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## THE BANKING FOR SMALL AND MEDIUM ENTERPRISES

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**Abstract:** *The development of banking which provides services to small and medium-sized enterprises (SME) represents one of the key economic objectives in developing countries. Small and medium-sized enterprises are focused on the banking sector due to limited financing opportunities through alternative channels, especially in the countries where financial markets are insufficiently developed. The main reasons for the difficulty in financing the SME segment in developing countries are: complicated procedures, insufficiently defined laws, negative macroeconomic factors and lack of financing opportunities. However, there are a number of ways to overcome the problem, and it is in this process that the banks have found their place. This paper aims to better understand the potential of the SME market. The first part of this paper relates to the definition of key features of SME segment, and the literature review. The challenges which banks face are described further on, as well as the approaches used by banks in the value chain. A special emphasis is placed on risk management activities, due to the fact that it occurs in all phases of the business cycle. Finally, the paper provides a brief description of the economic importance of small and medium-sized enterprises.*

**Keywords:** *Small and medium-sized enterprises, the SME value banking chain, risk management, economic development*

### 1. KEY FEATURES OF SMALL AND MEDIUM-SIZED ENTERPRISES

Although it is widely accepted that the market of small and medium-sized enterprises is an important part of any economy, the definition of small and medium-sized enterprises is often different from country to country. However, they are most often defined as business entities that employ less than 250 people. It is estimated that over 95% of the companies worldwide are small and medium, while in Europe, their importance is even more prominent since they make up 99% of the total number of enterprises. In addition to small, medium and large enterprises, another segment has been classified as micro-enterprises. They are very similar in their characteristics to small and medium-sized enterprises, with the difference that they generally have fewer than 5 employees. Alternative criteria for the classification of companies include the volume of annual revenues, the value of assets on the balance sheet, as well as the ratio of borrowed and own funds. It is clear that defining the types of companies on the basis of quantitative criteria is not enough to describe the market of small and medium-sized enterprises.

Small and medium-sized enterprises and entrepreneurs are the most efficient segment of the economy in almost all countries of the world. Individually, these enterprises make the largest contribution to the increase in employment, gross added value and turnover, and are, therefore, considered to be the backbone of growth and development of a national economy. Their role is particularly important in countries in transition which are faced with problems of high unemployment, low level of economic activity, insufficient competition and lack of investment, and where large inefficient state-owned enterprises are still present. As a reliable source of employment, small and medium-sized enterprises have an important social role in absorbing surplus labour generated in the processes of transition and ownership transformation of state-owned and socially-owned enterprises.

Basic characteristics of small and medium-sized enterprises and entrepreneurs, primarily referring to their size, flexibility, propensity for innovative and risky ventures, and greater opportunity for specialization, enable these companies to adapt much easier than large business systems to continuous changes in consumer demand and business conditions in the global market. In this way, SMEs encourage the strengthening of competition, which results in the improvement of the quality of products and services and lower prices, innovations and development of new technologies, and the growth of the national economy in general.

Survival, growth and development of small and medium-sized enterprises are primarily determined by funding opportunities from favourable sources. Limited access to the sources of finance, both on the money market and the capital market, especially in terms of prices and conditions of use, is perhaps the most important feature and the biggest problem of these companies. In an effort to provide the necessary funding

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from the most favourable sources, companies face, throughout their existence, the following dilemmas: should the investments and business development be financed from own resources or borrowed; how much capital should be obtained from loans; should the capital be provided by banks and other financial institutions, on the securities market, or by attracting formal or informal investors; and what is the desired capital structure. Depending on the objectives of growth and development, stage in the life cycle, financial status, nature of business activity and investment structure, the stability of cash flows, the relationship to risk management and the availability of certain resources, companies decide to obtain capital from one or a combination of funding sources, while aiming for the optimal capital structure. The number of available sources of financing SMEs is small and they meet their needs for capital much harder than large business systems.

## **2. LITERATURE REVIEW**

In academic circles, it is widely believed that large and foreign banks are generally not interested in investing in SMEs, while on the other hand, small banks which are focused on a specific niche are more motivated to overcome the problems which arise within SMEs. A research conducted by Torre et al. (2010) showed that there are no sufficient arguments for this claim, and that banks believe that small and medium-sized enterprises are highly profitable clients. In addition, regardless of the size of the bank, the practice has shown that they will always strive to maintain long-term relationships with the SME segment, especially when it comes to developing countries where the number of financial sources is limited. Through new technologies, business models and management systems, the banking sector is giving their best to meet the requirements of small and medium-sized enterprises. Financial experts argue that the limits of small and medium-sized enterprises in financial terms are very large and that this represents the main potential of credit institutions. Bankers, through continuous, personalized and direct contacts with SMEs, gather information relevant to the decision to grant loans.

Large banks, as well as foreign universal banks are leaders in the banking industry, as they are operating under the laws of economy of scale. In addition to having developed mechanisms for analysis and control of the clients, the large banks are capable of developing products and services for the specific needs of small and medium-sized enterprises. However, in recent years there has been an increase in number of specialized banks which do business with only one market segment. Torre et al. (2010) state that it appears that, despite the strengthening of relations between banks and companies, there are still limited opportunities in developing countries for key products, such as loans secured by adequate collateral, and loans that have long-term fixed interest rates indexed in the local currency.

Hanedar, Broccard and Bazzana (2013) have conducted a research on the characteristics of the collateral of small and medium-sized enterprises in developing countries. Regarding the type of collaterals, the results show that the specific features of a loan applicant are much more important than the characteristics of the country they come from. These authors emphasize the importance of credit risk which a specific loan applicant brings, as well as the level of transaction costs compared with the characteristics of the underlying collateral. Menkhoff et al. (2012) state that, in developing countries, companies are less interested in loans that require collateral. The reason for this lies in the fact that they do not have enough high-quality collateral, and that they have access to relatively expensive sources of funding and insufficiently attractive credit terms.

The World Bank has conducted a research on the business environment and the performance of small and medium-sized enterprises in Eastern Europe and Central Asia. The results show that high demands for collateral are the third factor influencing the decision of the company not to apply for loan financing. The first two reasons are related to high interest rates and complicated procedures, which are also very time consuming. The results of this study can be found in the Niinimäki (2009) paper. In addition, Berger et al. (2011) emphasize that, in developing countries, it is very difficult to obtain relevant quality assessment of the collateral, and that a high risk occurs due to information asymmetry.

In their research, Bartoli et al. (2013) classify the information that banks use as "hard" and "soft". Hard information includes various quantitative data that banks obtain from the data in the financial reports or collateral offered by the loan applicant as security. Soft information relates to qualitative data, and their main source is the personalized relationship between banks and clients. It goes without saying that the soft information is more difficult to collect and there is a higher probability of errors, but the aforementioned group of authors believes that it is this information that presents a competitive advantage of the small banks relative to the large. They explain this attitude with the fact that small banks are more focused on their clients, that they meet specific requirements better, and that, in this process, they obtain valuable data of insufficiently transparent companies more easily.

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### **3. THE SME BANKING OPPORTUNITY**

Even though banks have recognized the need to provide services to small and medium-sized enterprises, studies have shown that, underdeveloped bank services and products are becoming a critical factor for growth and development of SMEs. Bank fees make the business transactions more difficult and, according to the research of the World Bank, even in the developed financial markets, one third of the enterprises define limited financial sources as one of the main problems. As a result, more than half of the companies in the developing countries cannot reach their goals due to financial difficulties. This research has also shown that SMEs, in comparison to large enterprises, use external financial sources less, which increases the costs of their liabilities. SMEs usually use bank loans as the only available financial source. It is much easier for large corporations to decide and finance investment projects through loans.

SMEs are more focused on banks and their services due to the limited options they have to borrow money through alternative channels. They do not have enough capital to finance big projects and cannot participate in the financial market in a way large corporations can. The reason for this is very often the lack of qualified financial experts who would define an adequate financial source structure. Bank loans contribute to the long-term strategies of SME and thus enable the ownership structure to remain unchanged. Another advantage of banking development in the SME section is related to the banking consulting services. SMEs can have benefits such as adequate financial reports, business plan development, as well as the selection of optimal financial sources. Banking consulting services enable SMEs to follow the bank loan contract terms.

It is a fact that banks have greater concerns regarding risk when it comes to investing in the developing countries. The basic reasons for this include: complicated procedures, undefined laws and negative macroeconomic factors. These restraints lead to situations where banks require good quality collaterals, are less interested in financing investment ventures, and are defining high interest rates. All of the above mentioned directly reduce the profitability of SMEs and lead to a great number of uncollectible debts. Governmental interference very often creates competition imbalance and price instability. If regulatory organs and the government of a country recognized the importance of SMEs, they could support them through redefining the legal limits and through export inducement. Although there is no unique solution to boost SME segment, any intervention to improve the market conditions is welcomed.

### **4. THE BANKING VALUE CHAIN**

To frame the discussion of how banks approach the challenge of serving SMEs, we adopt a standard banking value chain framework consisting of five discrete stages and one cross-cutting task. The five stages of this banking value chain are (1) understanding the market, (2) developing products and services, (3) acquiring and screening clients, (4) serving clients, and (5) managing information and knowledge. Cutting across each of these five stages is the ongoing and critical task of risk management. At each stage of the value chain, there are actions and considerations particularly relevant to the SME sector. Each part of further discussed challenges banks face, describes how banks are approaching this stage, and provides examples of leading banks moving toward excellence in SME banking. Table 1 provides a condensed overview of the key activities within each stage of the banking value chain in the context of serving SMEs.

Table 1. SME banking value chain

<b>Risk management</b>				
<b>Understand the SME market</b>	<b>Develop products &amp; services</b>	<b>Acquire &amp; screen SME clients</b>	<b>Serve SME clients</b>	<b>Manage Information &amp; knowledge</b>
<ul style="list-style-type: none"> <li>• Define the SME sector</li> <li>• Research SME needs &amp; preferences</li> <li>• Sub-segment the market</li> </ul>	<ul style="list-style-type: none"> <li>• Design &amp; bundle lending and non-lending products</li> <li>• Ensure profitability of product offering</li> <li>• Develop SME-specific lending technologies</li> </ul>	<ul style="list-style-type: none"> <li>• Market product &amp; service offering to clients</li> <li>• Build a growing &amp; diversified portfolio</li> <li>• Distinguish profitable from unprofitable prospective clients</li> </ul>	<ul style="list-style-type: none"> <li>• Meet the needs of existing clients</li> <li>• Cultivate new business through cross-selling</li> <li>• Use teams organized for front &amp; back-end servicing</li> <li>• Monitor loans</li> </ul>	<ul style="list-style-type: none"> <li>• Model &amp; manage risks using portfolio data</li> <li>• Use current customer data to adapt service approaches</li> <li>• Analyze &amp; respond to profitability data at segment, product &amp; client level</li> </ul>

(Source: World Bank group, 2010)

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According to World Bank group (2010), highlighted observations from the five value chain stages are: understanding the market is critical and serves as a foundation to being able to address the unique needs of SMEs, nonlending products should not be overlooked, as they may generate more revenues than SME loans, a bank's current portfolio is a critical potential source of new business, segmenting service approaches (i.e., the level of relationship management by client value) can help banks balance customer service and operating cost concerns, and effective information management means knowing how to maximize the use of IT systems.

### **5. CHALLENGES AND APPROACHES ALONG THE BANKING VALUE CHAIN**

Risk management is always one of the most difficult tasks in the banking industry, especially when you take into account the existence of all the informational asymmetries in the SMEs banking sector. Although a bank is faced with credit, market, strategic and operational risks, the most important ones to mention here are the credit risk and the risk of high costs of providing services. The credit risk is related to the bank's inability to collect the debt and the interest within the agreed time. Due to the limited information sources, banks require additional insurance such as different collaterals whose value depends on the assessed risk and the amount of the wanted resources. In the emerging markets more than 80% of the loans for the SMEs are insured (Beck et al., 2008). A bank encounters costs inefficiency because there is no unique model of financing identical for every SME. Corporations are clients whose transactions have great value for the banks. On the other hand, SMEs demand more transactions of a lower value. If you add consulting services, assessments, specific requests of a SME, it is clear why banks often have high costs and lower profits when investing in SME segment. There is, however, a great number of ways to overcome these problems. In the table 2 some of the key steps and approaches for managing the above mentioned risks are given.

When considering risk management strategies more attention should be paid to the occurrence and the role of uncollectible debts. It is crucial to recognize the loans which are very likely to become bad debts. Proactive solutions reduce the costs and ensure a better bank portfolio.

These proactive strategies include:

- quick reactions,
- timely and frequent communication with clients and
- minimizing the credit risk.

The steps bank will take depend on the informational system the bank is using, as well as on recognizing the first indicators of credit risk appearance. Some of the basic indicators of the credit risks are irregular payments, frequent changes of the loan terms, unusually high interest rates, incomplete documentation collected by a client, poor quality collaterals, lack of reports and cash flow forecasts, as well as the client's reliance on non-renewable sources. Taking all these into consideration, banks are required to control the situation and thus prevent the losses.

The first stage of the banking value chain is the adequate understanding of the market needs. In order to diversify their portfolios, banks need to analyze the market and client's preferences constantly. SMEs on the Eastern European territory do not use bank loans as a way to finance their business as much as they are able. The strategy to be used on this territory should be significantly different from the one used on the developed financial markets. Even when they choose the market segment to invest in, banks should define the annual range of services they will provide and their conditions. The segmentation of the SME market is very demanding and important because, among other things, every firm has its own specific needs. Techniques banks are using in order to research the SME market include the surveys, direct insight into company's business transactions and the interaction with the employees of the particular firm. If the owner of the firm which is in the SME market segment is already the bank's client, the bank can have the insight into their business transactions and responsibilities. SME can also be a part of a larger corporate chain that a bank cooperated with in the past or still cooperates with at present.

The products and services a bank offers are usually related to the loans and deposit collection as traditional ways of conducting business. In order to expand its market share and strengthen its position on the SME market, a bank has to update its offer and attract new clients.

- The first challenge to face on this market is related to defining the range of products suitable for one particular client. In this process the key role lies in the appropriate communication with the client, which means investing into a loyal and long-standing relationship.
- The second challenge is related to the overall profitability that a bank realizes through its services, since the bank's politics regarding the costs influences the SME segments.
- The third challenge is about balancing the market offer increase and recognizing bank's limits. The experience in banking has shown that some banks would take high risks when financing SMEs

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without having adequate collateral on the other side. If this kind of contract is made with several clients, diversification is achieved, but in case when the number of unsecured loans is getting disproportionately higher, especially during the expansion period, the bank loses control and this can lead to losses. Price, contract terms and monitoring mechanism have to be aligned in order to have a good estimate of the costs and the risk level. Banks will have exceptional results in the process of designing and selecting the products they offer only if they are certain that their offer is cost-efficient and if they can recognize the moment when providing their services is no longer profitable.

Table 2. Common approaches to risk management

<b>Risk management</b>						
<b>Understand the SME market</b>		<b>Develop products &amp; services</b>	<b>Acquire &amp; screen SME clients</b>	<b>Serve SME clients</b>	<b>Manage Information &amp; knowledge</b>	
<b>Approaches to managing credit risk</b>	<ul style="list-style-type: none"> <li>Quantify risks in target market by leveraging existing research &amp; other bank data</li> <li>Sub-segment the SME market by risk profile</li> <li>Enhance predictive capabilities by gathering information on local SME success factors</li> </ul>	<ul style="list-style-type: none"> <li>Develop loan pricing models that match client risk profile</li> <li>Incorporate innovative forms of collateral, such as accounts receivable</li> <li>Prioritize role of non-lending products in establishing customer relationship &amp; providing predictive data</li> </ul>	<ul style="list-style-type: none"> <li>Lend to current clients first, learning from portfolio information</li> <li>Use internal rating &amp; scoring methods to assess loans</li> <li>Separate sales from credit approval for more rigorous underwriting</li> </ul>	<ul style="list-style-type: none"> <li>Dedicate staff to spot signs of SME default early</li> <li>Provide advisory services to assist SMEs in cash flow management</li> </ul>	<ul style="list-style-type: none"> <li>Establish centralized teams to monitor loan data for risks &amp; early warning signs &amp; to incorporate data into improved credit policies</li> <li>Use portfolio data to customize models for statistical credit scoring</li> </ul>	
	<b>Approaches to managing risk of excessive cost to serve</b>	<ul style="list-style-type: none"> <li>Inform pricing &amp; operational approach by understanding level of unmet SME demand</li> <li>Segment the market in order to identify &amp; limit effects of cost drivers linked to SME characteristics</li> </ul>	<ul style="list-style-type: none"> <li>Use sophisticated but standardized products to minimize transaction costs</li> <li>Increase the overall value of each SME client by offering &amp; building a wide variety of products &amp; services</li> </ul>	<ul style="list-style-type: none"> <li>Focus customer acquisition on clients "close to" the current portfolio</li> <li>Separate business development from relationship management for efficiency</li> <li>Use automated screening processes to reduce underwriting costs</li> </ul>	<ul style="list-style-type: none"> <li>Dedicate processes &amp; staff to SME segment to streamline operations</li> <li>Use direct channels like branches &amp; call centers to reduce relationship management cost</li> <li>Adjust level of personal service to SME size or value</li> </ul>	<ul style="list-style-type: none"> <li>Enhance profitability analysis capabilities to disaggregate revenue &amp; costs by key units (branch, product, client)</li> <li>Apply cost-saving innovations discovered at branches and learn from it</li> </ul>

(Source: World Bank group, 2010)

The main challenges a bank faces when attracting new clients include cost efficiency of the marketing strategy the bank is conducting, as well as the credit risk management which is done through an effective analysis and through recognizing the profitable clients in spite of insufficient information. Majority of SMEs cannot recognize the benefits of using bank services due to the lack of knowledge and information, and because of this the firms are reluctant to cooperate with bank sector, especially in the developing countries. This problem can become more complicated if the credit bureau cannot find any relevant historical data on the business transactions of the particular firm. Successful banks overcome these problems through

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benchmarking process and through conducting proactive strategies and developing a great number of communication channels through which they try to gain insight into the client's real state. Banks will profit if they can recognize the needs of the current clients and adjust their offer accordingly. In order to diversify their portfolio, developed banks adopt the concept of "one stop shop", which implies having a wide range of different services in one financial institution.

Long-term cooperation with clients from the SME sector provides a stable income with the tendency to increase and is an excellent source of desired information. However, banks are faced with the risk when an individual approach to a different company leads to high operational costs and this can put the investment in question. Bank has priorities when choosing clients for approving the loan. This very often leads to loss of client's trust, higher interest rates and lower sale possibilities. Clients very often do not want to accept the loan conditions which are barely profitable for the banks. The process of collecting all the necessary documents is not easy for both the bank and the clients and many of them are not ready to wait patiently for the loan to be approved. Banks serving SMEs have found ways to cost-effectively meet and even capitalize on the unique demands of SMEs. They do this by using direct delivery channels, segmenting and redefining relationship management, and turning demands into opportunities through cross selling.

The fifth stage of the banking value chain is related to the information and knowledge management in banks. SME banking is a relatively young and dynamic industry and it is clear why experience has the crucial role. Banks that invest into information technology have better chances to have a profitable and safe business, as well as to maintain long-standing relationships with clients. This effective information and knowledge management is the key to improving relations with clients. Two main challenges to managing information and knowledge include developing the infrastructure (tools and systems) to collect and analyze information, and developing the capacity (skills and processes) to turn information into knowledge and adjust operations accordingly. In order to use the knowledge potential, a bank should have a portfolio check and risk analysis. Client relations management and profitability analyses are crucial steps for running a good business.

## **6. BANK APPROACHES IN SME MARKETS**

Each bank has different possibilities and capacities for achieving strategic goals. Bank performances primarily depend on the way that income is generated (the profit rate), required quality of assets (the risk level), and defined level of management efficiency.

In order to make an adequate profit with the cost-efficiency and risk minimization banks should, in the first place, define a strategy that suits their capacities and the chosen market segment. Successful banks focus on the business structure, human resources and software support. At the same time, the bank management is in charge of the implementation of the essential procedures and processes, as well as their constant control and coordination. The ordering of above-mentioned activities is significant for the banks that enter the SME market for the first time. The SME banking requires the realization of scale economy and greater selling power of employees in comparison to the corporate banking. On the other hand, it means even more detailed processing of claims and risk analysis when defining the offer that refers to consumer banking. The process of corporate governance and organization is a crucial element, especially when positioning the bank on the global market.

One of the crucial economic goals of the developing countries is the development of banking that provides services to small and medium-sized enterprises. Small and medium-sized enterprises provide a healthy economic system, contribute to creating new business opportunities, employ a large number of people and are responsible for the increase in gross national product. Due to their contribution to the economic diversification and social stability, their role in the market is rather significant. Limited market and capital access increase financial expenses and has a negative influence on the productivity and competitiveness of enterprises.

## **7. CLOSING REMARKS**

In recent years, financing of small and medium-sized enterprises has attracted a lot of attention and has become one of the main topics for economists and regulators who are working on economic and financial development strategies. One of the reasons for the great interest in this segment is the fact that most businesses are small and medium-sized, and they employ a significant number of people. In addition, practice has shown that it often happens that small employers eventually become large. Furthermore, they are necessary for further economic prosperity. The majority of banks have organized a special department for cooperation with the SME segment, not only in the field of credit, but in light of the various advisory roles which banks can offer as one of their services. Since Serbia is extremely bank-centered country, it is clear that products and services offered by banks should be constantly innovated and thus contribute to the development of small and medium-sized enterprises which have limited possibilities for borrowing through

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alternative channels. The aim of this paper is to stimulate discussion and further research in the field of small and medium-sized enterprises, particularly in the context of improving their performance through external financing in the form of bank loans.

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## ORGANIZATION OF NON-WOOD FOREST PRODUCTS SELLING IN SMALL AND MEDIUM ENTERPRISES IN CENTRAL SERBIA

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**Abstract:** *If one takes into account consequences of excessive use of natural resource, the need for its sustainable use is understandable. Bearing in mind increasing importance of non-wood forest products (NWFPs) for sustainable use of natural resources, and for revenue generating, the role of entrepreneurs and small and medium enterprises (SMEs) in this sector also increases. The aim of this research is to gain knowledge on the organization of the process of NWFPs selling in SMEs in Central Serbia. Research was conducted in two phases. In the first phase, 91 representatives of SMEs ( $\Sigma$ SME) were surveyed and in the second, survey was conducted with representatives of 19 leading enterprises (LEs). The results are showing that process of NWFPs selling is present in most of  $\Sigma$ SME and all LEs. Wholesale is present in most  $\Sigma$ SME and LEs, which is opposite to retail. The most present form of wholesale is to "foreign buyers", although in the most  $\Sigma$ SME is also present selling to "other processors". The most common export destinations ( $\Sigma$ SME and LEs) are countries of EU, mainly Italy and Germany. The analysis indicated specific problems in organization of selling in these SME. Hence, recommendations for improvement are given.*

**Keywords:** *organization, selling, small and medium enterprises, non-wood forest products, forestry*

### 1. INTRODUCTION

The role of **small and medium-sized enterprises** (SMEs) in the economic development is of increasing importance and particularly challenging in rural areas, which are less attractive for the development of entrepreneurial activities than urban and semi-urban (Niskanen et al., 2007). Forest products (wood and non-wood) have a particularly important role in the development of rural areas (López-Feldman, 2014). In this paper, as non-wood forest products (NWFPs) are considered: mushrooms, medicinal and aromatic plants (MAP), wild berries and other forest fruits (WBFF), i.e., products that can be quite quickly and successfully collected in nature, processed and sold. These characteristics, and increasing demand for NWFPs<sup>1</sup> in recent years (Booker, Johnston, & Heinrich, 2012; Pettenella, Secco, & Maso, 2007), make these products extremely attractive to private entrepreneurs.

Collection, purchase, processing and **selling of NWFPs in Serbia** have a long tradition. In the period after Second World War until the 1990s, revenues from NWFPs were significant (USAID, 2008; Donnelly, Helberg, 2003). Serbia was, until 1992 "...one of the largest exporters of medicinal plants in South Eastern Europe ..." with "... about 6000 t of raw materials and sales of about 11 million \$" (Turudija-Ĵivanović, 2010, p 68). However, collection and trade in NWFPs were centralized at that time, because the sector was dominated by a small number of state enterprises. Attempt of privatization of these enterprises was mostly unsuccessful. This, in combination with all the economic events during the 1990s, has led to fact that, today, this sector is largely unorganized. As a consequence, NWFPs are marketed mainly as unprocessed raw materials or semi-finished product (Donnelly & Helberg, 2003; USAID, 2008).

However, after 2000 activities in MAP market gradually were revitalized i.e. "...new enterprises are being established, contacts with old customers are renewed and new ones gained, which have resulted in increasing export of herbal raw material" (Turudija-Ĵivanović, 2010, p. 68).

In accordance with the increasing importance of NWFPs for achieving the objectives of multifunctional forest management (Wang & Wilson, 2007), as well as for revenue generating, the role of SMEs engaged in the procurement, processing and selling of NWFPs (NWFP-SMEs)<sup>2</sup> increases.

<sup>1</sup> According to data of World Health Organization (WHO), "...the demand for medicinal plants is approximately \$14 billion per annum, and growing at the rate of 15–25% annually. The WHO estimates that by 2050 the trade will be up to US\$ 5 trillion" (Booker et al., 2012, p. 625).

<sup>2</sup> In support of this goes the fact that, e.g. "...MAP market is often dominated by SMEs" (Booker et al., 2012, p. 632).

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Results of previous studies indicated several types of NWFPs selling: directly marketed products<sup>3</sup>, selling of fresh and semi-products, and selling of final products (USAID, 2008). This research also shows that "...only one-third of fresh and semi-products goes to final processing, while the majority is sold via wholesalers and retailers to consumers (domestic or foreign) and to foreign processors" (USAID, 2008 p. 19).

Studies conducted in Central Serbia showed that "...the most common way of selling is wholesale, i.e. it is only exports" (Nonić, Rankovic, & Nedeljkovic, 2013, p. 151). The reason for that is, primarily, unorganized NWFP sector, but also underdevelopment of the domestic market (Nedeljković, Nonić, Ranković, & Mandić, 2012; Nonić et al., 2013; Turudija-Ťivanović, 2010).

The need for this research comes from the lack of comprehensive knowledge on the characteristics of selling and its organization in NWFP-SMEs. In previous studies were primarily analysed:

- indicators related to the selling of only one type of NWFPs (but not from an organizational perspective);
- all business entities that operate in this sector (not only SMEs);
- only one of the sub-processes within the process of selling.

In this paper are presented and analyzed results related to all NWFP-SMEs ( $\Sigma$ SME), and selected leading enterprises (LEs) in Central Serbia, whose representatives participated in the study.

In accordance with the previous, the **aim** of this research is to gain knowledge on the organization of NWFPs selling in SMEs in Central Serbia<sup>4</sup>. The **objects** of research are sub-processes in NWFPs selling (retail and wholesale). The **purpose** is to provide recommendations for improvement of NWFPs selling in SMEs.

## 2. METHODS

**Methods** of analysis and synthesis, comparative, and statistical method are applied. Partial structural analysis (Nonić et al., 2013), was used in order to study organization of selling within NWFP-SMEs. Method of synthesis was used for drawing conclusions and giving recommendations for improvement of organization of NWFP selling. The comparative method was applied to determine similarities and differences in the organization of selling in  $\Sigma$ SME and LEs.

"Door to door" survey (Aker, Kumar, & Daj, 2008) was used as a research **technique**. The survey was conducted during 2011 and 2012, within 17 forest areas (FAs)<sup>5</sup> in Central Serbia. Distribution of the analyzed enterprises in forest areas is shown in Figure 1.

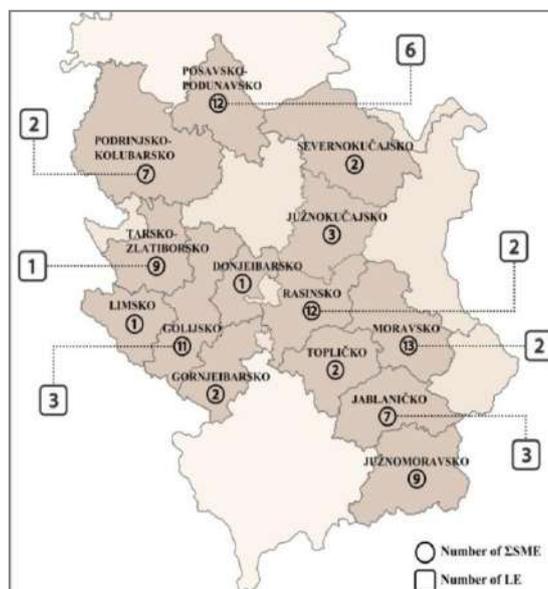


Figure 1. Distribution of  $\Sigma$ SME and LEs in forest areas

<sup>3</sup> Research has shown that about 2% of NWFP collectors sell products directly to consumers, mainly at local green markets and road stalls (USAID, 2008).

<sup>4</sup> The term "central" Serbia refers to the territory of Serbia, without AP Vojvodina and Kosovo and Metohija.

<sup>5</sup> Detail information about forest areas in Serbia can be found in Law on forests (2010) and professional literature (see Aleksić, Stinčić, & Milić, 2007). On FAs which were included in the research, state forests are managed by the State Enterprise "Srbijašume", which also performs extension service in private forests.

Data were **collected** in two phases. In the first phase, representatives of 91 NWFP-SMEs in Central Serbia were surveyed. Representatives of 19 LEs were surveyed in the second phase. LEs were selected on the basis of pre-established criteria<sup>6</sup>, as "best practice" examples in: i) the organization of all NWFPs-related business activities and ii) business management.

In the first phase of data collection, the questionnaire consisted of 65 questions, and in the second, there were 40 questions. In both questionnaires, there were open- and close-ended questions, where close-ended were with multiple-answer (one or more choices), and Likert scale. For the purposes of this paper, only questions related the organization of selling in  $\Sigma$ SME and LEs were selected from both questionnaires.

Data processing was performed in the statistical program SPSS ver. 20. Bearing in mind that all variables in questions selected for this paper were categorical (discontinuous), frequency analysis was used.

### 3. RESULTS

Within the results are presented and analyzed data related to the organization of selling in  $\Sigma$ SME and selected LEs:

- share of selling (retail and wholesale);
- organizational forms of selling (retail and wholesale);
- organizational forms of NWFP transport (to customers);
- exports destinations;
- attitudes of respondents toward NWFP market;
- attitudes of LEs representatives toward the improvement of NWFP selling.

#### 3.1. Analysis of organization in the selling of NWFPs in $\Sigma$ SME/LEs

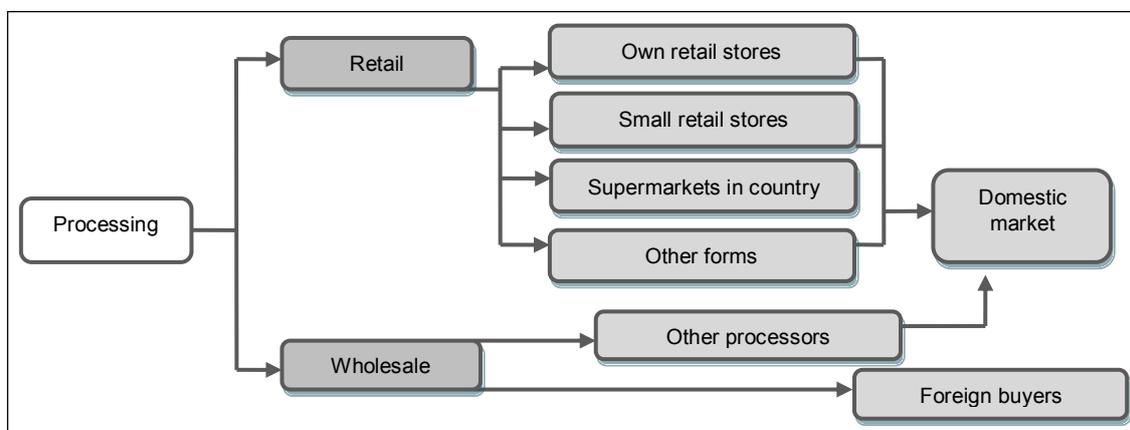
**Share of selling**, retail and wholesale in  $\Sigma$ SME and LEs is shown in Table 1.

**Table 1.** Share of NWFP selling in  $\Sigma$ SME/LEs on the territory of Central Serbia

Process / sub-process	$\Sigma$ SME	LEs
Selling	68.1%	100%
Retail	8.8%	15.8%
Wholesale	96.7%	100%

Selling is present in more than  $\frac{2}{3}$  of  $\Sigma$ SME (69.2%), as well as in all LEs. Also, NWFPs wholesale is present in dominant share of  $\Sigma$ SME (96.7%) and all LEs. Retail is present in lesser extent (only 8.8% in  $\Sigma$ SME and 15.8% in LEs), which indicates that selling strategies of NWFP-SMEs are not focused on retail, but on other business subjects.

In Central Serbia are present different forms of **organizing of NWFP selling** in SMEs (Figure ).



<sup>6</sup> The criteria were: 1) criteria prescribed by the *Law on accounting and auditing* from 2006 (number of employees, total income and value of assets); 2) characteristics of the company (all NWFPs-related business activities, quantity of purchased products, etc.); 3) general impression of researcher (method of observation) on advanced business activities (Nonić, Nedeljković, & Jovanović, 2012).

**Figure 2.** Forms of organizing of NWFP selling in ΣSME/LEs

Retail can be organized through:

- own retail stores;
- small retail stores;
- supermarkets in country;
- other forms.

Wholesale is done in two ways:

- foreign buyers;
- other processors.

Share of specific forms of NWFPs selling in ΣSME/LEs is given in Table 2.

**Table 2.** Share of specific forms of NWFP selling in ΣSME/LEs in Central Serbia

<b>Form of selling</b>		<b>ΣSME</b>	<b>LEs</b>
Retail	Own retail stores	4.4%	5.3%
	Small retail stores	3.3%	5.3%
	Supermarkets in country	4.4%	5.3%
	Other	11%	5.3%
Wholesale	Foreign buyers	<b>61.5%</b>	<b>100%</b>
	Other processors	<b>53.8%</b>	31.6%

In **NWFPs retail** are, mostly present "other forms" (11% in ΣSME primarily, through sale to labour unions, while 5.3% in LEs and mostly, catering enterprises). A small number of analyzed enterprises have own retail stores (4.4% in ΣSME and 5.3% in LEs), or they sell products to supermarkets in the country (3.3% in ΣSME and 5.3% in LEs).

The most common form of **NWFPs wholesale** is selling to foreign buyers (dominant in ΣSME-61.5% and in all LEs). The reason for this is mostly, huge demand and quality of these products from Serbia. In terms of selling to foreign buyers, 29.7% ΣSME and 47.4% LEs, only exports, with no selling on the domestic market.

Selling on foreign markets can be organized differently (sale agents, offices abroad, etc.). Representatives of all LEs noted that sale on foreign markets is organized in cooperation with regular customers, with whom they have direct contact and long-term cooperation.

In more than ½ ΣSME (53.8%) and about ⅓ LEs (31.6%), wholesale is also done to other processors, which, after additional processing, sell NWFPs.

In all LEs selling is arranged from headquarters, and products are sold from processing facilities<sup>7</sup>. Also, most of these enterprises sell to known customers, with whom they have long-term cooperation.

As part of organizing of NWFPs selling, **transportation** to the place of delivery, or customers, can be:

- own;
- organized by customers;
- engagement of transport enterprises.

Share of specific forms of NWFPs transport in ΣSME/LEs in Central Serbia is given in Table 3.

**Table 3.** Share of transport forms in ΣSME/LEs in Central Serbia

<b>Form of transport</b>	<b>ΣSME</b>	<b>LEs</b>
Own	45.6%	57.9%
Organized by customers	<b>66.7%</b>	52.6%
Engagement of transport enterprises	23.3%	47.4%

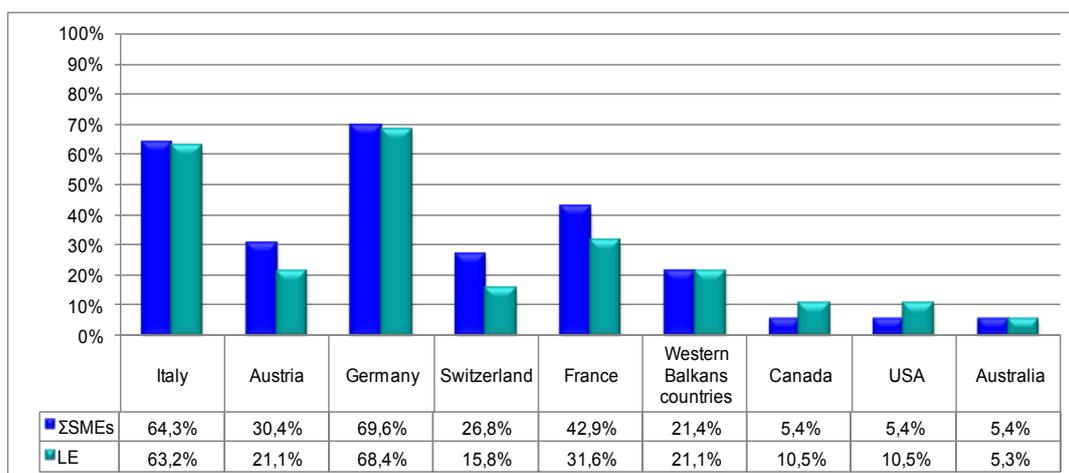
In most ΣSME (66.7%), NWFPs transport is organized by customers. On the other hand, in LEs are present all three forms, to approximately same extent, but organization of own transport (57.9%) stands out. This

<sup>7</sup> Only representative of one LE, located at Rasinsko FA, stated that, if "...no processing is done, then goods are directly sold from purchasing stations".

especially relates to the transportation to buyers on the domestic market, which is, mainly, performed by their own means of transport.

### 3.2. Analysis of export destinations

Export destinations of NWFPs are shown in Figure .



**Figure 3.** Share of ΣSME/LEs in export destinations of NWFPs

NWFPs are usually exported to Germany (69.6% in ΣSME and 68.4% in LEs) and Italy (64.3% in ΣSME and 63.2% in LEs). Important export destinations are also France (42.9% in ΣSME and 31.6% in LEs), Austria (30.4% ΣSME and 21.1% for LEs), and Switzerland (26.8% in ΣSME and 15.8% in LEs).

In addition, NWFPs are exported in some countries of the Western Balkan region (WBR)<sup>8</sup> (21.4% in ΣSME and 21.1% in LEs), in Canada and USA (each 5.4% in ΣSME and 10.5% in LEs), and Australia<sup>9</sup> (5.4% in ΣSME and 5.3% in LEs).

There are differences in relation to the export destinations of **certain types of NWFPs** (Table 4). Only data for enterprises (ΣSME/LEs) which business activities relate to one type of NWFPs<sup>10</sup> (mushrooms, MAP or WBFF) were taken into account during this analysis.

It was found that the most important export destinations of certain types of NWFPs are:

- mushrooms: Italy (81.3% in ΣSME and 100% in LEs) and Germany (68.8% in ΣSME and 100% in LEs);
- MAP: WBR (85.7% in ΣSME and 100% in LEs) and France (57.1% in ΣSME);
- WBFF: Germany (80% in ΣSME and 100% in LEs).

**Table 4.** Share of ΣSME/LEs to export destinations for specific types of NWFPs

State \ Product	Mushrooms		MAP		WBFF	
	ΣSME	LEs	ΣSME	LEs	ΣSME	LEs
Italy	<b>81.3%</b>	<b>100%</b>	28.6%	–	40%	50%
Germany	<b>68.8%</b>	<b>100%</b>	42.9%	33.3%	<b>80%</b>	<b>100%</b>
Austria	31.3%	–	14.3%	–	20%	50%
France	43.8%	–	<b>57.1%</b>	–	40%	–
Switzerland	37.5%	50%	–	33.3%	–	–
USA	6.3%	–	14.3%	–	–	50%
Canada	–	–	–	–	–	50%
Australia	–	–	14.3%	–	–	–
WBR	6.3%	–	<b>85.7%</b>	<b>100%</b>	20%	–

<sup>8</sup> Term WBR here refers to some former Yugoslavian republics (BiH, Croatia, Macedonia, and Montenegro).

<sup>9</sup> It is interesting to emphasize that one enterprise from Posavsko-podunavsko FA, beside export to countries of west and north Europe, sell products in Japan.

<sup>10</sup> 23 ΣSME and 2 LEs are engaged only in mushrooms, 10 ΣSME and 3 LEs only in MAP, and 12 ΣSME and 2 LEs only in WBFF business.

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For ΣSME, other countries are not quite important export destination, while for LEs, as significant export destinations, in terms of the share of the enterprises, stands out Switzerland (with 50% for mushrooms) and Italy, Austria, Canada and the United States (all with 50% for WBFF).

### **3.3. Analysis of attitudes of representatives of ΣSME/LEs**

Despite the smooth sale of products, most of representatives of ΣSME (70.3%) and LEs (63.2%), believe that **NWFPs market**, in this moment, is not stable enough.

As reasons for the instability of the market, representatives of ΣSME, stated: "*impact of the global economic crisis*", "*dependence on weather conditions*" and "*insufficient number of collectors*". These reasons influence, on the one hand, decrease in the purchasing power ("*impact of global economic crisis*"), and, on the other hand, the amount of available NWFPs, i.e., market of raw materials ("*dependence of weather conditions*" and "*insufficient number of collectors*"), despite the high demand for final products for the end-consumer.

According to the attitudes of representatives of LEs, beside above mention facts, reasons for the instability of the market are: "*lack of organization of NWFPs sector*", "*problems with payments*", "*existence of a grey market*", "*unfair competition*", "*price fluctuations*" (often on a daily basis), etc.

In terms of **improvement of selling**, approximately 1/3 representatives of LEs (31.6%) are satisfied with existing organization and did not indicate need for its improvement. Their attitudes are claimed with fact that they "*...can respond to all customer requirements, if there are enough NWFPs in nature*", and that they have "*...permanent customers abroad, with whom successfully cooperate*".

However, most representatives of LEs (68.4%) believe that the organization of NWFPs selling can be improved through:

- "*...opening offices (branches) in some EU country...*";
- "*...engaging permanent representatives abroad...*", through which they "*...will always be up to date with prices, type of goods that are required, etc...*";
- increase in the number of employees, so, they could quickly respond to customer demands;
- expansion of the distribution network, "*...visiting customers...*", i.e. making direct contact with them;
- associating, which would allow "*...to act with unit price from Serbia on foreign market...*".

Representative of one LE from Posavsko-podunavsko FA believe that possible solution could be "*...establishment of one more enterprise, which will deal with transport*". This is because "*...it is absolutely not profitable that vehicles which transport the goods to a foreign buyer return 'empty' to Serbia*". A similar proposal comes from representative of the other LE from the same FA, who stated that they should "*...get their own transport vehicle (truck), with which they would drive the goods alone*", because "*...this is the best way for foreign buyer to be satisfied*". Purchase of new vehicles, as believes representative of one LE from Rasinsko FA, can support improvement of organization of selling, because, in this way, they "*...would not depend on third parties,*" as they do now.

## **4. DISCUSSION**

When it comes to **forms of organization of retail**, most ΣSME and LEs do not have their own retail stores, nor do they sell products to small retail stores and/or supermarkets in the country. Following causes of the lack of direct selling to consumers are distinguished: low finalization of products (primarily mushrooms and WBFF), insufficient consumption of NWFPs in Serbia and underdevelopment of the domestic market (Nedeljkovic et al., 2012). Also, the cause may be the lack of sufficient human and technical capacities. In addition, when products are not sold directly to end consumers, but through third parties (retail chains), business success also depends on the acceptance of business partners, their support and quality of mutual cooperation (Chris Lin & Chang, 2012).

In terms of wholesale organization, usually it is selling to foreign buyers, i.e. exports, which is understandable if one bears in mind, that in our case, e.g. "*...market of MAP is not sufficiently developed*" (Turudija-Ťivanović, 2010, p. 78). However, it is evident that export opportunities are not fully exploited<sup>11</sup>. In order to achieve competitive advantage in selling on foreign markets, especially to EU, less successful enterprises

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<sup>11</sup> Results of previous studies indicate that, in terms of MAP "*...Serbia is the marginal supplier to the EU, because Serbian exports accounts for less than two percent to the EU imports of this product group*" (Zarić, Deljanin, Petković, & Beatović, 2012, p. 477).

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need to implement business strategies of leaders in the markets of the „old“ EU member states, which are aimed at highlighting the product quality, and not on the price (Glob & Podnar, 2007).

Bearing in mind the fact that exports is risky business activity (D'Angelo, Majocchi, Zucchella, & Buck, 2013), it is understandable that all analyzed LEs organize selling on foreign markets in cooperation with long-time customers. This type of exports organization, with presence of adequate resources, provides LEs opportunity to *“...successfully overcome obstacles to foreign development and to manage a process of international growth”* (D'Angelo et al., 2013, p. 82).

Results of previous research show positive relationship between the use of business networks that consist of business partners and customers, and reduce the uncertainty on foreign markets. Those networks provide necessary information and knowledge, understanding of customer needs and reduce the risk of failure (Helm & Gritsch, 2014).

In Serbia, the most  $\Sigma$ SME sell products to other processors, which, after additional processing, sell NWFPs to wholesalers or retailers. On the other hand, this type of selling is not present in most of LEs. Selling to other processors indicates lack of product finalization. This was confirmed by previous studies, which emphasize that NWFPs from Serbia are, on foreign market, mostly sold as a raw material or semi-finished products (Nonić et al., 2013; USAID, 2008).

**Transportation** of NWFPs to the delivery point, in  $\Sigma$ SME, is usually, organized by customers, while in most LEs is present own transport. Optimal organisation of transport activities is of special importance for enterprises engaged in food business (Bosona & Gebresenbet, 2011). Because of this, it is needed, within each enterprise, to well consider which type of transport is mostly suitable to particular situation.

The most important **export destinations** are countries of central, west and south Europe (Austria, France, Germany, Switzerland, Italy, etc.), between which particularly stand out Germany and Italy. Similar results occurred in previous studies, which indicated that the most common export destinations are EU countries, as well as Switzerland, but also United States (Nonić et al., 2013; Sitta & Floriani, 2008; Zarić et al., 2012).

Most representatives of  $\Sigma$ SME and LEs believe that NWFPs **market** is not stable. Market instability is caused by various factors: economic (e.g. the global economic crisis, price fluctuations<sup>12</sup>, insufficient development of the domestic market), ecological (e.g. dependence of yield on the weather conditions, the vulnerability of biodiversity) and social (e.g., decreasing purchasing power, insufficient number of collectors). Instability of the market has been marked in previous studies as one of the challenges for performing successful selling (Chris Lin & Chang, 2012). However, it is emphasized that *“...addressing market needs leads to increased acceptance by consumers and retailers”* (Chris Lin, & Chang 2012, p. 91), regardless of its stability.

## **5. CONCLUSIONS**

Conducted analysis of organization of NWFPs selling in SME has led to following **conclusions**:

- selling is present in most studied enterprises, where:
  - retail is not performed in the biggest number of  $\Sigma$ SME and LEs;
  - wholesale is present in most of  $\Sigma$ SME and LEs;
- in relations to forms of retail organization, it can be concluded that:
  - most of  $\Sigma$ SME and LEs do not have their own retails nor do they perform selling through small retail stores/supermarkets in the country;
  - most common form of organizing of this activity in  $\Sigma$ SME is “other forms”, primary selling to labour unions;
- in relations to forms of wholesale organization, it was concluded that:
  - in  $\Sigma$ SME, two forms are the most common: “foreign buyers” and “other processors”;
  - in LEs is mostly present selling to “foreign buyers”, while small number of these enterprises conduct selling to “other processors”;
- transport of products to customers can be organized in three ways (“own”, “organized by customer” and “engagement of transport enterprises”), where:
  - in  $\Sigma$ SME, the most common form is “organized by customer”;
  - in most LEs is organized “own” transport;
- the most common export destinations, in both  $\Sigma$ SME and LEs are Germany and Italy:

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<sup>12</sup> For example, MAP prices on domestic and international market *“...are subject to constant corrections...”*, i.e. *“...respecting exchange rate of euro and growth of fuel prices and other inputs”* (Turudija-Ĵivanović, 2010, p. 72). But it should be noted that *“...higher price fluctuations are due to the deficit of specific raw material, when seller can achieve much higher price”* (Turudija-Ĵivanović, 2010, p. 72).

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- mushrooms are, mostly, exported to Italy and Germany, MAP in WBC and WBF in Germany;
- most representatives of ΣSME and LEs, believe that market of NWFPs is not stable;
- most representatives of LEs believe that there is a need for improvement of organization of selling.

Based on the analysis of results, following specific **problems** in organization of NWFPs selling in SMEs are noticed:

- in relation to organization of retail:
  - insufficient representation of this form of selling, and insufficient cooperation of SMEs;
- in relation to organization of wholesale:
  - high share of selling to “other processors”.

According to this, as well as to the attitudes of LEs representatives, following **recommendations** are defined for improving the process of selling:

- networking of SMEs, though creation of “business networks” in selling and joint cooperation with customers, within the supply chain of NWFPs;
- reduction of presence of selling to “other processors”.

If enterprises do not organize own selling, their business success is partly dependent on third parties, entrusted with these activities. For this reason, SMEs could establish business networks in supply chains for joint cooperation in the selling, and for entering into certain markets. Risk to enter into the domestic market is connected with its insufficient development. On the other hand, foreign markets of NWFPs have specific requirements in relation to quantity and quality, which NWFP-SMEs from Central Serbia can hardly meet. In addition, there is competition from other EU countries (Romania, Bulgaria, Poland, etc.), which, because of EU membership, have easier access to the major markets for NWFPs.

Recommendation that relates to the reduction of presence of selling to “other processors” means greater product finalization, which will also have positive impact on increasing income of the enterprises.

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## SMALL AND MEDIUM ENTERPRISES BASED ON NON-WOOD FOREST PRODUCTS: CHARACTERISTICS AND TYPES IN SERBIA

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**Abstract:** *In order to increase the contribution of forestry sector to economic and social development, it is necessary to support the establishment and development of small and medium-sized enterprises (SMEs) which business is based on wood and non-wood forest products (NWFPs). To properly plan development of the private forestry sector, it is also necessary to establish the basic structure and forms of SMEs for procurement, processing and sale of NWFPs (NWFP-SMEs) and their business. In this context, the aim of the research was to determine the characteristics and types of NWFP-SMEs. The study included 91 representatives of NWFP-SMEs in Central Serbia. Analysis of the results showed that, based on the characteristics and activities they perform, there are three types of NWFP-SMEs. Based on the characteristics and attitudes towards additional training, four types of NWFP-SMEs representatives can be distinguished. The results can serve as a basis for further study on types of SMEs and improving the entrepreneurship in NWFP sector.*

**Keywords:** *small and medium enterprises, entrepreneurship, types, non-wood forest products, forestry*

### 1. INTRODUCTION

Small and medium enterprises (SMEs) have an important role in every economic sector, primarily due to "...contribution to social stability and significant fiscal revenues generation" (Premović, Boljević, & Arsić, 2011). In order to increase the contribution of forestry sector to the economic and social development, it is necessary to support the establishment and development of forest-based SMEs (Ranković, Nonić, Nedeljković, Marinković, & Glavonjić, 2012). To properly plan development of the private forestry sector and ensure the development of SMEs in forestry, it is necessary, in addition to wood products, to pay special attention to non-wood forest products<sup>1</sup> (NWFPs).

Previous research show that entrepreneurs in forestry sector should take into account NWFPs, when exploring new development strategies, as these products provide significant opportunities for additional revenues (Niskanen et al., 2007). In this paper, as NWFPs are considered mushrooms, medicinal and aromatic plants (MAP), wild berries and other forest fruits (WBFF).

Research on SMEs for procurement, processing and selling of NWFPs (NWFP-SMEs) in Serbia argue that structure of these enterprises is very heterogeneous, and production capacities are underutilized and often inadequate. One of the reasons for this may be the lack of adequate support, as it was determined that most of these enterprises do not have sufficient financial resources, nor do they have access to favourable bank loans (Nonić, Nedeljković, & Jovanović, 2012; Nonić, Ranković, & Nedeljković, 2013a).

Results of research conducted in different countries indicate that SMEs need more support in order to enlarge and improve production capacities, obtain necessary technical knowledge and increase profitability (Pettenella, Secco, & Maso, 2007; Uddin et al., 2008). However, in many countries is noticeable lack of support for development of SMEs in forestry and, if support exists, it is often inadequate or poorly targeted (Macqueen, 2007). Therefore, policy-makers may need "...policies that support the varying needs of different types of entrepreneur, rather than provide broad 'blanket' policies to all types of entrepreneur, irrespective of need or ability" (Westhead, Ucbasaran, Wright, & Binks 2005, p. 110). For these reasons, it is essential that decision-makers have necessary information about the types of enterprises in the private forestry sector, or in this case, NWFP-SMEs.

In literature, there are several typologies of entrepreneurs (Dowell, Dawson, Fuller-Love, & Hopkins, 2012; Schwienbacher, 2007; Westhead et al., 2005), and SMEs (Andersén, 2012; Franco & Haase, 2013; Swoboda & Olejnik, 2013). Also, some authors have studied types of business strategies, which are not

<sup>1</sup> NWFPs are "...goods of biological origin other than wood, derived from forests, other wooded land and trees outside forests" (FAO, 1999).

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directly related to SMEs, but can be applied to them (Grant, Cadden, McIvor, & Humphreys, 2013; Löfving, Säfsen, & Winroth, 2014; Miller & Roth, 1994).

Previous studies in private forestry sector in Serbia, have determined several types of classification, in relation to: private forest owners (Nonić, Ranković, Glavonjić, & Nedeljković, 2013); SMEs and entrepreneurs operating with wood products (Ranković et al., 2012); supply chains of NWFPs (Nonić, Ranković, & Nedeljković, 2013b), and the attitudes of representatives of NWFP-SMEs towards the documentation needed for NWFPs collection (Nedeljković et al., 2013).

However, there is a lack of knowledge about the types of NWFP-SMEs and their representatives. For these reasons, the **aim** of the research was to determine the characteristics and types of NWFP-SMEs in Central Serbia<sup>2</sup>. The **purpose** of the research is to create a basis for further research and improvement of the entrepreneurship in NWFP sector. The **subjects** are attitudes of the representatives of NWFP-SMEs.

## 2. METHODS

Different scientific methods are applied in the paper: statistical, comparative, analysis and synthesis. As research techniques for data collection, "door-to-door" survey was used (Malhotra, 2007). The questionnaire was created as a combination of 65 open- and close-ended questions, divided into six groups. Only those questions that relate to the basic characteristics of NWFP-SMEs and their business, and basic (socio-demographic) characteristics of the respondents, were selected for the purposes of this paper.

During the statistical processing of answers to questions that were continuous variables, descriptive statistics was used, while in the case of categorical variables, frequency analysis was applied. Cluster analysis was used as statistical analysis, which is mainly applied in determining the specific typology in socio-economic studies (Grant et al., 2013; Swoboda & Olejnik, 2013).

For grouping objects into relatively homogeneous groups (so-called clusters), i.e. to determine the types of SMEs and their representatives, two-step cluster analysis (Malhotra, 2007) was applied. The criterion for clustering was Schwarz's Bayesian Criterion (BIC). Two-step cluster analysis allows grouping of categorical, and categorical and non-categorical variables, and does not require prior knowledge on number and characteristics of clusters. Those are determined by the value of BIC and Ratio of distance measures (RDM). The quality of the grouping is determined on the basis of Silhouette coefficient<sup>3</sup>. To test the differences in the obtained (empiric) and expected frequencies<sup>4</sup>,  $\chi^2$  test for goodness-of-fit was used.

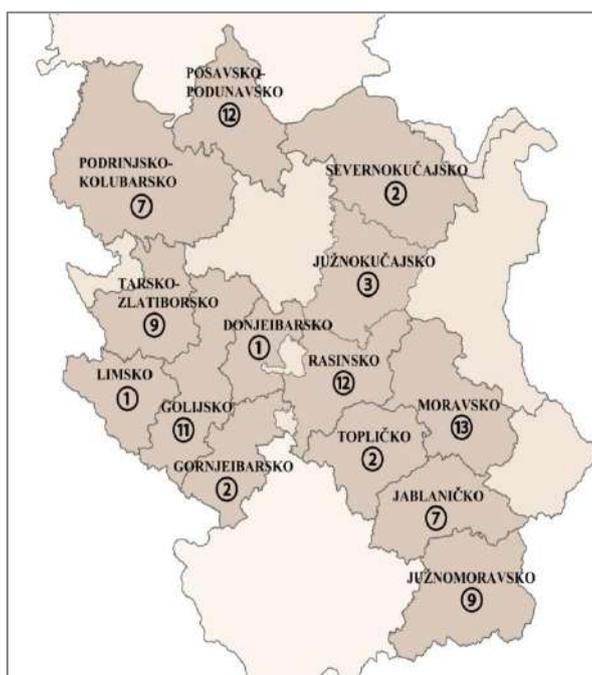


Figure 1. Distribution of analyzed SMEs in forest areas

<sup>2</sup> Term "Central Serbia" refers to the territory of Serbia without AP Vojvodina and Kosovo and Metohija.

<sup>3</sup> If the average value of Silhouette is 0.70-1, quality of data grouping is strong, if  $>0.50$  and  $\leq 0.70$ , quality is reasonable, if  $>0.25$  and  $\leq 0.50$ , quality is week, and if  $\leq 0.25$ , grouping is not statistically significant (Pearson et al., 2004).

<sup>4</sup> In all cases it was assumed that expected (hypothetical) frequency distribution was 50%:50%, i.e. null hypothesis was that all proportions were equal.

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Basic information (name, registered office, contact) on NWFP-SMEs, were obtained from internal reports of the Ministry of Environment, Mining and Spatial Planning<sup>5</sup>, which was, in the research period (2011-2012), responsible for these tasks. Data collection was conducted with representatives of 91 enterprises (from the total number of 127 SMEs active in the moment of research)<sup>6</sup>. Distribution of these SMEs in forest areas<sup>7</sup> is shown in Figure 1. Sampling was not used in research, i.e. census was conducted because of the small population (Malhotra, 2007).

### 3. RESULTS

In results are presented and analysed data related to characteristics and types of NWFP-SMEs and its representatives.

#### 3.1. Characteristics and types of NWFP-SMEs

As basic **characteristics of NWFP-SMEs**, in this research are considered (Table 1):

- location;
- number of employees and seasonal workers;
- type of NWFPs;
- transportation equipment and mechanization.

**Table 1.** Share of NWFP-SMEs in regard to basic characteristic

NWFP-SMEs basic characteristics		Frequencies (%)
Location	Rural	70,3
	Urban	57,1
Number of employees	Up to 10	31,9
	11-50	49,5
	51-250	18,7
Type of NWFPs	Mushrooms	62,6
	MAP	35,2
	WBFF	62,6
Transportation equipment and mechanization	Van with refrigerator	42,9
	Van without refrigerator	60,4
	Weighing machine	95,6
	Drying machine	65,9
	Machine for processing	75,8
	Machine for packaging	22,0
	Cold-store	56,0

In relation to the location, most NWFP-SMEs are located in urban, but also in rural areas, i.e. there is certain number (27.5%) that is performing business activities in both locations.

Around ½ of NWFP-SMEs (49.5%) has 11-50 employees. Results of  $\chi^2$  test for goodness-of-fit show statistically significant difference between these groups ( $\chi^2=13.01$ ,  $df=2$ ,  $p=0.00$ ). Most enterprises, in regard to the number of employees, belong to the group of small enterprises<sup>8</sup>.

Most NWFP-SMEs (84.6%) hire seasonal workers, whose average number is 10 and maximal 250. NWFP-SMEs have need for hiring seasonal workers because collection, purchase and processing of NWFPs are seasonal activities, mainly performed during summer and autumn.

When it comes to type of NWFPs, most SMEs (62.2%) are engaged in mushrooms and WBFF business and 35.2% in MAP.

<sup>5</sup> In accordance to Decree on putting under control the use of and trade in wild flora and fauna, all legal entities, engaged in collection of NWFPs for commercial purposes, are obliged to have the permit. The register of these legal entities is kept, based on the data from the permits.

<sup>6</sup> After determining the final number of SMEs that asked for the permit for commercial collection of NWFPs in the period 2007-2010, their liquidity was verified (telephone contact and checking databases of Serbian Business Register Agency and National Bank of Serbia).

<sup>7</sup> Detail information about forest areas are given in Law on forests (2010).

<sup>8</sup> If only number of employees is taken as a criterion, these enterprises, in accordance with the current Law on accounting (from 2013), belong to the category of small enterprises.

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Regarding transportation equipment and mechanization, most NWFP-SMEs have van without refrigerator (60.4%) and other equipment, necessary for secondary processing of NWFPs (weighing machine, drying machine, machine for processing and cold-stores).

The oldest equipment, which enterprises purchased at the time of establishment, are drying machines, vans, machines for processing (10 yrs.) and packaging (8 yrs.), and cold (7 yrs.). The average age of weighing machine is smaller (5 yrs.), because they need to be renewed frequently.

Analysed **major characteristic of NWFP-SMEs<sup>9</sup>** business are (Table 2):

- business activities;
- average use of technological capacity;
- working conditions;
- problems in business;
- relationship to investments.

**Table 2.** Share of NWFP-SMEs in regard to basic characteristic of business

<b>Basic characteristics of NWFP-SMEs business</b>		<b>Frequencies (%)</b>
Business activity	Procurement	98.9
	Processing	95.6
	Selling	68.1
	NWFPs main/sole activity	<b>73.6</b>
Average utilization of technological capacity	Coldstore	57.6
	Drying machine	74.8
	Equipment for other processing	70.8
Working conditions	Old equipment and mechanization	14.6
	Dependence of weather conditions	<b>78.7</b>
	Inadequate legal framework	<b>70.8</b>
Problems in business	Unqualified labour	22.0
	Insufficient labour	39.6
	Lack of trainings	14.3
	Unfair competition	<b>60.4</b>
	Lack of export	16.5
	Undeveloped national market	39.6
	Insufficient utilization of capacities	27.5
	Payments	39.6
	Clients	9.9
	Cooperation with other enterprises	11.0
Other	14.3	
Investments	Fixed assets of expanded reproduction	<b>74.1</b>
	Product finalization	17.6
	Introduction of additional activities	7.1
	Marketing instruments	7.1
	Working assets	9.4

Business activities of most NWFP-SMEs include procurement (98.9%), processing (95.6%) and selling (68.1%). Also, NWFP-related business activities are main or sole activity for around  $\frac{3}{4}$  (73.6%) SMEs.

In analysed enterprises, there is high degree of utilization of drying machine (74.8%) and equipment used for other processing (70.8%), while degree of utilization of cold-stores is slightly less (57.6%).

Respondents believe that working conditions are mostly defined by weather (78.7%), which is understandable bearing in mind that NWFPs yield depends solely on nature and weather conditions. Also, majority of respondents (70.8%) claim that legal framework is inadequate.

Unfair competition is the most important problem in business (60.4% of SMEs representatives). Representatives also think that insufficient labour, undeveloped national market, and payments (each

<sup>9</sup> In relation to legal form, most enterprises are registered as business companies (74.7% as Limited Liability Company and 1.1% as Joint Stock Company). In addition, there are entrepreneurs (22.0%) and cooperatives (2.2%).

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39.6%) cause problems in business. On the other hand, the smallest number of respondents believes that problems are caused by clients (9.9%) and cooperation with other enterprises (11.0%)<sup>10</sup>.

Most SMEs representatives (74.1%) believe that financial resources should be invested in new equipment, i.e. fixed assets.

**Types of NWFP-SMEs** were determined based on two groups of variables:

- 1) basic characteristics (location, number of employees and seasonal workers);
- 2) SMEs activities.

Three types<sup>11</sup> of enterprises are distinguished based on the characteristics (Table 3):

- "small rural" (50.6%);
- "small urban" (29.9%);
- "medium urban" (19.5%).

**Table 3.** Types of enterprises in relation to the characteristics

Type of enterprise	Location	Number of employees	Number of seasonal workers
Small rural	Rural	11-50	16
Small urban	Urban	11-50	17
Medium urban	Urban	51-250	133

Most SMEs belong to the type "small rural enterprises", which is understandable, bearing in mind that the activities related to NWFPs, particularly procurement of raw materials, belong to rural areas. This is because NWFPs collection and purchase are performed in villages and their surroundings, which are closer to the forest resources than urban areas.

Results of  $\chi^2$  test goodness-of-fit show a statistically significant difference between these types ( $\chi^2=11.64$ ,  $df=2$ ,  $p=0.003$ ).

"Small rural" and "small urban" types are very similar (differ only in location). On the other hand, "medium urban" type clearly differs, both in terms of the number of employees and seasonal workers.

Three types of enterprises are determined, based on SMEs business activities<sup>12</sup>:

- SMEs engaged in procurement, processing and selling of NWFPs (64.8%);
- SMEs engaged in procurement, and processing of NWFPs (30.8%);
- SMEs engaged in procurement, and selling of NWFPs (4.4%).

Results of  $\chi^2$  test goodness-of-fit show a statistically significant difference between these types ( $\chi^2=50.13$ ,  $df=2$ ,  $p=0.0$ ).

The majority of enterprises belong to the type engaged in all three activities. This is understandable if one takes into account the above results, which indicate that procurement and processing are present in almost all studied SMEs and selling in the majority.

### 3.2. Characteristics and types of representatives of NWFP-SMEs

Following **characteristics of representatives of NWFP-SMEs** were analysed (Table 4):

- position;
- age;
- gender;
- education.

In terms of positions in the enterprise, 69.2% of all representatives NWFP-SMEs are owners and/or managers (27.5% owners, 22.0% owner-managers and 19.8% managers). Presented results indicate that no position prevails. However, results of the  $\chi^2$  test goodness-of-fit show a statistically significant difference between observed variables ( $\chi^2=40.31$ ,  $df=6$ ,  $p=0.0$ ).

<sup>10</sup> Most respondents believe that unfair competition represents "...problem in NWFP purchase", while on the other hand majority emphasize that "...with other enterprises usually cooperate in selling".

<sup>11</sup> Silhouette=0.5, BIC=253.87, RDM=1.86

<sup>12</sup> Silhouette=1.0, BIC=55.23, RDM=3.01

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**Table 4.** Share of NWFP-SMEs representatives' in regard to the characteristic

Characteristics		Owner	Manager	Owner-manager	All respondents
		Frequencies (%)			
Position	Owner	100	-	-	27.5
	Manager	-	100	-	19.8
	Owner-manager	-	-	100	22.0
	Employee	-	-	-	17.6
	PR	-	-	-	1.1
	Consultant	-	-	-	1.1
	Other	-	-	-	11.0
Age	18-25	-	-	-	2.2
	26-45	<b>52.0</b>	27.8	<b>55.0</b>	49.5
	46-65	48.0	<b>72.5</b>	40.0	47.3
	More than 65	-	-	5.0	1.1
Gender	Male	<b>84.0</b>	<b>83.3</b>	<b>75.0</b>	<b>74.7</b>
	Female	16.0	16.7	25.0	25.3
Education	Secondary school	40.0	22.2	<b>55.0</b>	41.8
	High school	28.0	33.3	20.0	22.0
	Faculty	32.0	44.4	25.0	36.3

Regarding gender, representatives of SMEs are mostly males (74.7%). The majority of owners and owner-managers belong to age group 26-45 years.

In relation to education, results of  $\chi^2$  test goodness-of-fit indicated no statistically significant difference between education categories<sup>13</sup>, i.e. none of them can be described as prevailing.

Following **attitudes of NWFP-SMEs representatives**, towards additional trainings were analysed (Table 5):

- importance of additional trainings;
- previous trainings;
- type of training;
- interest in future trainings;
- type of training required in future.

**Table 5.** Share of NWFP-SMEs representatives' in regard to attitudes toward training

Attitudes		Owner	Manager	Owner-manager	All respondents
		Frequencies (%)			
Importance of additional trainings <sup>14</sup>	Negative	8.0	11.1	5.0	7.7
	Indifferent	28.0	11.1	15.0	16.5
	Positive	<b>64.0</b>	<b>77.8</b>	<b>80.0</b>	<b>75.8</b>
Previous trainings	Yes	<b>56.0</b>	44.4	<b>60.0</b>	<b>52.7</b>
	No	44.0	<b>55.6</b>	40.0	47.3
Type of training	Informal	7.1	28.6	25.0	15.2
	Formal	<b>92.9</b>	<b>71.4</b>	<b>75.0</b>	<b>84.8</b>
Interest in future trainings	Yes	<b>80.0</b>	<b>72.2</b>	<b>80.0</b>	<b>79.1</b>
	No	20.0	27.8	20.0	20.9
Type of training required in future	Entrepreneurship	42.9	30.8	37.5	35.6
	Business administration	42.9	46.2	43.8	43.8
	Management	<b>57.1</b>	<b>61.5</b>	37.5	<b>53.4</b>
	Supply chain management	42.9	38.5	31.3	35.6
	Legislation	42.9	38.5	37.5	35.6
	Professional knowledge on NWFPs	<b>66.7</b>	<b>61.5</b>	<b>75.0</b>	<b>68.5</b>
	Other	9.5	23.1	12.5	16.7

<sup>13</sup> Values of  $\chi^2$  test goodness-of-fit are: owners- $\chi^2=0.56$ ,  $df=2$ ,  $p=0.76$ ; managers- $\chi^2=1.33$ ,  $df=2$ ,  $p=0.51$ , owner-managers- $\chi^2=4.3$ ,  $df=2$ ,  $p=0.12$ .

<sup>14</sup> 5-degree Likert scale was applied for evaluation of additional training importance. In this paper, points 1 (very unimportant) and 2 (unimportant) are shown as negative, 3 (neither important nor unimportant) as indifferent, and 4 (important) and 5 (very important) as positive attitude.

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Most respondents have a positive attitude toward the importance of additional training. Also, most of them, except those in the position of managers, have attended some training, mostly formal. The majority of respondents, regardless of the position, showed interest in attending trainings in the future.

In relation to the type of training, 68.5% of respondents believe that they need professional knowledge on NWFP and 53.4% require training in management.

**Types of NWFP-SMEs representatives** (owner, manager and owner- manager), were distinguished on the basis of two groups of variables: basic characteristics, and attitudes toward type of training.

In regard to characteristics (**Error! Not a valid bookmark self-reference.**), majority of owners (52.0%) and the highest number of owner-managers (45.0%) are "younger secondary school graduates", and 44.4% of managers are "older secondary school graduates". Common characteristics of these types are male sex and secondary education.

**Table 6.** Share of types of NWFP-SMEs representatives in regard to the basic characteristics

Type <sup>15</sup> of NWFP-SMEs representatives	Owner	Manager	Owner-manager
	Frequencies (%)		
Younger secondary school graduates	<b>52.0</b>	-	45.0
Older secondary school graduates	-	44.4	-
Older high school graduates <sup>16</sup>	-	16.7	20.0
Older with faculty	48.0	38.9	35.0

However, results of  $\chi^2$  test goodness-of-fit indicated no statistically significant difference between these types (none can be described as prevailing), because:

- for owners,  $\chi^2=0.04$ ,  $df=1$ ,  $p=0.84$ ;
- for managers,  $\chi^2=2.33$ ,  $df=2$ ,  $p=0.31$ ;
- for owner-managers,  $\chi^2=1.90$ ,  $df=2$ ,  $p=0.39$ .

In regard to attitudes toward type of training (**Error! Not a valid bookmark self-reference.**), following types of NWFP-SMEs representatives are distinguished:

- "professional knowledge on NWFPs" – only professional knowledge of NWFPs, related to the type of product, methods of collection, processing, etc. (75% owner-managers);
- "broad managerial & professional knowledge" – knowledge from the field of management and related disciplines (entrepreneurship, business administration, etc.), and professional knowledge on NWFPs;
- "narrow managerial & professional knowledge" – knowledge from the field of management, and professional knowledge on NWFPs (61.5% of managers);
- "lack of interest in additional training in proposed fields" – no need for additional training from management and related disciplines, nor professional knowledge on NWFPs, but still show interest in additional education (61.9% of owners).

**Table 7.** Share of types of NWFP-SMEs representatives in regard to the type of training

Type <sup>17</sup> of NWFP-SMEs representatives	Owner	Manager	Owner-manager
	Frequencies (%)		
Professional knowledge on NWFPs	-	-	<b>75.0</b>
Broad managerial & professional knowledge	38.1	38.5	25.0
Narrow managerial & professional knowledge	-	<b>61.5</b>	-
Lack of interest in additional training in proposed fields	<b>61.9</b>	-	-

However, results of  $\chi^2$  test goodness-of-fit show that there is no statistically significant difference between these types (none can be described as prevailing, except in case of owner-managers), because:

- for owners,  $\chi^2=1.19$ ,  $df=1$ ,  $p=0.28$ ;
- for managers,  $\chi^2=0.69$ ,  $df=1$ ,  $p=0.41$ ;
- for owner-managers,  $\chi^2=4.0$ ,  $df=1$ ,  $p=0.046$ .

<sup>15</sup> Owners: Silhouette=0.5, BIC=99.85, RDM=1.81; managers: Silhouette=0.6, BIC=64.50, RDM=1.66; owner-managers: Silhouette=0.5, BIC=87.01, RDM=1.53.

<sup>16</sup> Types of managers and owner-managers "older high school graduates" are 46-65 years old, with high school. The difference is in gender: managers are females and owner-managers are males.

<sup>17</sup> Owners: Silhouette=0.7, BIC=108.87, RDM=4.28; managers: Silhouette=0.5, BIC=93.01, RDM=2.56; owner-managers: Silhouette=0.7, BIC=101.37, RDM=2.32.

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Common characteristic for owners, managers and owner-managers is that few of them show interest in acquiring "broad managerial & professional knowledge".

#### **4. DISCUSSION**

In relation to **basic characteristics of NWFP-SMEs**, it can be seen that their location is both in urban and rural areas, and that they are small enterprises, in regard to the number of employees. The most common NWFPs are mushrooms and WBFF. Most NWFP-SMEs belong to the type "small rural enterprises".

Previous studies on forest-based enterprises indicate that small family enterprises (FAO, 2005; USAID, 2008), located in rural areas (FAO, 2005; Niskanen et al., 2007; Pettenella et al., 2007), are mainly engaged in these activities.

Regarding **characteristics of NWFP-SMEs business**, it is noticeable that selling is present in most enterprises, while almost all of them are engaged in procurement and processing. The prevailing type of NWFP-SMEs, distinguished on the basis of their activities, is the one that integrates procurement, processing and selling. Previous studies in the region of Šumadija and Western Serbia showed similar results (Nonić, Ranković, & Nedeljković, 2013b).

Most NWFP-SMEs representatives believe that working conditions are defined by weather. Considering that NWFPs are seasonal products, whose yields depend on nature and weather "*...their supply cannot be regular and fully reliable*" (FAO, 2005, p. 6). This is the reason why SMEs in this sector "*...seldom rely on one product*" (FAO, 2005, p. 6). In this way, they are trying to minimize potential losses.

Unfair competition, insufficient labour, underdevelopment of national market, and payments are important problems in business. Although there are certain differences in attitudes, these problems are to some extent similar to those reported in the literature. Research conducted abroad show that the main problems are: "*...lack of capital investment and shortage of raw materials, skilled manpower and up-to-date information*" (Uddin et al., 2008, p. 147). Also, problem can be caused by "*...financial and technical limitations, (...), market insecurity (with large price fluctuations) and lack of research*" (Uddin et al., 2008, p. 148).

Despite appropriate technological equipment, most respondents believe that additional funds should be invested in fixed assets (cold-stores, drying machines, etc.). According to the results of previous research in Serbia, representatives of NWFP-SMEs emphasize the need for additional financial support measures, which would be used for purchase of new equipment and machinery (Nonić, Ranković, & Nedeljković, 2013a).

In regard to the basic **characteristics of NWFP-SMEs representatives**, most respondents are owners and/or managers. The biggest (but not prevailing) number of owners and owner-managers belong to the type "younger secondary school graduates". This means that all of them are males, 26-45 years old, with secondary school. These results are in line with previous studies that indicate entrepreneurs are mainly males, 20-50 years old, and have secondary school education (Ayala & Manzano, 2014).

Most respondents have positive attitude towards additional education and have attended some kind of formal training. In terms of types of NWFP-SMEs representatives, most owner-managers belong to the type being interested in professional knowledge on NWFPs. On the other hand, most owners show lack of interest in additional training in proposed fields. Reason for this may be the fact that "owner-managers" in forestry "*...see their businesses primarily as a source of revenue and a way to provide for their own employment*" (St-Jean, LeBel, & Audet, 2010, p. 212). The importance of additional education is emphasized in previous studies showing that "*...certain factors such as human capital and characteristics (education, training, manager experience) have a direct influence on rural business growth*" (St-Jean et al., 2010, p. 213).

#### **5. CONCLUSION**

In regard to **characteristics of NWFP-SMEs**, following conclusion can be drawn:

- most enterprises have 11-50 employees and operate with mushrooms and/or WBFF;
- most enterprises have van without refrigerator, weighing and drying machines, machine for processing and cold-stores.

In regard to **characteristics of NWFP-SMEs business**, following can be concluded:

- most enterprises are engaged in all three activities (procurement, processing, selling), and NWFPs are predominant/sole activity;
- there is high degree of utilization of drying machine and equipment for other processing;
- working conditions are defined by dependence on weather and inadequate legal framework;

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- the most important problem in business is "unfair competition";
- financial resources should be invested in fixed assets.

Research results showed following **types of NWFP-SMEs**:

- in regard to basic characteristics of SMEs:
  - 1) "small rural" (prevailing);
  - 2) "small urban";
  - 3) "medium urban";
- in regard to business activities:
  - 1) "procurement, processing, selling" (prevailing);
  - 2) "procurement, processing";
  - 3) "procurement, selling".

Following can be concluded in relation to **characteristics of NWFP-SMEs representatives**:

- most are at the position of the owner and/or manager, are 26-45 years old, male with secondary school education;
- most have positive attitude towards the importance of additional training, have attended formal trainings and show interests in additional education, mainly in the field of management and professional knowledge on NWFPs.

Following **types of NWFP-SMEs representatives** are distinguished:

- in regard to some basic characteristics (none is prevailing):
  - 1) "younger secondary school graduates";
  - 2) "older secondary school graduates";
  - 3) "older high school graduates";
  - 4) "older with faculty";
- in regard to attitudes toward the type of additional training:
  - 1) "professional knowledge on NWFPs" (prevailing within owner-managers);
  - 2) "broad managerial & professional knowledge"
  - 3) "narrow managerial & professional knowledge"
  - 4) "lack of interest in additional training in proposed fields".

These results can serve as a basis for further research on types of SMEs and possibilities of improvement of entrepreneurship in NWFPs sector. Also, in the coming period should be studied the need for specific support measures in relation to different types of entrepreneurs.

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## THE IMPORTANCE OF HUMAN RESOURCES DEVELOPMENT AS NON-FINANCIAL SUPPORT TO SMES IN SEE AND SERBIA

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**Abstract:** *Having in mind that systematic approach to developing human capital requires the identification of training needs of SMEs, this paper will present the main results of the comparative analysis on the main challenges in HR of SMEs in South- East Europe, including Serbia which was done by SEECEL<sup>1</sup>. The key challenges of SMEs in choosing the relevant training program will be presented as well. The paper will also highlight the specific needs of SMEs in Serbia regarding the non-financial services. This part of analysis is based on the Report which is regularly published by National Agency for regional development so that the progress achieved in 2013. could be measured and presented as well.*

**Keywords:** *training, SME, HR, needs, challenges, non-financial service*

### 1. INTRODUCTION

Human capital development is considered as one of the key areas for fostering the competitiveness of SMEs as the basis for sustainable growth. Since economic crisis affected SMEs considerably, EU countries prepared the appropriate response in many relevant development aspects, including the human capital. Training needs analysis is one of the backbone for the systematic approach to developing human capital. Although the financial support prevailed among the priorities for SMEs growth, non-financial support which refers to the training needs mainly, is becoming more and more important.

It is widely promoted over the Europe that key successes factor for growth is smart, sustainable and inclusive development. In order to take advantage of this opportunity, steps were outlined in the EU 2020 Strategy which set the targets and key priorities and initiatives. Recognizing that Europe can "count on the talent and creativity of [its] people"<sup>2</sup>, the EU 2020 strategy places a great focus on the development of Europe's human capital. In particular, it stipulates that promoting smart growth driven by knowledge and innovation necessitates reforms which should improve the quality of education and training, and reforms should contribute to "ensuring that innovative ideas can be turned into new products and services that create growth, quality jobs and help address European and global societal challenges. But, to succeed, this must be combined with entrepreneurship, finance, and a focus on user needs and market opportunities."<sup>3</sup>

The development of the SME sector has consistently been highlighted in national SME strategies, programs and action plans as one of the economic priorities of South East European countries. To achieve this economic priority, the focus has been placed on fostering the competitiveness of SMEs by improving the competences of SME's human capital. The education and training system, which plays a crucial role in strengthening the competences of SME's human capital, should remain flexible and respond accurately to the demands of the labor market. The discrepancy between the expressed needs for training and the training provision offered in the market and the lack of data on SME's training needs should be addressed through systematic Training Needs Analysis (TNA) (SEECEL, 2013). All pre-accession countries which belong to SEE region are committed to the performing of TNA as this is a milestone for the evidence-based policy making. The SEECEL developed instrument and associated methodology as well as the first implementation of an SEE-wide TNA provides the platform for future Training Needs Analysis System (TNAS). The results

<sup>1</sup> South East European Center for Entrepreneurial Learning (SEECEL) is regional institution with the mission to promote the development of the lifelong entrepreneurial learning system and entrepreneurship as key competence in eight pre-accession countries of South East Europe (SEE). SEECEL is funded by EU, under the IPA and from the state budget of the Government of the Republic of Croatia.

<sup>2</sup> Europe 2020: A strategy for smart, sustainable and inclusive growth" (COM(2010)), p.7

<sup>3</sup> Europe 2020: A strategy for smart, sustainable and inclusive growth" (COM(2010)), p.11-12

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which will be presented in this paper on the main challenges that SMEs are facing in human capital development, will be based on the recently published SEECEL comparative analysis in SEE<sup>4</sup>.

EU 2020 Strategy and other relevant documents recognize the impact that entrepreneurship has on economy and society and consequently support human capital development in the SME sector as a key driver of competitiveness. This message was further reinforced with the Entrepreneurship 2020 Action Plan (2012). Another important policy document which highlights the importance of human capital development is the Small Business Act (SBA). SBA is a key instrument of the policy of promotion of entrepreneurship and small enterprises, which replaced the European Charter for Small Enterprises. The SBA builds on Commission and Member States policy achievements and creates a new policy framework that integrates the existing enterprise policy instruments. SBA also promotes SMEs to grow by helping them tackle the remaining problems which hamper their development. Similar to the European Charter, this document also contains 10 key areas for the development of SMEs and is, basically, conceived as a shift from guidelines to real, targeted activities. SBA is a part of *acquis communautaire*, which makes it even more important for candidate countries and potential candidates for EU membership.

Progress in entrepreneurship learning according to SBA, in Serbia was slow. Except for the establishment of the Council of Partnership for Entrepreneurial Learning by the end of 2012, there were no other significant signs of progress in this particular area. The main responsibilities of the Council are to coordinate policy action in order to develop a lifelong entrepreneurial learning system (LLEL) (2012). There are also some training programs for start-ups and growing companies available through the network of the regional agencies for SME development and the National Agency for regional development.

## **2. KEY CHALLENGES IN HUMAN CAPITAL DEVELOPMENT SMEs ARE FACING**

Human resources are the most valuable asset of each enterprise, as a key driver of individual, organizational, civic, and national integrated, inclusive, smart and sustainable growth. Improving human resources is essential as improved competences, higher motivation and greater activation of employees are crucial preconditions for increasing productivity, innovation and high performance-competitiveness of SMEs. However, SMEs are facing both external and internal barriers in improving their key business competence base. In addition to this there are also practical financial and organizational barriers (Buschfeld, D. and all, 2011). Organization of training programs is time and money consuming, therefore small companies can hardly afford them. On the other hand, existing training offers and programs are normally designed and organized from the point of view of larger companies and they simply don't fit into the organizational needs of smaller companies EC, (Directorate-General for Employment, Social Affairs and Equal Opportunities, 2009). This is particularly evident in terms of financing of training where SMEs cannot match the learning and training investments of larger companies. There appear to be a number of misconceptions about SMEs and their capacity to provide timely, practical and effective learning and training activities (Watt, D., Kitagawa, K. 2009). This is largely due to unfavorable comparisons with larger companies in terms of organization, financing and training and learning activities. One of the biggest challenges that SMEs are facing is the organization and funding of human resources and training in South East countries.

The share of enterprises that prepare financial and budgeting plans for learning and training investments and human resources development increases with the size of the enterprise, which is an expected result. The stated share is generally higher in medium-sized enterprises, in comparison with micro and small. Consequently, in micro and small enterprises a slightly higher percentage of interviewees stated that HR development is financed mostly by employees themselves (SEECEL, 2013). Governmental subsidies in the form of total financing are extremely rarely used. According to the research conducted by SEECEL in 2013<sup>5</sup>, the highest share of enterprises that use such subsidies is recorded in Turkey and amounts to only 11%, while in the Former Yugoslav Republic of Macedonia (FYROM) there are no such enterprises in the sample. Governmental subsidies in the form of co-financing are also rarely used, but slightly more often than subsidies in the form of total financing. Governmental subsidies in the form of tax incentives are generally the least used subsidy form.

Although in the last three years many enterprises were strongly affected by the impact of the crisis, investments made in development of human resources generally stayed on the same level or even slightly

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<sup>4</sup> The overall sample used in the analysis contains 2,335 enterprises in eight SEE countries, which of 51% are micro, 34% are small and 15% are medium-sized enterprises.

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increased. This is undoubtedly an important finding, particularly as most enterprises had to reduce their operating costs, which usually leads to a restriction of the available budget for training and HR development (SEECEL, 2013). The findings from the SEECEL study confirms that enterprises in SEE region are still very aware of the need for constant employee competence development. Furthermore, they recognize the quality and expertise of employees as a necessary precondition for the maintenance and development of business entities in difficult market and economic conditions.

Second challenge that SMEs are usually facing in SEE refers to the availability of the information on learning and training programs. The most of interviewed SMEs claimed that media is the most important source for information on the training opportunities. On the other hand, in Albania only 8.4% of enterprises acquire information from media, but over 70% of Albania SMEs obtain information from other sources. Mouth to mouth advertisement is the most pronounced in Croatia and holds the same place of importance as media (36.6%). In Serbia, this percentage accounts for 25.2%. Finding information about available training from other enterprises is also relatively important in countries where approximately one third of enterprises from the survey stressed its relevance (Serbia 33.3%) (SEECEL, 2013).

The training needs analysis in SEE also has shown that training programs providers are not fully adjusted to the needs of SMEs and that policy makers should base future development of programs and policies on concrete feedback provided by the SMEs themselves. The relative usefulness of training areas, can be, therefore the next challenge for SMEs and for training providers as well. Taking into account the entire regional sample, it may be concluded that financial management, information technologies and accounting were the most useful training areas performed within the company, while intellectual and industrial property rights and innovation management were the least useful training areas performed within the company, although they may be considered as partially useful (SEECEL, 2013). The highest usefulness of the training areas is associated with market trends and regulations, and financial management in case of FYROM and accounting in case of Albania, where every enterprise that responded to the questionnaire found these training areas useful. Bosnia and Herzegovina and Croatia also set accounting as the most useful one while Serbia put the highest usefulness score on market trends and regulations.

Export/import related knowledge and skills have the lowest average usefulness score amongst the five observed training areas, as well as the highest standard deviation among countries. The overall highest usefulness score is associated with product development and the lowest one with intellectual and industrial property rights.

Other challenges that influence decision –making process for the selection of training and learning programs could be proper timing, duration, applicable competencies in work environment, location, methodology applied, certificates, price, quality and so on. The highest importance is recorded in Serbia where in average 96% of these decision factors are considered important.

All SMEs (100%) that responded to the question from Serbia specify that the duration of the program, the development of relevant competencies applicable in work environment and the applied methodology, the price and the trainers' quality and eligibility are important to make the decision.

There are significant differences amongst the observed countries related to the most suitable timing for conducting the training, education and skill improvement programmes. Enterprises from FYROM and Serbia think that the most suitable timing for training of the employees is during work hours, while on the other hand the majority of enterprises from Albania (54%) think that the timing during work hours is not appropriate.

The enterprises differs also in the attitude on the most appropriate method of training. Practical on-the-job training and a mix of lecturing and interactive approach are generally the most appropriate methods used for conducting the learning and training programmes, with quite a similar level of appropriateness in all countries. Technology and ICT oriented methods like using simulation, distant learning, video conference and similar, as well as different kinds of study tours may also be considered as appropriate methods in the majority of the observed countries, although showing a generally lower level of appropriateness than the first two. Albania and Serbia prefer practical on-the-job training, a mix of lecturing and interactive approach and technology and ICT oriented methods (SEECEL, 2013).

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### 3. NEEDS FOR NON-FINANCIAL SUPPORT OF SMEs IN SERBIA

#### 3.1 The use of non-financial support among SMEs

Non-financial support of SMEs like training, advising and consulting service are focusing to human resource development in the SMEs. However, this support is usually considered as a second the most important service to SMEs after enabling better access to finance. Human resources for competitive SMEs and entrepreneurs (SMEE) has been identified as one among 5 pillars within the Development Strategy of Innovative and Competitive SME for the period of 2008-2013. in Serbia (Report on SMEE, 2011). National Agency for Regional Development is the key stakeholder in providing the training to SMEs with the aim to make them more successful and competitive at the market. The main target group to which NARD provided training was start up companies. The topic of the training which prevailed was business plan writing but also mentoring .

The findings from the recently conducted research on the conditions, needs and problems of SMEs in Serbia, in 2013. (NARD, 2013) also indicates that the need for financial support is much more significant in relation to non-financial types of support. Majority of enterprises (80%) express the need for financial support, whereas non-financial support is needed in only one out of two enterprises. Actually 43 % of enterprises claimed that non-financial support mostly is not needed and is not needed at all. On the other hand, some 52% is positive toward the non-financial services, as 35% think that non-financial support is needed, but not necessary while 15% claimed that they are very much needed. Enterprises who underlined the need for non -financial support belong mostly to South Serbia and are medium-sized (NARD, 2013).

As to gender structure, one out of two women entrepreneurs believe that non-financial support services (advice, trainings and consulting services) are needed, of which 36% consider them needed, but not necessary.

**Table 1: Need for non-financial types of support-by type of business entity**

Need for non-financial types of support – by type of business entity					
	Micro	Small	Medium	Sole trader	Total SMEs
Very much needed	18.4%	17.7%	24.7%	13.4%	16.7%
Needed, but not necessary	33.3%	39.0%	44.7%	33.3%	35.4%
Mostly not needed	26.0%	25.5%	18.7%	23.5%	24.5%
Not needed at all	19.4%	12.7%	4.7%	23.1%	18.3%
Don't know/no answer	2.9%	5.0%	7.3%	6.7%	5.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Research on conditions, needs and problems of small and medium-sized enterprises and entrepreneurs (SMEs) in Serbia in 2013., National Agency for Regional Development, 2013.

**Table 2. Need for non-financial types of support-by region**

Need for non-financial types of support – by region					
	Belgrade Region	Vojvodina Region	Šumadija and West Serbia	South and East Serbia	Total SMEs
Very much needed	20.5%	18.2%	12.5%	12.6%	16.7%
Needed, but not necessary	31.8%	35.9%	32.4%	45.5%	35.4%
Mostly not needed	22.9%	28.4%	24.2%	22.4%	24.5%
Not needed at all	21.1%	11.6%	23.7%	15.3%	18.3%
Don't know/no answer	3.7%	5.9%	7.1%	4.1%	5.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Research on conditions, needs and problems of small and medium-sized enterprises and entrepreneurs (SMEs) in Serbia in 2013., National Agency for Regional Development, 2013.

### **3.2 Services used**

While start ups are mostly focused to the training as a type of non-financial support, developed companies are more using advisory service. Actually, more than half of surveyed enterprises have previously used advisory services, whereas around two fifths have not used them. In relation to the previous year, there was a growth in the use of advisory services (NARD research,2013). This type of support has so far mostly been used by medium-sized enterprises, as well as enterprises from Belgrade.

More than half of women entrepreneurs (56%) have so far used some sort of non-financial support.

Among free services which rise the capacity of human resources in-house, there is a growth in relation to the previous year in the field of marketing / promotion / sales, whereas a drop was recorded in the following services: human resources management, accounting, audit and taxes, financial management and preparation of documents to apply for funds.

As for paid service, in relation to the previous year, there is a growth in used services in the field of legal support, quality control/certification and participation in research and development projects. This services are usually outsourced and not necessarily rise the capacity of in-house human resources. The drop in used services was recorded in the following services: work safety and protection, environmental protection, financial management, production and technology operations, IT, technical testing / maintenance / supervision and PC training.

Of the free of charge programmes, women entrepreneurs most often used consulting for start-ups (38%), then marketing services (26%), business development strategies (24%) and legal services (24%). In case of paid non-financial services, the leading services are accounting, audit and taxes (39%), legal services (31%), and marketing/promotion/sales (39%).

### **3.3 Interest in non-financial services in the future in Serbia**

Entrepreneurs in Serbia show most interest in free use of marketing services (36%) and business development strategy (29%). Women entrepreneurs significantly more than men see the need for PC training (29%) and foreign language courses (28%). Entrepreneurs in Serbia consider accounting, audit and tax assistance the most needed paid services in the future (NARD 2013).

Entrepreneurs were asked also about the importance of the sources of business information relevant for company development. Business entities consider Internet, business partners and colleagues to be the most important sources of information needed for business. In Vojvodina region, enterprises are significantly more informed from accountants / bookkeepers, whereas in Southeast Serbia they use significantly more the information from local self-government / local economic development office. Women entrepreneurs are significantly more than men informed by their friends and family (30%), as well as from TV (24%). Agencies for support to small and medium-sized enterprises are a source for only a fifth of SMEs (19%).

## **4. CONCLUSION**

Serbian entrepreneurs are divided in almost two equal groups according to the attitudes about the importance, sort and usage of non-financial services which refers to training, advisory and consulting as a part of human resources development. While 43% of entrepreneurs claimed that non-financial support mostly is not needed and is not needed at all, more than half is positive toward the usage of non-financial services. Mostly used non-financial services refer to the advisory services and training programs in marketing/sales/promotion, whereas a drop was recorded in the following services: human resources management, accounting, audit and taxes, financial management and preparation of documents to apply for funds. It can be concluded that Serbian enterprises have a developed awareness on the need for non – financial support including the need for constant employee competence development but still the need for financial support prevailed. The lack of financial resources is the most important reason for the insufficient usage of non-financial services. The economic crisis is still affecting the budgets for non-financial services in the region including Serbia, which resulted in the still limited scope of the non-financial services used by enterprises in the region. It especially stands for micro companies which stated that i.e HR development is financed mostly by employees themselves while the share of enterprises that prepare financial and budgeting plans for learning and training investments is more practiced among the medium sized companies. Maybe launch of the voucher system for micro, small and medium sized companies in Serbia could increase

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the number of entrepreneurs users of non-financial services since it had good results in other countries in the region and EU, where it was applied. It seems to be the win-win situation as it represents good solution for the government as provider of voucher, as voucher system enables subsidies available only for the purpose of training, advisory or some other non-financial support which will contribute to the human resources development in the SMEs and raise their competitiveness.

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## SURVEY ON ENTREPRENEURIAL READINESS: MANAGEMENT VS ENGINEERING STUDENTS IN SERBIA

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**Abstract:** *This paper presents a study on the entrepreneurial readiness of 113 students from several faculties in Serbia. Research data were collected through the scientifically verified questionnaire. Authors examined the opinions of the students related to the five dimensions of Entrepreneurial readiness (Entrepreneurial intention, Perceived ability, Perceived attractiveness, Learning Orientation, Passion for work). The aim of the study was to determine whether the following characteristics of students have an impact on their entrepreneurial intentions: a) Education (manager, engineer); b) Education in entrepreneurship – through classes at the faculty; c) Entrepreneurial experience in the environment (family) and d) Different socio-demographic characteristics of the students. According to this, authors define nine research questions that are analyzed on a sample of students using statistical analysis (correlation coefficient, T - test and multivariate analysis). The most interesting research question refers to the comparison of two groups of students (1. management education and 2. engineering education) according to their tendency towards entrepreneurship and starting their own business. Based on the analyzed sample of students, the difference between these two groups is statistically proven and shown in this paper, together with all other research results. The presented results can be useful for: a) Educational institutions – in order to create educational programs for youth entrepreneurship support; b) The state – to stimulate entrepreneurial economy among youth, and c) Individuals who would like to examine their entrepreneurial readiness and intentions.*

**Keywords:** *Entrepreneurship, Entrepreneurial readiness, Entrepreneurial intention, University students in Serbia.*

### 1. INTRODUCTION

Each entrepreneurial venture which is launched presents the result of the entrepreneurial intentions of individuals or groups. The future success of a business largely depends on the individual's entrepreneurial intentions (future entrepreneurs) and his willingness to "sacrifice" for achieving business objectives. Entrepreneurial intention refers to the intention of setting up the business in the future.

Different authors examine the entrepreneurial intentions and its relation with other factors: De Clercq et al. (2013) examined the effects of learning orientation and passion for work on the entrepreneurial intentions of students; Dinis et al. (2013) and Zampetakis et al. (2011) explored the impact of psychological characteristics of students (creativity and emotional intelligence); Farashah (2013) and Souitaris (2013) examined the impact of entrepreneurship education and training; Lee et al. (2011) showed the influence of work environment and job satisfaction; Nabi et al. (2010) and Zhang et al. (2013) explored the influence of high education. Domestic research on the students' entrepreneurial intentions is conducted by Markov & Mirkov (2006), Markov & Stankovic (2008) and Đorđević et al. (2010).

This paper examines the entrepreneurial intention of students from several faculties in Serbia, through questioning their entrepreneurial readiness. The data were collected by using a questionnaire that is scientifically verified by De Clercq et al. (2013). This questionnaire contains questions about the entrepreneurial intention, perceived ability and attractiveness for entrepreneurship, learning orientation, passion for work and students' characteristics. According to that, we define the following research questions (RQ1-RQ9):

**RQ1:** Do the students' age predetermine their entrepreneurial readiness?

**RQ2:** Is there a relationship between the students' grade point average at studies and their entrepreneurial readiness?

**RQ3:** Does the students' gender predetermine their entrepreneurial readiness?

**RQ4:** Do the students from the capital city (Belgrade) differ from those who don't live in it, regarding the level of their entrepreneurial readiness?

**RQ5:** Are the final-year students more prepared for entrepreneurship than the students at the lower years of studies?

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**RQ6:** Do the engineering and management students differ regarding their entrepreneurial readiness?

**RQ7:** Do the students who have entrepreneurs in their family, or a close environment, have higher level of the entrepreneurial readiness, than those students who do not have family entrepreneurs?

**RQ8:** Do the students who attended the entrepreneurship course at faculty have higher level of readiness for entrepreneurship?

**RQ9:** Do the students who have shown a real interest in entrepreneurship (by attending the seminars about entrepreneurship) have a higher level of entrepreneurial readiness?

For answering the previously defined research questions, we use the techniques of statistical inference based on the analysis of the correlation coefficient, t-test and multivariate analysis.

The paper consists of the following sections. After the introduction, Section 2 discusses the topic of entrepreneurship. Section 3 describes the concept of entrepreneurial readiness and presents the factors which, according to various authors, affect the entrepreneurial readiness. Section 4 presents the conducted research on the entrepreneurial readiness of university students in Serbia. Section 5 discusses the results of the research and gives the answers to the posed research questions. Section 6 concludes the paper.

## **2. ENTREPRENEURSHIP**

Entrepreneurship is defined as the process by which individuals follow opportunities without regard to resources they currently control, and as "art of turning an idea into a business" (Beringer & Ireland, 2010, p. 30). Entrepreneurs recognize opportunities (i.e. discover market needs) and turn them into successful businesses (launch new firms to meet those needs) (Hsieh et al., 2007; Moore et al., 2008, p. 6). According to Omerbegović-Bijelović (2010, p. 234), entrepreneurship can be defined as "a social function of creating new values through the creative combination of business resources". Zampetakis et al. (2013) claim that entrepreneurship is linked with the value creation, and has a significant impact on economic growth and employment.

There are two types of entrepreneurship activities (Tang & Koveos, 2004): 1) Venture entrepreneurship, which deals with new venture creation, and 2) Innovation entrepreneurship, which involves innovations within existing enterprises. List of personal characteristics that make some people better at recognizing business opportunities than others are (Beringer & Ireland, 2010, p. 77-79): 1) Prior experience in an industry (which helps entrepreneurs to recognize business opportunities); 2) Cognitive factors (opportunity recognition may be an innate skill or a cognitive process); 3) Social networks (the extent and depth of an individual's social network affects opportunity recognition); 4) Creativity (encourages the process of generating novel or useful ideas).

## **3. ENTREPRENEURIAL READINESS**

One of the most common questions about entrepreneurs is whether entrepreneurs are born or created. This question is based on a myth that some people are genetically predisposed to be entrepreneurs. Two main factors that may affect the initiation of successful business venture are entrepreneurial opportunity and person's tendency towards entrepreneurship. Entrepreneurship opportunity is an auspicious set of circumstances that creates a need for new product, service or business (Beringer & Ireland, 2010, p 66). Souitaris et al. (2007) believe that inspiration for entrepreneurship comes from the emotional chemistry between an individual and particular opportunity (Zampetakis et al., 2013). Person's tendency towards entrepreneurship is defined as an entrepreneurial intention (De Clercq et al., 2013). Entrepreneurial intention refers to the intention of setting up business in the future. In the entrepreneurial context, Thompson (2009, p. 676) defines intention as the "self-acknowledged conviction by a person that they intend to set up a new business venture and consciously plan to do so at some point in the future". Ajzen (1991) states a generic definition of intention as "a person's readiness to perform a given behaviour". This means that the intention and readiness can be considered as synonyms.

In this paper we observe entrepreneurial readiness as a broader concept than entrepreneurial intention. Entrepreneurial readiness is defined as a personal competence and potential for entrepreneurship, which includes entrepreneurial intention as a part. Entrepreneurial intention is considered as existence of personal decision to start a new business at some point of time.

Different types of relationship between entrepreneurial intention and personal and environmental factors are explored in the literature:

- **Entrepreneurial environment:** People with self-employed parents are more likely to become entrepreneurs (Solesvik et al., 2013). The same relationship is proven for those who have entrepreneur acquaintances (Beringer & Ireland, 2010, p. 40).

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- **High Education:** According to Nabi et al. (2010), higher education reduces the likelihood of entrepreneurship. Opposite to this, Zhang et al. (2013) state that relationship between high education and entrepreneurship is positive.
- **Entrepreneurial education:** This type of education in childhood and adolescence was confirmed as important for later entrepreneurial intentions (Dinis et al., 2013). Farashah (2013), Solesvik et al. (2013) and Souitaris et al. (2007) showed that there is positive relation between entrepreneurship education and entrepreneurial intention. Farashah (2013) differ three types of entrepreneurial education: learn to understand entrepreneurship, learn to act in an entrepreneurial way and learn to become an entrepreneur.
- **Personality and psychological factors:** Those are the factors that attract the greatest research attention. The main psychological characteristics associated with entrepreneurial intention, according to Dinis et al. (2013) are: propensity to take risks (has a negative influence on entrepreneurial intentions), self-confidence (has a positive influence on entrepreneurial intentions) and need for achievement (has a positive influence on entrepreneurial intentions). Zampetakis et al. (2013) showed the link between emotional intelligence and students' entrepreneurship attitudes and intentions. In another paper Zampetakis et al. (2011) established the links between individual creativity and entrepreneurial intention of students.
- **Gender:** Lee et al. (2011) and Zhang et al. (2013) showed that women have less desire to start a new business than men.
- **Economic environment:** Entrepreneurial intentions can also depend on external factors such as the existence of an unfavourable economic environment or a lack of regular employment options (De Clercq et al., 2013).
- **Work environment:** Lee et al. (2011) suggest that work environments, with an unfavourable innovation climate and/or lack of technical excellence incentives influence entrepreneurial intentions, through low job satisfaction.
- **Learning orientation and passion for work:** De Clercq et al. (2013) claim that learning orientation and passion for work are not relevant only for formation of entrepreneurial intention, but they support translation of every entrepreneurial feasibility and desirability into entrepreneurial intentions.

In this paper, for collecting data on students' entrepreneurial readiness, we use De Clercq et al.'s (2013) questionnaire. We define Entrepreneurial readiness as a vector which contains five different dimensions: *Entrepreneurial intention* – individual intention to set up business in the future; *Perceived ability* – potential with which people see them capable of becoming successful entrepreneurs; *Perceived attractiveness* – perception of the attractiveness for becoming an entrepreneur; *Learning orientation* – people's tendency to update and expand their knowledge continuously; *Passion for work* - the degree to which people love work-related activities. All questions about these five dimensions of entrepreneurial readiness are given in Table 3.

#### 4. SURVEY ON ENTREPRENEURIAL READINESS OF STUDENTS IN SERBIA

Survey about entrepreneurial readiness was conducted between December 2013 and February 2014. It included 113 students from state and private universities in Serbia. Students responded to two sets of questions. The first set of questions consists of general information about students: gender, age, faculty, year of studies, grade point average at studies, student's living place, information about entrepreneurs in the family, information about having lectures in entrepreneurship and attending entrepreneurship seminars. Table 1 presents general information about the survey sample, while Table 2 presents the categorical variables and frequencies of their values obtained from the survey sample.

**Table 1:** Structure of the sample

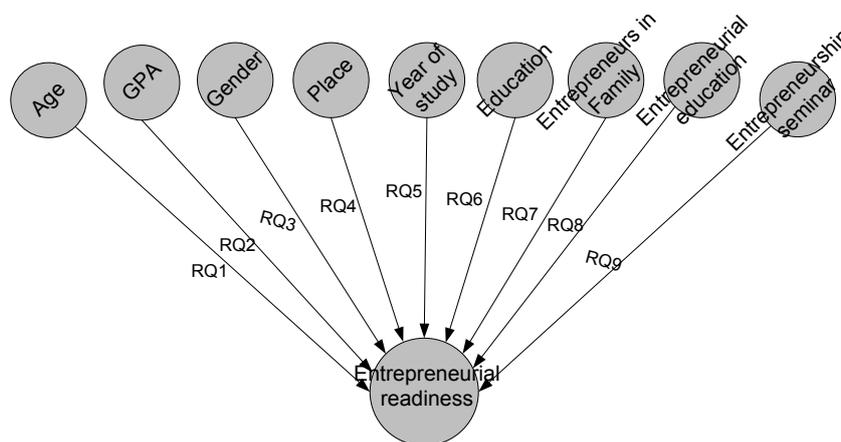
<b>Sampling units</b>	Students from faculties in Serbia
<b>Sample</b>	115 students
<b>Response rate</b>	98% (113 students)
<b>Research technique</b>	Self-administered questionnaire

The second part of the questionnaire included five groups of questions about entrepreneurial readiness, defined through the five dimensions: *Entrepreneurial intention*, *Perceived ability*, *Perceived attractiveness*, *Learning Orientation*, and *Passion for work* (Table 3). All these questions are formulated as statements with five-point Likert-scale answers, from 1 – "completely disagree" to 5 – "completely agree". These questions were interspersed throughout the questionnaire in order to avoid bias in responses. Based on the collected data, we defined nine research questions (RQ1-RQ9) which are presented on Figure 1. Survey results and discussion, and answers to the posed research questions and presented in the next section.

**Table 2:** Categorical variables and frequencies

Categorical variables (for N = 113) *		Number	Percentage
<b>Gender</b>	Male	46	40,7%
	Female	67	59,3%
<b>Faculty</b>	<b>State</b>	<b>104</b>	<b>92%</b>
	Faculty of Organizational Sciences, University of Belgrade	74	65,5%
	Faculty of Mechanical Engineering, University of Belgrade	8	7,1%
	Faculty of Economics, University of Belgrade	3	2,7%
	Faculty of Electrical Engineering, University of Belgrade	3	2,7%
	Faculty of Technology and Metallurgy, University of Belgrade	3	2,7%
	Faculty of Architecture, University of Belgrade	2	1,8%
	Faculty of Dramatic Arts, University of Belgrade	2	1,8%
	Others	9	8,1%
	<b>Private</b>	<b>9</b>	<b>8%</b>
	Faculty of Culture and Media, Megatrend University	1	0,9%
Graduate School of Business Studies, Megatrend University	4	3,5%	
School of computing, Union University	2	1,8%	
Faculty of Business, Singidunum University	2	1,8%	
<b>Education</b>	Management	43	38,1%
	Arts and Humanities Science	3	2,7%
	Engineering	67	59,3%
<b>Year of studies</b>	First	2	1,8%
	Second	18	15,9%
	Third	33	29,2%
	Fourth	47	41,6%
	Master	11	9,7%
	Graduated	2	1,8%
<b>Living place</b>	The Capital city (Belgrade)	68	60,2%
	Outside of the Capital city (Non-Belgrade)	45	39,8%
<b>Entrepreneurs in family</b>	Yes	36	31,9%
	No	77	68,1%
<b>Entrepreneurship education</b>	Yes	20	18,2%
	No	90	81,8%
<b>Entrepreneurship seminar</b>	Yes	52	46 %
	No	61	54 %

\* The number of respondents who answered the questions



**Figure 1:** Research questions - relationships between students' characteristics and entrepreneurial readiness

## 5. SURVEY RESULTS AND DISCUSSION

Survey data were statistically analysed using the "PASW Statistics - SPSS 18" statistical software. Table 3 shows the descriptive statistics of scale variables (five dimensions of entrepreneurial readiness) from the second part of the questionnaire.

**Table 3:** Scale variables and descriptive statistics

Variables	Mean	Std. deviation
<b>Age (N=113)</b>	21,98	1,685
<b>Grade point average (GPA) (N=109)</b>	8,524	0,806
<b>Entrepreneurial readiness:</b>	<b>3,73</b>	<b>0,632</b>
<b>Entrepreneurial intention (Likert scale 1-5):</b>	<b>3,23</b>	<b>1,099</b>
I am likely to start my own business soon.	3,32	1,054
I have been preparing to start my own business.	3,14	1,238
<b>Perceived ability (Likert scale 1-5):</b>	<b>3,34</b>	<b>0,917</b>
It is highly feasible that I could start my own business.	3,03	1,022
I feel certain that I would be able to start my own business if I wished to do so.	3,65	1,024
<b>Perceived attractiveness (Likert scale 1-5):</b>	<b>3,80</b>	<b>1,114</b>
I have a strong desire to start my own business.	3,80	1,189
I feel a strong urge to become self-employed. My overall wish is to have my own business.	3,81	1,151
<b>Learning orientation (Likert scale 1-5):</b>	<b>4,41</b>	<b>0,476</b>
I often read materials (articles, internet, books, etc.) to improve my abilities.	4,42	0,729
I often look for opportunities to develop new skills and knowledge.	4,50	0,709
For me, developing my abilities is important enough to take risks.	4,25	0,829
I enjoy challenging and difficult tasks through which I can learn new skills.	4,41	0,650
I prefer to work in situations that require a high level of ability and talent.	4,42	0,624
I like to take on a challenging task from which I can learn a lot.	4,50	0,614
<b>Passion for work (Likert scale 1-5):</b>	<b>3,90</b>	<b>0,546</b>
I derive most of my life satisfaction from working hard. I love to work hard.	4,15	0,759
I accomplish a lot because I love to work hard.	4,19	0,739
Sometimes I wish that I could be working harder when I am not.	3,86	1,068
I look forward to returning to work when I am away from it.	3,41	1,023

From the table 3, it can be seen that Entrepreneurial readiness mean is 3.73. Within that, the mean values of the five dimensions are as follows: Entrepreneurial intention (3.23); Perceived ability (3.34); Perceived attractiveness (3.80); Learning orientation (4.41); Passion for work (3.90). Total value of Entrepreneurial readiness is calculated as average value of previously listed five dimensions, i.e. all dimensions have equal weights. Consideration of different weights among dimensions can be the subject of the future work.

Before comparing different groups of students (which is defined in research questions), we need to verify the reliability of measurement scale, which we use for measuring the vector Entrepreneurial readiness. For this purpose, we use *Cronbah's Alpha coefficient* and average inter-correlation between five dimensions of entrepreneurial readiness. These results are obtained using reliability analysis in the SPSS. For five dimensions, *Cronbah's Alpha* = 0.78. The reliability criterion is satisfied, because *Cronbah's Alpha*, according to DeVellis (2011), needs to be higher than 0.7. Another way to measure reliability of measurement scale is with inter-item correlation. According to Briggs & Cheek (1986), this value needs to be between 0.2 and 0.4 as an optimal range between the items-correlation on the measurement scale. In our case this condition is also satisfied, because inter-item correlation equals 0.39.

Also, before answering the research questions, it is necessary to present the correlation table (Table 4) which shows the correlations between dimensions of entrepreneurial readiness. Table 4 shows that, compared with entrepreneurial readiness, entrepreneurial intention, perceived attractiveness and perceived ability have large correlation coefficients (0.896; 0.880 and 0.795, respectively), learning orientation has medium correlation (0.577), while passion for work has small correlation (0.378). All correlation coefficients are statistically significant at the level 0.01 or 0.05.

**Table 4:** Pearson's correlation coefficient among variables

Variables:	(ER)	(1)	(2)	(3)	(4)	(5)
<b>(ER) Entrepreneurial readiness</b>	1	0.896	0.795	0.880	0.577	0.378
<b>(1) Entrepreneurial intention</b>	0.896	1	0.619	0.804	0.449	0.146
<b>(2) Perceived ability</b>	0.795	0.619	1	0.611	0.327	0.191
<b>(3) Perceived attractiveness</b>	0.880	0.804	0.611	1	0.349	0.124
<b>(4) Learning orientation</b>	0.577	0.449	0.327	0.349	1	0.338
<b>(5) Passion for work</b>	0.378	0.146	0.191	0.124	0.338	1

\*\*Correlation is significant at the 0.01 level (2-tailed).  
\*Correlation is significant at the 0.05 level (2-tailed).

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Next analysis (Tables 5-7) provides the answers to the research questions (RQ1-RQ9). First two research questions are analyzed using the Pearson's correlation coefficient.

RQ1: *Do the students' age predetermine their entrepreneurial readiness?*

Regarding the value of correlation coefficients from Table 5, it is not possible to prove the existence of this relation (students' age and their entrepreneurial readiness), because correlation coefficients are not statistically significant and are very close to zero.

RQ2: *Is there a relationship between the students' grade point average at studies (GPA) and their entrepreneurial readiness?*

Based on the results presented in Table 5, statistically significant correlation between the grade point average and the entrepreneurial readiness is not obtained. Therefore, the relation is not proven. It is very interesting to notice that GPA is not in correlation with learning orientation (correlation coefficient equals 0.067).

**Table 5:** Correlation coefficient and t-test: Entrepreneurial readiness and students' age, GPA and gender

Variables:	Correlation Coefficient		Mean values (T-test)	
	Age	GPA	Gender	
			Male N = 46	Female N = 67
(ER) Entrepreneurial readiness	- 0.007	- 0.120	3,86	3,64
(1) Entrepreneurial intention	0.053	- 0.110	3,59* ~	2,98* ~
(2) Perceived ability	- 0.057	- 0.202*	3,53	3,21
(3) Perceived attractiveness	- 0.094	- 0.168	4,01	3,66
(4) Learning orientation	0.078	0.067	4,42	4,41
(5) Passion for work	0.037	0.036	3,83	3,95
Correlation coefficient and stat. significance	** 0.01 level (2-tailed); * 0.05 level (2-tailed).			
T-test stat. significance and eta square value	* p<0,05 (T - test); ~ 0,06-0,07 (middle effect size);			

Next group of research questions (RQ3-RQ9) are analysed using the T-test.

RQ3: *Does the students' gender predetermine their entrepreneurial readiness?*

Based on the results in Table 5, there is statistically significant difference ( $p < 0.05$ ) between male and female students, regarding their attitudes towards entrepreneurial intention. This difference has the middle effect size (eta square: 0.06-0.07). However, the existence of relation between students' gender and their entrepreneurial readiness is not proven, since the mean values of two groups (male, female) do not differ significantly.

RQ4: *Do the students from the capital city (Belgrade) differ from those who don't live there (non-Belgrade students), regarding the level of their entrepreneurial readiness?*

We ask this research question because Belgrade, as the capital city and the most developed part of Serbia, gives more challenges for setting up business. According to the results presented in Table 6, there is no statistically significant difference between these two groups (Belgrade, Non-Belgrade students), regarding their entrepreneurial readiness.

**Table 6:** Mean values of students' ER by categorical variables: living place, study year, education

Variables and mean value	Living place		Study year		Education	
	Bgd N = 68	Non-Bgd N = 45	F N = 60	Non F N = 53	Managers N = 43	Engineers N = 67
(ER) Entrepreneurial readiness	3.77	3.67	3.63	3.85	3.98**°	3.53**°
(1) Entrepreneurial intention	3.37	3.01	3.13	3.35	3.56**~	2.98**~
(2) Perceived ability	3.43	3.20	3.18* ¬	3.53* ¬	3.58*~	3.15*~
(3) Perceived attractiveness	3.85	3.72	3.54**~	4.10**~	4.21**•	3.50**•
(4) Learning orientation	4.38	4.46	4.40	4.43	4.53*~	4.32*~
(5) Passion for work	3.88	3.93	3.90	3.89	4.02*¬	3.79*¬
Stat. significance:	* p<0,05 (T - test); ** p<0,01 (T - test)					
Eta square:	° 0,12-0,13 (large effect size); • 0,09-0,10 (medium-large effect size); ~ 0,05-0,07 (medium effect size); ¬ 0,03-0,04 (small effect size).					

RQ5: *Are the final-year students more prepared for entrepreneurship than the students at the lower years of studies?*

We ask this question based on the assumption that final-year students, who passed more exams, think more about their future employment, so they could have higher level of readiness for self-employment, i.e.

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entrepreneurship. Unlike them, students at earlier years of studies are more oriented towards passing exams. Two groups of students were analysed (Table 6). The first group (F) consists of students that are close to finishing studies (4<sup>th</sup> year of studies or master studies). Second group (Non-F) consists of students that are not close to finishing studies (3<sup>rd</sup>, 2<sup>nd</sup> or 1<sup>st</sup> year of studies). These two groups are compared in terms of their entrepreneurial readiness. Regarding the results in Table 6, it is noticed that there isn't a statistically significant difference between two groups (F, Non-F), in terms of entrepreneurial readiness. If we consider all five dimensions, there is a difference in perceived ability ( $p < 0.05$ ) and perceived attractiveness ( $p < 0.01$ ) of entrepreneurship.

RQ6: *Do the engineering and management students differ regarding their entrepreneurial readiness?*

In the survey sample there are two large groups of students (Table 2): students with management education (Faculty of Organizational Sciences – management department, Faculty of Economics, Faculty of Business, etc.) and students with engineering education (Faculty of Organizational Sciences – department for information technology, Faculty of Mechanical Engineering, Faculty of Electrical Engineering, Faculty of Technology and Metallurgy, School of computing, etc.). These two groups are compared in terms of their entrepreneurial readiness for all five dimensions. The results of t-test (Table 7) show a statistically significant difference between the students of management and students of engineering, regarding the readiness for entrepreneurship. Actually, students from management faculties have higher entrepreneurial readiness than students from engineering faculties (difference between mean values is  $\Delta 0.45$ ;  $p < 0.01$ ). If we compare these groups through all five dimensions, the differences in favour of management students are: entrepreneurial intention ( $\Delta 0.58$ ); perceived ability ( $\Delta 0.43$ ); perceived attractiveness ( $\Delta 0.71$ ); learning orientation ( $\Delta 0.21$ ); passion for work ( $\Delta 0.23$ ). Large difference is present regarding perceived attractiveness and entrepreneurial intention, while small difference regarding the learning orientation and passion for work.

**Table 7:** Mean values of students' ER by categorical variables: entrepreneurs in family, subject entrepreneurship and seminar in entrepreneurship

Variables and mean value	Entrepreneurs in Family		Subject Entrepreneurship		Entrepreneurship seminar	
	Yes N = 36	No N = 77	Yes N = 20	No N = 90	Yes N = 52	No N = 21
<b>(ER) Entrepreneurial readiness</b>	3,88	3,66	3,80	3,71	4,07** °	3,45** °
<b>(1) Entrepreneurial intention</b>	3,50♦ ¬	3,10♦ ¬	3,55	3,15	3,78** °	2,76** °
<b>(2) Perceived ability</b>	3,67**~	3,19**~	3,32	3,35	3,69** °	3,04** °
<b>(3) Perceived attractiveness</b>	4,00	3,71	4,03	3,74	4,29** °	3,38** °
<b>(4) Learning orientation</b>	4,43	4,40	4,47	4,39	4,59** °	4,26** °
<b>(5) Passion for work</b>	3,87	3,92	3,84	3,93	4,02* ¬	3,80* ¬
<b>Stat. significance:</b>	** $p < 0,01$ (T - test); * $p < 0,05$ (T - test); ♦ $p < 0,08$ (T - test).					
<b>Eta square:</b>	° 0,12-0,13 (large effect size); • 0,09-0,10 (medium-large effect size); ~ 0,05-0,07 (medium effect size); ¬ 0,03-0,04 (small effect size).					

RQ7: *Do the students who have entrepreneurs in their family, or a close environment, have higher level of the entrepreneurial readiness, than those students who do not have family entrepreneurs?*

Students in the survey were asked whether they have entrepreneurs in their family or close environment. Based on the response, students are divided into two groups and analysed. Results in Table 7 show that there is no statistically significant difference in readiness for entrepreneurship. The only difference ( $p < 0.01$ ) is noticed in perceived ability for entrepreneurship.

RQ8: *Do the students who attended the entrepreneurship course at faculty have higher level of readiness for entrepreneurship?*

In our survey, students were asked if they attended entrepreneurship course at faculty within their studies. Based on the answers, two groups were generated (students who had lectures in entrepreneurship and those who did not). The comparison of the groups (Table 7) did not show statistically significant result. There was a difference in terms of entrepreneurial intention ( $\Delta 0.40$ ) and perceived attractiveness ( $\Delta 0.29$ ), but not statistically significant because of unequal size of groups. This result may indicate to the existence of effect of the entrepreneurship education on entrepreneurial intentions and attractiveness towards entrepreneurship as a profession. However, existence of this relation could not be proven with our survey sample.

RQ9: *Do the students who have shown a real interest in entrepreneurship (by attending the seminars about entrepreneurship) have a higher level of entrepreneurial readiness?*

In our survey we questioned students during the seminar: "Academy of Modern Management – Entrepreneurship and Start-up" that was organized by student's organization ESTIEM LG Belgrade. The students, who attended this seminar, expressed real interest in entrepreneurship, so we wanted to examine and compare this group of students with students who didn't attend the seminar. The results are presented in

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Table 7. Students who attended entrepreneurship seminar have higher level of entrepreneurial readiness (difference between mean values is  $\Delta 0.62$ ;  $p < 0.01$ ). The difference between groups regarding five dimensions are: entrepreneurial intention ( $\Delta 1.02$ ), perceived ability ( $\Delta 0.65$ ), perceived attractiveness ( $\Delta 0.91$ ), learning orientation ( $\Delta 0.33$ ) and passion for work ( $\Delta 0.22$ ). These results show that students who express interest in entrepreneurship and attended entrepreneurship seminar differ from other students, regarding their entrepreneurial readiness.

The most interesting research question - RQ6 was also analysed using multivariate analysis (MANOVA) in order to further explore the statistically significant differences between entrepreneurial readiness between students of management and engineering, through the linear combinations of the five dimensions (entrepreneurial intention, perceived ability, perceived attractiveness, learning orientation, passion for work). The necessary conditions for the implementation of the MANOVA, at the sample size of 113 respondents are:

1) Multivariate normality: The essence of this analysis is to check the extreme points in respondents' answers (answers which mostly differ from the average answers) using Mahalanobis distance (the distance of a particular case – respondent's answer – from the centroid of other cases). Centroid is the point in n-dimensional space, whose dimensions are the mean values of all variables in considered cases, i.e. respondent's answers. In our case, this is a point whose dimensions are average values of the five variables, i.e. dimensions that form the vector entrepreneurial readiness. Mahalanobis distance value is 12.788 (generated by the SPSS), which is not higher than the critical value for the model of five variables (which equals 20.52). This means that the assumption of the multivariate normality is proven.

2) Homogeneity of variance and covariance: This assumption is proven because the values of statistical significance obtained in *Box's test of equality of covariance matrices* and *Levene's test of equality of error variances* is greater than 0.05 (which means that variances of five dimensions don't differ in the survey sample; the same is with the covariances).

After applying the MANOVA, statistically significant difference between the students of management and engineering is determined, regarding combinations of the five dimensions of the vector entrepreneurial readiness:  $F(5, 103) = 3.24$ ,  $p = 0.009$ , *Wilks' lambda* = 0.87, *partial eta squared* = 0.136 (representing large effect size). When these two groups of students are compared using the considered dimensions separately (entrepreneurial intention, perceived ability, perceived attractiveness, learning orientation and passion for work), statistically significant differences ( $p < 0.01$ ) are determined only for the following three dimensions: Entrepreneurial intention:  $F(1, 107) = 8.425$ ,  $p = 0.004$ , *partial eta squared* = 0.073 (representing medium effect size); Perceived ability:  $F(1, 107) = 7.421$ ,  $p = 0.008$ , *partial eta squared* = 0.065 (representing medium effect size); and Perceived attractiveness:  $F(1, 107) = 11.431$ ,  $p = 0.001$ , *Partial eta squared* = 0.097 (representing medium-large effect size). Dimension with the greatest impact on the observed groups of students is perceived attractiveness. Statistically significant difference between the students of management and engineering is not obtained for the dimensions learning orientation and passion for work.

## **6. CONCLUSION**

In this paper the authors analyse entrepreneurial readiness of university students in Serbia. The survey was inspired with the study conducted by De Clercq et al. (2013). The idea was to compare different groups of students in order to make relationship between entrepreneurial readiness and different characteristics of students. The questioned characteristics of students were: gender, age, year of studies, living place, grade point average at studies, educational profile (management or engineering), entrepreneurial environment (in terms of having entrepreneurs in the family), entrepreneurial education (in terms of entrepreneurship lectures at studies and attending entrepreneurship seminars). All these variables are considered in the research questions (RQ1-RQ9), which were analyzed using different statistical methods (correlation coefficients, T-test, Multivariate analysis). The most interesting research question was: *Do the engineering and management students differ regarding their entrepreneurial readiness?* It is shown that students of management have greater entrepreneurial readiness than students of engineering. This result can help as an evidence for promoting Entrepreneurship among students at technical and engineering faculties, because it is well-known that the greatest innovations in industry come from engineers. Therefore, it is particularly important to stimulate youth entrepreneurship and teach creative and innovative engineering students how to venture new businesses based on their ideas. This can lead to the economic development of every country. The limitation of this paper is reflected in the small sample of students from several faculties who participated in this survey. In the future, the authors intend to spread the survey by increasing the sample of students (through questioning students from more universities in the country and abroad). The authors also desire to create and apply other interesting research methods and techniques (questionnaires) which can be used for measuring students' entrepreneurial readiness, intention and mindset.

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## ENTREPRENEURIAL MODEL OF FRANCHISING

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**Abstract:** *In contemporary conditions franchising experiences expansion and continued growth as a business model. The paper explains the entrepreneurial model of franchising, according to the coherence of the concepts of entrepreneurship and franchising. Based on the definitions of entrepreneurship and its applicability to the franchise concept, it is pointed out that the concept of franchising is almost fully compatible with the concept of entrepreneurship. The aim of this paper is to stress the relationship between the concept of entrepreneurship and concept of franchising, and to explain the theoretical model of entrepreneurial behavior in the franchising system. The theoretical model of entrepreneurial behavior that is exhibited in the paper shows that the maximization of franchisee entrepreneurial behavior can be achieved through the use of the franchisee networks. Through networks and entrepreneurial behavior, franchisees create new value in terms of business growth and entrepreneurial initiatives adaptation, achieve market leadership and solve business problems.*

**Key words:** *franchising, entrepreneurship, franchisor, franchisee, entrepreneurial behavior*

### 1. INTRODUCTION

Modern trends indicate the growing importance of the entrepreneurial model of franchising. As an organizational form, franchising is widely recognized as an important growth driver of entrepreneurship, mainly through customization of products to the needs of geographically dispersed customers. The essence of franchising are standardization and uniformity. However, under conditions of more intense generation of new ideas and innovations, participants in franchise systems are increasingly turning to entrepreneurial behavior. In the past, studies about franchising were based on the franchisor's attitudes and interests, while recent studies emphasize the importance of integration of both sides of the franchise system. The aim of this paper is to highlight the importance of connection between entrepreneurship and franchising and to explain the theoretical model for maximizing franchisee entrepreneurial behavior. In the first part of the paper, the relationship between entrepreneurship and franchising is explained, giving the definition of entrepreneurship and identifying ways to apply these definitions to the franchising concept. The second part refers to the analysis of franchisors and franchisees as entrepreneurs and their franchise relationship as entrepreneurial partnership in which franchisor's innovative concept is distributed to the market through a network of franchised units. The third part presents a theoretical model of entrepreneurial behavior that indicates the possibility of maximizing the entrepreneurial behavior through the use of formal franchisee networks. These networks primarily include mutual learning and exchange of information between members of a franchise system. Based on a comprehensive analysis of available literature, relevant conclusions will be presented.

### 2. RELATIONSHIP BETWEEN ENTREPRENEURSHIP AND FRANCHISING

Franchising is an area that is still insufficiently researched by scholars and business professionals. In fact, franchising surveys have fairly short history, considering that the oldest known and most widely cited studies dating back to the late 1960s. Over the past two decades, franchising experienced expansion and continuous growth which is largely stimulated by the emergence of new forms of franchising in new areas, ranging from hotels, restaurants, real estate, to the education of children, beauty salons etc. (Grunhagen & Mittelstaedt, 2005). Franchising can be seen as a commercial relationship in which one party (franchisor) allows the another (franchisee) to clone a proven business system with payment of fee, which varies depending on the sector (Stefanović & Stanković, 2013). In fact, it can be said that franchising offers a combination of franchisor's economies of scale and franchisee's flexibility to exploit local market opportunities (Watson & Kirby, 2004). A successful franchising system entails the benefits for both franchisors and franchisees. Franchisor benefits from some franchisee's resources such as specific local knowledge, while franchisees benefit from franchisor's assets including brand, organizational routines, managerial inputs etc. Therefore, franchising can be seen as a form of intercompany cooperation in which two types of entrepreneurs share the tangible and intangible resources in order to increase performances (Chirico, Ireland & Sirmon, 2011).

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In business studies, franchising is mainly viewed from the standpoint of marketing and trade as a form of international business and from the standpoint of management as a form of organization, strategy and cooperation between enterprises. Earlier studies on the franchising were largely isolated, insufficiently integrated and too relied on one side, the franchisor (Elango & Fried, 1997). In modern researches, it is emphasized that franchising creates entrepreneurial opportunities for both sides of the franchise relationship (Combs, Ketchen, Shook & Short, 2011). Correlation between franchising and entrepreneurship can be justified by the fact that franchising research is, in fact, research on entrepreneurial cooperation between the two different types of entrepreneurs, franchisors and franchisees. In addition, franchising can be defined as a type of entrepreneurial organization (Hoy & Shane, 1998). Franchisor's operations (for example, establishing a franchise system), as well as franchisee's operations (for example, implementation of entrepreneurship model within a franchise chain) are entrepreneurial activities. It is necessary to point out the significant overlaps of entrepreneurship and franchising into 7 main approaches dominant in entrepreneurship researches (Hoy & Shane, 1998):

- 1) Incubator organization. Franchising systems act as incubators for new ventures and franchising operations.
- 2) Business plans. The franchisor requires from franchisees to have a business plan. In the United States, franchisors are required to prepare a "public business plan" to ensure access to information for potential franchisees.
- 3) Investment criteria. Franchising is a source of capital necessary for growth when other sources of funding are not available to the franchisor.
- 4) Success factors. Failure and survival of franchisors and franchisees are subjects of continuous researches. The objective is to compare the results on the causes of failure and survival of franchise company with respect to the independent company.
- 5) Corridor principle. Franchisors recruit potential franchisees among active entrepreneurs. In addition, franchisors often have worked as entrepreneurs or business managers before starting the franchise.
- 6) Corporate culture. In franchising, the franchisor must be able to establish and maintain conditions in which new franchisees have units and manage them independently (franchise units), or together with the franchisor (units owned by the company, double-distribution).
- 7) Life cycle models. In franchising, the key issue is to understand the birth of a business organization and its subsequent evolution in the franchising system.

When analyzing the relationship between franchising and entrepreneurship and their research domain, we begin by categorizing the focus of various representative definitions of entrepreneurship. These definitions can be classified into 3 groups: definitions which emphasize personal characteristics or qualities of entrepreneurs, definitions that emphasize the entrepreneurial process and definitions focused on entrepreneurial activities. Examples of these definitions are given below and are summarized in Table 1 (Kaufmann & Dant, 1999). Definitions that emphasize the personal perspective of personal characteristics are as follows:

- Entrepreneur is an individual who possesses qualities of risk-taking, leadership, motivation, and the ability to resolve crises (Leibenstein, 1968).
- Entrepreneurs are leaders and major contributors to the process of creative destruction (Schumpeter, 1942).
- Entrepreneur is an individual who undertakes uncertain investments and possesses an unusually low level of uncertainty aversion (Knight, 1921).

Successful entrepreneurs are characterized by qualities such as creativity, adaptability, vision, leadership, managerial and organizational skills, quick decision making, rapid response to changing and uncertain environment, personal integrity and education. Taking into account the perspective of the entrepreneurial process, the concept of entrepreneurship can be defined as follows:

- Entrepreneurship is the creation of new organizations (Gartner, 1985).
- Entrepreneurship is the process of extracting profits from new, unique, and valuable combinations of resources (ambiguous in an uncertain and ambiguous environment (Amit, Glosten & Muller, 1993).

From the perspective of entrepreneurial activity, some of the definitions of entrepreneurship are as follows:

- Entrepreneurship is the purposeful activity to initiate, maintain, and develop a profit-oriented business (Cole, 1968).
- Entrepreneurs perceive profit opportunities and initiate actions to fill currently unsatisfied needs or to do more efficiently what is already being done (Kirzner, 1985).

Table 1. gives an overview of definitions of entrepreneurship and their applicability to the franchise concept. Based on the conducted comparisons it can be concluded that the concept of franchising is almost fully compatible with the concept of entrepreneurship.

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Table 1: Definitions of entrepreneurship and their applicability to the franchising context

Definitions of entrepreneurship	Application to franchisors	Application to franchisees
Entrepreneur is an individual who possesses qualities of risk-taking, leadership, motivation, and the ability to resolve crises (Liebenstein 1968)	Yes	Yes
Entrepreneurs are leaders and major contributors to the process of creative destruction (Schumpeter 1942)	Yes	No
Entrepreneur is an individual who undertakes uncertain investments and possesses an unusually low level of uncertainty aversion (Knight 1921)	Yes	Yes
Entrepreneurship is the creation of new organizations (Gartner 1985)	Yes	Yes
Entrepreneurship is the process of extracting profits from new, unique, and valuable combinations of resources (ambiguous in an uncertain and ambiguous environment (Amit Glosten and Muller 1993)	Yes	Yes
Entrepreneurship is the purposeful activity to initiate, maintain, and develop a profit-oriented business (Cole 1968)	Yes	Yes
Entrepreneurs perceive profit opportunities and initiate actions to fill currently unsatisfied needs or to do more efficiently what is already being done (Kirzner 1985)	Yes	Yes

Source: Kaufmann, P., Dant, R. (1999), „Franchising and the domain of entrepreneurship research“, *Journal of Business Venturing*, Vol. 14, pp. 5–16.

### **3. FRANCHISOR AND FRANCHISEES AS ENTREPRENEURS**

Through the reproduction of successful business concept in new market areas, franchising contributes to the efficient dissemination of innovation. Franchising offers a unique and fertile environment for future studies in entrepreneurship: the franchisor as an entrepreneur, franchisee as an entrepreneur, and franchise relationship as an entrepreneurial partnership. In fact, franchising is based on entrepreneurial partnership, where franchisor's innovative concept is distributed to the market through a network of franchised units operated by local franchisees. In the economic literature, there are two unique models that offer an explanation of the entrepreneurial model of franchising. The first model is the model of capital acquisition that suggests that franchisees are efficient source of financial capital for companies that want to expand on new markets (Dant, 1995). While franchisor's risk relates to the risk of brand development, franchisee's risk refers to the development of local markets. Very often, franchisee is more familiar with the local markets and their potential than franchisor. Also, since franchisors often depend on franchisees' local expertise and contacts, franchisees are encouraged to make appropriate marketing programs for specific markets. Another model is based on the agency theory. Franchising solves the problem that occurs because the franchisor can not monitor very widespread network of franchise units directly and effectively. Therefore, franchisees can generate profit in exchange for an appropriate fee, which provide incentives for both contractual parties. In this case, it is a quasi-independence which allows franchisees to qualify as entrepreneurs. Franchisees have to be proactive in exploiting local opportunities. Franchising literature suggests that franchisors and franchisees may have a lot in common, although they are partners with very different roles (Kaufmann & Stanworth, 1995).

Entrepreneurs can be divided into two groups based on the nature of the business idea: innovative and imitative entrepreneurs (Aldrich & Martinez, 2007). In the franchise system, franchisor can be seen as an innovative and franchisees are specified as imitative entrepreneurs. Thus, the role of the entrepreneur is primarily related to the franchisor, while franchisees generally work under the disciplined system of contractual obligations (Clarkin & Rosa, 2005). Individual roles and responsibilities in the franchise system are explicitly defined in the detailed contract documents. Providers, owners and creators of franchise concepts are widely accepted as entrepreneurs in accordance with the risk they take and innovative profile that is similar to individual entrepreneurs. It is pointed out that the franchisor may be considered as entrepreneur only if he/she enter the market with an innovative idea. Creating a franchise system can be viewed as an entrepreneurial growth strategy (Fillion, 1998).

In contrast, franchisees are often seen as the opposite of the entrepreneurs, since they only follow the model developed by the franchisor and lose the independence that is associated with entrepreneurship (Hoy, 2008). In fact, it is considered that franchisees have little or no role in the creation of innovative business

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processes. They operate within the uniformed organizations focused on efficient production (Morgan, 1997). Franchisees only purchase the right to implement a franchise concept, often in a predetermined area in a very proper manner and only for a certain period of time. This role is traditionally associated with the manager, rather than the entrepreneur. Franchise agreements, made by the franchisor, include prescribed and restrictive provisions, leaving little or no room for franchisee's entrepreneurial creativity. These contracts are often unchangeable and they are usually offered to franchisees on a "take it or leave it" basis (Clarkin & Rosa, 2005). Replication and standardization, as a symbols of success within the franchise system, are in the sharp contrast to the creativity and innovation that are associated with entrepreneurship. Franchisor can prevent franchisees to deviate too much from the prescribed business formula through proper control systems (Phan, Butler & Lee, 1996). For this and many other reasons, the relationship between franchisor and franchisee is often seen as the relationship between innovators/entrepreneurs and implementers/managers. From the organizational perspective, franchising companies are generally understood as hybrid organizational form (Shane, 1996).

However, a systematic review of opportunities for entrepreneurship in the context of franchising is reasonable, primarily because franchisees take risks in their business ventures. While franchisors risk their resources during the development of the brand, franchisees risk their resources when developing local markets. In addition, franchisees can be considered as entrepreneurs because they invest their own capital in the business through fees paid to the franchisor (Ketchen, Short & Combs, 2011). Franchisees are also often seen as entrepreneurs because they have entrepreneurial profile and they are innovators in the franchising system, as they can provide the initiative for the improvement and introduction of new products with franchisor's agreement (Grunhagen & Mettelstaedt, 2005). For example, McDonald's has a number of new products developed by franchisees, including the Big Mac, Filet-O-Fish and Egg McMuffin (Morrison & Lashley, 2003). Franchisees transform existing and develop new market offers and create solutions to problems in the whole system by their efforts for local adaptation (Kaufmann & Eroglu, 1998). In many systems, franchisees stimulate innovative ideas and their proximity to clients provides better opportunities to recognize customer's needs (Burkle & Posselt, 2008). Despite evidence that franchisees can take an entrepreneurial role, it is necessary to point out how to maximize entrepreneurial behavior without compromising standardization and uniformity of franchising system.

#### **4. THEORETICAL MODEL OF ENTREPRENEURIAL BEHAVIOR**

Franchising is designed in the manner that it refers to equally replication of standardized business format throughout the entire system, which leads to many controversies about how entrepreneurial behavior can prosper in this organizational form. Standardization involves development of working patterns which are constantly applied and participants in franchising concept consistently adhere to them to minimize the difference in business (Gilson, Mathieu, Shalley & Ruddy, 2005). Franchising business model improves efficiency and enables economies of scale that allows both the franchisor and franchisees to minimize costs. In addition, franchise units share a common identity and operate under the common trade mark (Bradach, 1997). If franchisees deviate from the system's standard model in search of self-interest, it can lead to erosion and deterioration of the quality of trade mark. Franchisee's compliance with standardized framework is essential for maintenance and development of the desired image of franchise system (Pizanti & Lerner, 2003). However, the majority of franchisees operate within areas that differ in terms of market conditions, income levels, consumer tastes, competition level and demand nature. Company's ability to adapt to different market conditions is part of identity of an entrepreneurial oriented organization (Muzyka, De Koning & Churchill, 1995). Healthy franchise system should be developed over time according to changes in the external environment (Hoy, 2008).

Entrepreneurial behavior at the firm level is widely accepted as a tool for revitalization of the company and achievement of sustainable competitive advantage and superior performances in organizations of all types and sizes (Antoncic & Hisrich, 2004). In the context of franchising, encouraging entrepreneurial behavior in franchise units can be considered as contrast to the requirements of standardization and uniformity, which are the cornerstone of franchising (Cox & Mason, 2007). Franchising involves a set of established procedures and proven methods. It can be said that franchising refers to cloning successful business model. Although franchising relations are mainly regulated by strict contract, they often exceed formal interactions, so that franchisees still have a partial strategic flexibility as entrepreneurs. In addition, numerous studies showed that franchisees actually play an important role in innovative and entrepreneurial behavior, which is necessary in franchising system (Clarkin & Rosa, 2005). Franchisors should provide an appropriate structure that will allow franchisees to contribute to business development. Those who do not develop such an approach will risk that franchisees form their own association to raise a collective voice (Cochet & Ehrmann, 2007).

Entrepreneurial behavior among franchisees is certainly maximized through the use of formal franchisee network. Networks are forms of voluntary cooperation that involves mutual learning and exchange of information between members of the franchise system (Johannisson, Ramirez-Pasillas & Karlsson, 2002). Franchisee networks include using forums, working groups and regional and national meetings which

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provides interaction between franchisees. Franchisees are allowed to work in a cluster for the dissemination of knowledge, which in turn maximizes entrepreneurial behavior in three ways: through acquisition of relational and informational capital, promotion of competition within the system and facilitation of franchisee learning through the generation of new knowledge. These processes produce significant organizational outcomes for both the franchisee and the whole system in terms of business growth, system adaptation, market leadership and solution of business problems (Dada, Watson & Kirby, 2010). The model of maximization the entrepreneurial behavior among franchisees is shown in Figure 1.

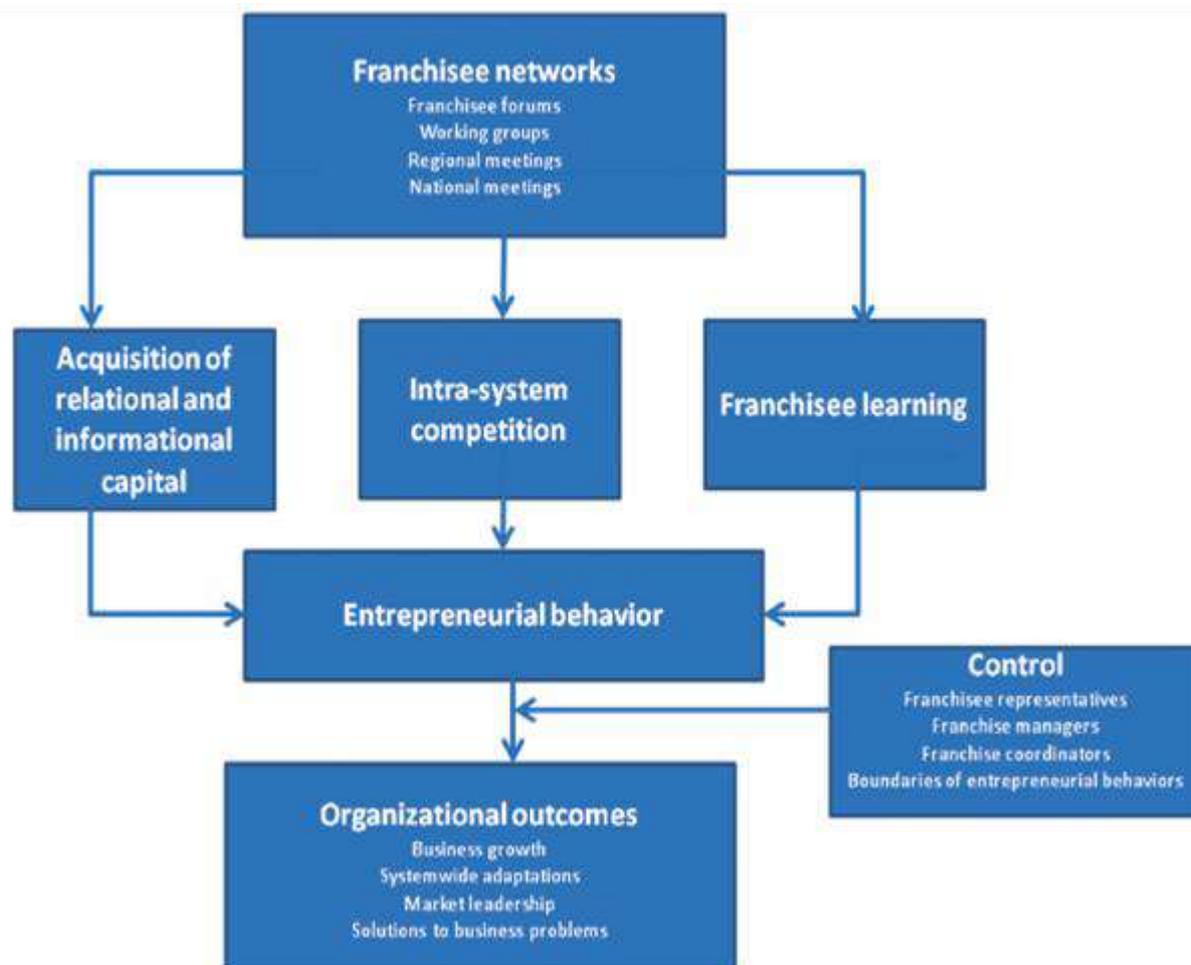


Figure 1: Model of maximization of entrepreneurial behavior amongst franchisees

Source: Dada, O., Watson, A., Kirby, D. (2010), „Toward a model of franchisee entrepreneurship“, *International Small Business Journal*, 30(5), pp. 559–583.

- Acquisition of relational and informational capital. Relational capital can be perceived as a set of business relationships between members of the organization. Information capital includes information about company's products or services, customers and competition (Griffith & Lusch, 2007). Franchisees particularly emphasize the importance of franchising forums within which they discuss issues related to entrepreneurship, exchange ideas, receive additional information about the business etc. A large number of franchisees provide their ideas in order to facilitate functioning of the entire franchising system. Depending on the system, forums are held a few times a year or a couple times a month and present formal way to exchange ideas. In this way, much more interaction between franchisors and franchisees can be realized. National forum is of great importance, since franchisors have ability to monitor operations of each of franchisees on a daily basis. A large number of ideas that arise on these forums can be implemented in practice, since in this way franchisees improve business operations of the entire franchising system. It can be concluded that franchisee networks affect the increase of information and relational capital which has a positive impact on franchisee's entrepreneurial behavior (Dada, Watson & Kirby, 2010).
- Competition within the system. The high level of competition has been observed between franchisees, as they try to be the best within franchising system through entrepreneurial behavior. Franchisee's competitive aggressiveness is attributed to networks that are designed by the franchisor, so that franchisees are informed about activities of other franchisees which leads to

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intensified competition. So, franchisees often want to prove themselves in front of the franchisor and to make progress on the list of the best franchisees. "Club of high achievements" consists of the top 12 franchisees and they receive awards such as "Franchisee of the year". In order to win this award, franchisee must be more than just a franchisee, he/she should strive to improve himself/herself and to be better than others. A large number of franchisors organize competitions for franchisees to generate new ideas. Entrepreneurial minded franchisees have closer and better relations with the franchisor (Michael & Combs, 2008). Franchisees who have a more entrepreneurial initiatives often pay lower fee compared to other franchisees. Franchisees do not only compete within the system with other franchisees, but they are expected to win in the local market. This means that they are not expected to follow the market conditions, but to be market leaders. In order to become a market leader, franchisees try to do something different in relation to their competitors, which will make them entrepreneurs. They tend to achieve USP (Unique Selling Point). Franchisee network have positive impact on competition within the system and on franchisee's entrepreneurial behavior (Dada, Watson & Kirby, 2010).

- Franchisee's learning. Learning is process by which knowledge is generated (Harrison & Leitch, 2005). Networks facilitate the essential learning process through franchisee's experience that is exchanged via forums. Forums give a chance to franchisees to see errors of other franchisees, and to work together in order to solve problems. Franchisors emphasize the importance of using franchise network as learning medium, because there is a possibility that franchisees participate in entrepreneurial activities and thus contribute to the development of franchising system. In this regard, if a franchisee creates a successful innovation, he should forwards it to other members in order to contribute to a better functioning of franchising system as a whole. Some of franchisors hire a franchise coordinator to coordinate franchisees, so that they function simultaneously. Networks have a positive impact on the learning that encourages franchisee's entrepreneurial behavior. Organizations oriented on learning have a positive relationship with corporate entrepreneurship (Holt, Rutherford & Clohessy, 2007).

Franchisee network is a form of formalized and institutionalized management support for corporate entrepreneurship, which allows franchisees to discuss and exchange ideas (Kelley, Peters & O'Connor, 2009). Franchisors allow franchisees a degree of freedom, but do not allow them to go beyond the scope of franchising system too much. However, if franchisees do something completely different from what was established by franchise agreement, franchisors will be prepared to sanction such behavior. Entrepreneurial behavior leads to different outcomes at the individual and organizational level (Ireland, Covin & Kuratko, 2009). Franchisees create new value through entrepreneurial behavior. This refers to business growth, adjusting entrepreneurial initiatives throughout the system, solution of operational problems and market leadership. It rarely happens that franchisor comes to the franchisees with a new idea. More often happens the reverse. Then the product is marketed as a pilot in a specific area, and if it is successful, it will be applied by other franchisees. So, franchisees are the source of new ideas and innovation for new product/service development (Cox & Mason, 2007). The motivation for franchisee's entrepreneurial behavior is to generate more business which leads to generation of more revenue. Therefore, franchisee's entrepreneurial behavior has a positive impact on the business performance of franchising system (Dada, Watson & Kirby, 2010).

## **5. CONCLUSION**

Franchising concepts were originally referred to the replication of standardized business concepts. In conditions of more intense competition, the importance of entrepreneurial behavior of participants in franchise systems is emphasized. Surveys on franchising are actually surveys on entrepreneurial cooperation between the two different types of entrepreneurs: franchisors and franchisees. Entrepreneurship and franchising overlap in a number of segments, so definitions of these two terms are related. Based on the review of definitions of entrepreneurship and its application to franchising it can be concluded that they are almost compatible concepts. We have identified two different approaches that can cause a dilemma: franchising as the antithesis of entrepreneurship and franchising as an entrepreneurial model. The first approach is explained by the fact that the stimulation of entrepreneurial behavior in franchise units is inconsistent with the requirements for the uniformity of the franchise system. The second approach is supported by the fact that franchisees play an important role in innovative and entrepreneurial behavior that is necessary for the functioning of the franchise system in modern conditions. The solution to the dilemma is "controlled entrepreneurship", which should provide control of franchisees' behavior in order to maintain uniformity of the system, while providing entrepreneurial autonomy. This can be achieved by using formal networks that enable interaction between franchisees (forums, working groups and regional and national meetings). Franchisee networks contribute to the maximization of entrepreneurial behavior through: acquisition of relational and informational capital, promotion of competition within the system and facilitation franchisee learning through the generation of new knowledge. The culmination of franchisee entrepreneurial behavior is reflected in business growth, adaptability of the franchise system, market leadership, innovation

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and solving business problems. Future research can be focused on the analysis the impact of franchise system's size on the entrepreneurial model of franchising. Also, global trends indicate growing importance of research of franchising systems involved in social entrepreneurship. Human resource management in entrepreneurial oriented franchising concepts is another topic which should be researched in the future.

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