of the quality of business and competitive ability of the textile industry

The transition process has increased chronic problems in the field of textile companies and the clothing industry in Serbia. In order to define guidelines for the promotion of business in this sector, a study was conducted on the territory of Serbia, which is aimed at obtaining the opinions of experts of different professions and functions in the field of the textile and clothing industry, commerce, education, scientific research, in order to establish what prospects there are for the future development of the textile and clothing industry, as well as its importance for the development of the national economy. The questionnaire was designed to cover issues of business improvement, recommendations and suggestions for the improvement of the textile sector and the development of small and medium enterprises. In relation to the views expressed regarding the need for comparisons of local business organisations with market leaders, the need for the assessment of the technological level of domestic business organisations arose. In fact, most respondents considered that the technological level of local organisations was of a mediocre level, and thus is the competitive ability of domestic textile industry organisations in comparison with developed countries. However, experts believe (90% of them) that textile companies of Serbia have prospects. The largest number of respondents (50%) believed that the technological level of domestic organisations was average, the percentage of those who thought it was low - 26%, satisfactory - 16%, unsatisfactory - 6%, while only 2% believed that the level was high. Within the assessment of the competitiveness of the domestic textile industry, the largest number of experts (58%) consider it average, satisfactory - 22%, those experts who consider that the level of competitiveness is low - 18%, while only 2% of them consider it high [8].

The research partly relates to problems faced by local organisations in the textile industry. Experts believe that the most significant problems faced by local organisations in the textile and clothing industry are obsolete equipment (27.54%), a lack of capital (17.39%), a lack of professional training of staff (16.67%), a lack of innovation (10.14%) and inadequate use of information technology (10.14%). Small and medium-sized enterprises are the part of the economy that brings significant development potential. The development of entrepreneurial initiative allows indigenous private capital formation, while the development of small and medium enterprises creates conditions for faster local development, thereby strengthening private property rights and solving specific macroeconomic problems, such as unemployment. Because of this, most experts (98%) see the rise of Serbia in the development of small and medium enterprises. However, it is necessary to specify the possible advantages and disadvantages of the formation of companies in the field of textiles.

Of undoubted advantage are:
- the rapid return of investment,
- the large range of choice in small series,
- a quick and successful adjustment to any market changes,
- the optimal use of resources in terms of the existing infrastructure (abandoned buildings/halls, offices in closed plants as part of a larger company restructurisation),
- non-standard products, special series, etc.,
- the acceptance of cooperation with foreign and domestic partners in the „lohn" jobs sector,
- the ability to simplify transition from one activity to another,
- the maximum use of the practical experience and ideas of individuals and professional teams.

However, there are disadvantages:
- It is a high risk business, because it has a small presence in the markets,
- The small creditworthiness of banks and potential founders,
- It often has a subordinate position in government institutions.

As part of activities to promote the benefits of more SMEs, the positive experience of countries in which the successful process of transition has taken place would be a good example to help understand the importance of creating a network of SMEs that offers many advantages in the field of training, education and the flexible production of small series of varied range. Small and medium enterprises form a strategic link in clusters to improve competitiveness in the textile industry. Serbia has established a cluster in the textile industry, but its activities should be significantly improved to make this kind of association able to provide those effects expected of it.

The main factors related to the achievement of competitiveness in textile companies are shown in ***Table 1***.

Table 1. *Factors of achieving competitiveness in textile companies [8].*

Factors of competitiveness	%
Improving the knowledge of employees	32.29
Privatisation	18.75
Application of the concept of quality management	16.67
Attracting foreign investment	12.50
Development of small and medium-sized enterprises	11.46
Development of clusters and associations	7.29
Quick adaptation to trends	1.04
Σ	100.00

As in other transition countries, the production of clothing is more important than the production of yarns and fabrics. The reason is that most of the companies producing yarn and cloth have obsolete equipment and lag behind with respect to modern technological advances. The production of yarn and fabric is more technologically intensive than the that of clothing, thus it is more sensitive to differences in the level of capacity of technological equipment. During the last fifteen years, there has been a specialisation of equipment in order to achieve better productivity and more efficient use of energy and raw materials, as well as the introduction of new materials. Thus there is a need for a significant level of investment in fixed assets in order to increase the manufacture of yarns and fabrics in Serbia and make them more competitive in the domestic and international markets. When it comes to the production of clothing, the quality of equipment and the level of unused capacity are important, which provide the possibility to significantly increase production in this sector in the short term. The problem of the modernisation of equipment in this area can be solved with the procurement of additional machines that connect to existing machines [10].

Because of this and the fact that most SMEs, especially those in clusters, are in the field of clothing, many experts, a large number of respondents (62%), are of the opinion that the textile industry needs to shift towards the clothing industry.

To achieve development in the textile sector (GDP growth, raising competitiveness, gaining a better strategic position, technology, business and other modernisation, etc..), there is a need for personnel with modern skills, and therefore the education of all employees is a prerequisite for achieving a better business impact, primarily to improve productivity. In order to have a stable market position and create conditions for undisturbed growth and development, textile companies need to achieve a high degree of coordination between these business functions in-house. Becoming a world leader in certain areas of business involves extraordinary effort to optimise the business functions of marketing, research and development and the quality of their joint action, which is reflected through:
- achieving world class quality of products and services,
- the development of a production program based on the results of their own development,
- achieving a high degree of flexibility in the development and production potential of the company.

In the future, the textile and clothing industry will be able to survive and operate successfully only if it changes business policy. The business policy must be more interested in demand, more flexible - to adapt to possible changes that have occurred, to respond to specific needs and requirements, to allow easy and rapid reorientation between the types of production, and also to monitor new technology, management and other innovations.

Conclusion

The competitiveness of the Serbian economy (including SMEs) was at a very low level before the beginning of the economic crisis, and this problem must be given high priority status, at least in order to create better conditions for the period after the crisis. In addition to low competitiveness, Serbian export is characterised by the unfavourable textile and clothing industry and its geographical structure. According to the sector structure, there is a domination of lower stages of processing products, mainly raw materials and finished products, which means that the sector structure of Serbian export is unfavorable. The geographical structure of Serbian export is also unfavorable (orientation in a very crowded market space). A key challenge in the future must be to increase the degree of finishing the product and geographical diversification of the export program.

Experience acquired by textile and clothing companies industry in the time of globalisation is seen as an asset when looking for solutions to get out of the economic crisis. In these critical times there is no single solution for solving difficulties. Considering the effects on overall economic activity, it could be said that the Serbian textile industry is one of the strategic economic sectors. The textile industry as a branch of the economy is likely to increase production and exports as well as to overcome the economic crisis, because small and medium enterprises in the textile industry have a mechanism to better resist the global economic crisis, which is not the case for big enterprises. Development of entrepreneurial initiative allows indigenous private capital formation and the development of small and medium enterprises, which create conditions for faster local development, strengthen private property rights, and solve specific macroeconomic problems, such as unemployment. As part of the activities to promote the benefits of more SMEs, the positive experience of countries with a successful process of transition should be studied to understand the importance of creating networks of SMEs.

The basic developmental characteristics of the textile sector in Serbia should be:

- Adoption of a strategy that stimulates innovation and entrepreneurship development in the SME textile industry. This adoption should be made by government bodies.
- The creation of a special subvention fund for investment in the textile industry,
- Encouraging green-field investments in the textile industry with the orientation of exports to Russia, because there is a protocol for duty free trade between Serbia and Russia,
- Creating subvention funds for the purchase of textile goods produced in Serbia (to the level of the abolition of VAT)
- Restructuring companies towards the establishment of joint stock companies and increased market position through increased productivity and competitiveness,
- Development of own brands and marketing,
- Using the distribution channels of existing EU companies,
- Favouring of export-oriented companies by the state,
- Investments in production facilities, equipment, and new models,
- Leaving exclusive orientation to lohn jobs,
- Geographical and production diversification of export.

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