Small and innovative companies successfully adjusted to crisis circumstances, only

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Abstract During the late transition process SME in Serbia had fast development due to established encouraging business environment and supportive policies. They became important economic agent taking into account their share in GDP formation and total employment. Facing the Global economic crisis Serbian economy went into recession, but from the end of 2009 modest recovery started. Unfortunately, from the mid 2011 sings of the repeat recession became clear, mainly related to recession and public sector problems in EU. In difficult circumstances some of Serbian SME succeeded to reorient themselves, especially small companies. Those fast growing companies and gazelles also found solution for development. At the same time medium scale enterprises could not adopt on worsening business environment and due to this fact for the first time during transition period the business demography for both companies and shops was negative in 2011. It seems that supportive policy for SME development now has to combine selective supportive measures for fast growing companies and gazelles and at the same time measures of quantitative sort – aiming to increase number of new companies and shops, as much as possible.

Introduction

Serbia has started market reforms in 2000, as the last among the countries of Central and Eastern Europe. During this period small and medium enterprises development got momentum due to improving overall business climate and due to supportive measures introduced on different level, from Republican to local one. Small and medium scale companies became important economic agent and their share in total GDP formation

increased considerably and total employment, as well. However, it is important to note that considering qualitative economic indicators those companies were neither efficient nor competitive on the global market.

First sign of the global economic crisis negatively influenced Serbian economy from the end of 2008. The recession was inevitable, although some measures were introduced by National Bank of Serbia and by the Government in order to safe liquidity of the banking sector, to make credit exposure of the banks′ clients stable, to increase overall demand by subsidizing credits for liquidity of companies, credit for investments and credits for citizens. Those measures were in right direction, but unfortunately too weak to help economy considerably. Facing more difficult problems than expected firstly, the solution for overcome crisis was seen in stand - by arrangement with IMF. Due to recovery in EU, which is the main economic partner of Serbia, the increase in GDP started in late 2009 and continued in 2010. However, from the mid 2011 there are clear signs of so - called W effect – repeat recession. In 2012 one can expect very modest increase in GDP of 0.5%, only.

Facing the crisis SME suffered like other companies. During the recession the main impact of worsening business environment one can see in decreasing number of new established companies and shops and decreasing number of employees, as well. Small companies was severely affected, but in the short period of time have started to recover, due to their flexibility and successful reorientation to different sort of business. At the same time medium scale companies, as less flexible, could not reorient them so fast and still are suffering. As they are dominant part of SME sector this impact was the most important to the results of the SME business demography. During the last several years in crisis circumstances SME sector is facing decreasing number of new established companies and shops and at the same time increasing number of closed companies and shops. In 2010 for the first time during the transition period more shops were closed then new opened. In 2011 not only shops, but for the first time more companies were closed than new established.

Considering worsening business conditions it is important to note that measures supportive for SME development in the future have to be in two directions: first, to support fast growing companies and gazelles in order to increase overall efficiency and competiveness of the national economy and second, to help newcomers to start and develop business, like during the first phase of transition, with an aim to increase number of SME and employment, as well, as much as possible.

The aim of the paper is twofold: firstly, to analyze the current stage of SME development, especially considering negative influences of the repeat recession, and secondly, to try to find solutions for SME recovery and policy advice.

1 Business Demography of SME – Overall Negative Result

The Statistical data on business demography are structural indicators which are used for evaluation of improvement in entrepreneurship development, dynamic of new established economic subjects, and SME development. From 2008 on, as outcome of the economic crisis and worsening business conditions, the number of new established companies and shops is decreasing, while numbers of economic subjects which are closed are increasing. Until the crisis started the business demography – as net effect - was positive and usually new companies and shops were established during the first quart of the year. From 2009 on this seasonal characteristic disappeared.

During the last two years (2010 and 2011) the trend of decreasing number of new established firms and shops, on the one side, and increasing number of those closed, on the other side, got momentum. The trends became negative and concerned. In 2010 for the first time during the transition period the net effect (discrepancy) of business demography – number of new opened less number of those closed shops – was negative. In 2011 net effect was negative not only for shops, but for companies, as well.

Table 1:
Number of new established and closed SME

	Number of companies		**Number of shops**		**Net effect**	
	Established	**Closed**	**Established**	**Closed**	**Comp**	**Shops**
2008.	11.248	3.068	43.375	34.572	3,7	1,3
2009.	10.014	3.597	39.365	36.441	2,8	1,1
2010.	9.461	9.325	35.036	37.086	1,0	0,9
2011.	8.465	13.494	32.009	35.202	0,6	0,9
Jan. 2011.	582	1.227	2.231	3.122	0,5	0,7
Jan. 2012.	617	671	2.068	3.908	0,9	0,5

Source: Business Registry, calculation Ministry of Finance RS

In January 2012 the number of companies was increasing in comparison to the year earlier for 6%, while number of those closed was decreasing by 46%. As the result the net effect was improved, although still negative. At the same time the negative trend for shops is continuing. In January 2012 number of new established shops was 7% less than year before, while number of closed shops was higher for 25%. The net effect for the shops is still worsening.

Table 2:

Rate of growth and closing companies and shops

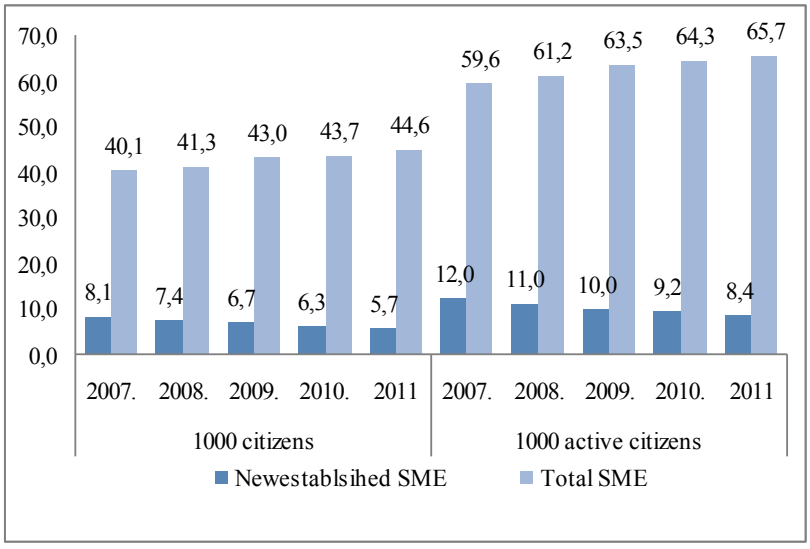
%	Companies		Shops		Total	
	Rate of growth	**Rate of closing**	**Rate of growth**	**Rate of closing**	**Rate of growth**	**Rate of closing**
2007	16,2	5,0	22,6	14,9	20,7	12,1
2008	12,8	6,4	20,2	16,1	18,0	13,2
2009	11,3	4,1	17,4	16,1	15,7	12,7
2010	10,7	10,5	15,6	16,6	14,2	14,9
2011	9,4	14,9	14,0	15,4	12,7	15,3

Source: Statistical office RS, calculation Ministry of Finance RS

Looking at rate of growth and rate of closing companies and shops one can see decreasing rate of growth companies/shops (number of new established companies/shops as percentage of total number of active companies/shops) and at the same time increasing rate of closing companies/shops (number of closed companies/shops as percentage of total number of active companies/shops). In the period between 2007 and 2011 rate of growth of SME was dropped from 21% to13%, while rate of closing SME increased from 12% to 15%.

Figure 1:

Density of SME and new established SME



Source: Business Registry RS, calculation Ministry of Finance RS

In 20011 on average 44.6 SMES were operated on each thousand citizens (43.7 in 2010) and 5.7 of those were new established (6.3 in 2010). If one look at active population from 15 to 64 years of age 65.7 SME are operating on each 1000 citizens, and 8.4 are new established. According to the density Serbia is around the level of EU, as the EU average is 41.6 SMES on each thousands citizens. Within EU member countries the highest density was envisaged in Czech Republic (86.4), and the least in Romania (20.5).

Table 3:
The Rate of survival of SME

	Companies			**Shops**			**Total**		
	Established	Survived	The rate %	Established	Survived	The rate %	Established	Survived	The rate %
2007.	13,484	12,405	92,0	47,948	31,741	66,2	61,432	44,146	71,9
2010.	11,386	10,315	90,6	43,575	23,581	54,1	54,961	33,896	61,7

Source: Statistical office RS, calculation Ministry of Finance RS

For SME critical period is three to five years after start, as great deal of them in meantime have to be closed due to different business problems. The rate of survival of companies is the measure which point number of companies established in the year „n" and survive in the period of "n+2" years. After that one can assume that the company could adjust well to market circumstances and find its own market position. On the basis of data for 2007 and 2010 one can find out:

a) Slightly more than 61% of new established SMES could survive first two years and continue to operate;

b) The rate of survival of companies in 2010 was far lower than in 2007, before the crisis came;

c) The rate of survival of companies was higher than for shops (90.6% and 54.1% respectively).

Table 4
Serbia - Growth/fall of business indicators 2009-2010

	Comp.	Micro	Small	Medium	SMEE	Large	Total
2009.							
Number companies	226.241	76.243	9.873	2.470	314.827	529	315.356
Number Employees	259.383	153.074	200.954	259.129	872.540	435.751	1.308.291
Turnover (mill RSD)	924.491	935.282	1.229.336	1.291.436	4.380.545	2.078.312	6.458.857
GVA(mill RSD)	193.688	119.187	212.145	253.088	778.108	584.771	1.362.879
Export (mill RSD)	6.037	60.090	68.647	140.603	275.378	270.437	545.814
Number exporters	1.955	6.166	3.131	1.175	12.427	333	12.760
Import (mill RSD)	6.450	155.321	217.929	247.447	627.147	402.030	1.029.177
Number importers	2.556	12.040	4.252	1.452	20.300	398	20.698
Investments (mill RSD)	50.231	40.374	100.095	69.096	259.796	234.170	493.966
2010.							
Number companies	228.680	77.989	9.614	2.257	318.540	504	319.044
Number Employees	232.176	153.264	194.450	234.695	814.585	412.966	1.227.551
Turnover (mill RSD)	805.140	1.074.186	1.396.636	1.401.972	4.677.933	2.482.401	7.160.334
GVA(mill RSD)	185.300	136.832	234.073	261.213	817.417	645.309	1.462.726
Export (mill RSD)	6.534	83.040	95.023	155.248	339.845	393.232	733.077
Number exporters	1.822	6.366	3.116	1.102	12.406	321	12.727
Import (mill RSD)	6.531	163.930	247.223	262.865	680.549	573.291	1.253.840
Number importers	2.230	11.922	4.163	1.379	19.694	396	20.090

Source: Statistical Office of RS processing by Republican Development Bureau

From the data above one can see *that micro and small companies somewhat recovered their activities and refocused to less risky business, but medium scale companies in 2010 fully suffered, because they are less adaptive to worsen conditions.* So, it mainly influenced difficult recovery of overall SME sector.

According to sort of industry in which operate, *majority of newly established SMES were in service industry and this tendency continued during the crisis*. In 2010 the most often business started in industries as follows: gross and retail trade (12,397 or 27% of total), process manufacturing (7,831 or 17%), and tourism (5.192 or 11%). However, those three industries at the same time had the highest number of closed companies and shops (35%, 17% and 10% respectively).

Data related to rate of growth of SME according to sector proved general findings. Net effect of newly established companies and shops in 2010 are lower than to the year before. In 2009 10 economic entities were closed on each 13 newly established and in 2010 numbers of new and closed were equal. In financial services this negative net effect was especially sharp (13.9 in 2009 and 1.4 in 2010).

The rate of survival in first two years of operating was the highest in governmental services, compulsory social security (100%), supply of energy and gas (78%), and mining (77%).

Regional economic discrepancies in Serbia are unfortunately very high and, more important, they were widening further during the transition period. SME sector and its development is not an exception. More developed regions, like Belgrade city and Vojvodina, have obviously greater potentials for business start - up and its development later on. According to business demography Belgrade has the highest potentials, as 13.363 new companies were established there or 29% of total. South Backa region in Vojvodina is following with 4.660 new SME or 10% of total. It is important to note that within those regions there are more chances for survival, which can be proved with lower rate of closing (67% and 63% respectively). On the contrary in Pirot region, on the south of Serbia, 367 new SME were established in 2010 or 0.8% of total, only, while at the same time 483 economic entities were closed.

Generally speaking the tendencies in business demography of SME which are not favorable can be seen as an outcome of two sorts of factors: firstly, clear *impact of prolonged economic crisis*, which caused fear of potential entrepreneurs to start business and active businessman to see potential for growth. Secondly, *market reforms lost momentum* in Serbia, partially because of increasing number of those who lost job and those who needs social aid. In other words, during the economic expansion until 2008 the main interest of the Government was oriented toward entrepreneurs, those who are creating job, but not anymore. During the period before the election, and especially during the election year (2012) rhetoric and measures of the Government became more populist and less entrepreneurial. To be precise: *market reforms are*

continuing slowly, and can not offset worsening of overall business climate as outcome of the crisis.

This outcome – negative business demography - is alarming. It generated firstly, decreasing number of working places, with *increasing unemployment*, which reached more than 23%[1] of total labor force. Secondly, it *limits development potential*, as SME is considered as the basis for future healthy and advanced economy. It also asks for quick and massive governmental response. In order to stop negative tendency and reorient slowdown into growth the Government has to re - launch SME supportive measures of a quantitative sort. *The most important goal now is to open as much as possible new economic entities*.

2 The Stage of Development of Business Infrastructure

According to the recently published analysis on business infrastructure in Serbia[2] *the institutional network responsible for support of entrepreneurship and SME development is improving, but still is modest*. The development of the infrastructure started in 2005 with first registered clusters and business incubators. Today there are: 23 business incubators, 85 cluster initiatives, 92 industrial zones, 2 industrial – technological parks, and 4 free zones.

The analysis found out that the institutions were not geographically balanced, but concentrated like economy, prevailing in regions of Belgrade and Vojvodina and considering towns, as follows: Belgrade, Novi Sad, Nis, Subotica, and Kragujevac. The main reason for the concentration of institutions is in line with development of regional and SME agencies and at the same time orientation of donator′s programs in the same direction, as follows: Norwegian ENTRANS, EU projects SECEP, RSEDP2, MISP, German WFB project, Danish program LEDIB, Austrian project BBI, and USAID project „Competitiveness". Governmental institutions were also supportive for business infrastructure development, like Governmental program for cluster development and National Investment plan.

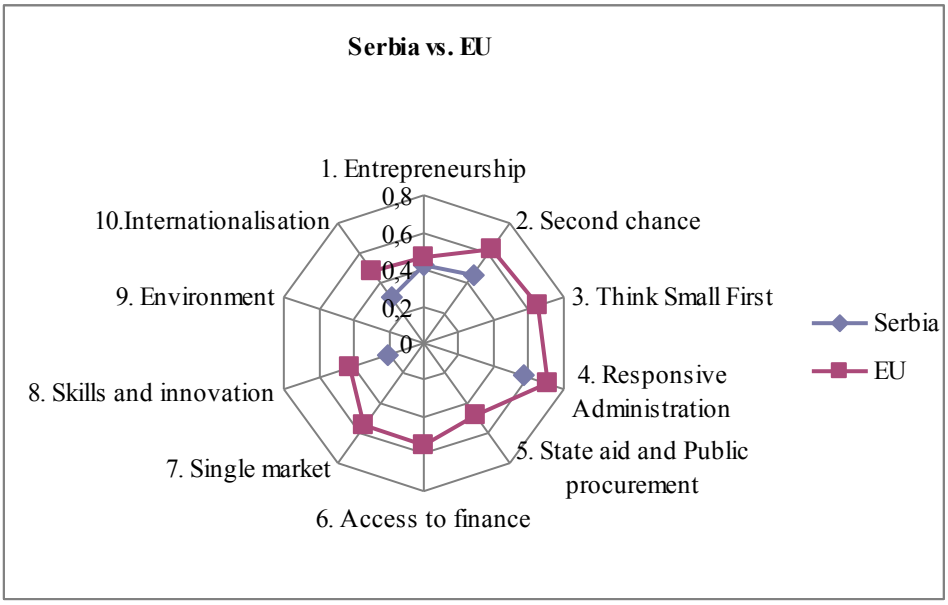
1 Figure for 2011 Republican Statistical Office.

2 National Agency for Regional Development of RS – The Analysis on the stage of business infrastructure, Belgrade, 2011

3 Indicators of Small Business Act Implementation

Small Business Act – SBA - is the document giving the official framework for development policy for SME in EU. SBA is established on 10 principles as the basis for policy definition and its realization on EU level and level of the member countries. From 2009 on SBA is the referent framework for the countries of Western Balkan, as well.

Figure 2:
Serbian and EU Profile



Source: SBA Report 2010-2011

The last Report found out that in Serbia there are potential for further improvement of development policy for SMEE support. Although the Government formulated and realized measures in all 10 fields data are available for 5 principles: entrepreneurship, second chance, patient administration, skills and innovations and internationalization[3]. Serbian indicators for entrepreneurship are on the EU level (average), while for others principles (second chance, patient administration, financials, skills and innovations, and Internationalization) are well below.

3 http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/serbia_en.pdf

Table 4:
Indicators of Small Business Act Implementation

	EU	**Serbia**	Bulgaria	Czech	Hungary	Poland	Romania	Slovenia
Entrepreneurship								
□□□ Index	**5,85**	**7,59**	-	7,90	6,61	-	3,98	6,40
Ratio chance / need	**6,24**	**1,85**	-	2,26	2,37	-	1,55	7,31
Second chance								
Cost to close a business	**10,72**	**23,00**	9,00	17,00	15,00	20,00	11,00	4,00
Time to close a business (in years)	**1,98**	**2,70**	3,30	3,20	2,00	3,00	3,30	2,00
Think Small First								
Burden of government regulation	**3,12**	**2,30**	3,20	2,70	2,20	2,70	2,90	3,50
Responsive Administration								
Time to start a business (calendar days)	**14,26**	**13**	18	20	4	32	10	6
Cost required to start a business (% of income per capita)	**5,47**	**7,90**	1,60	9,30	8,20	17,50	2,60	0,00
Paid in minimum capital (% of income per capita)	**18,76**	**6,00**	0,00	30,90	10,20	14,70	0,90	45,00
Time required to transfer property (calendar days)	**33,96**	**91**	15	43	17	152	48	113
Cost required to transfer property (% of property value),	**4,68**	**2,70**	3,00	3,00	5,00	0,40	1,30	2,10
Number of tax payments per year	**16,94**	**66,00**	17,00	12,00	14,00	29,00	113,00	22,00
Time required to comply with major taxes	**218**	**279**	616	557	277	325	222	260

(hours per year)								
Cost to enforce contracts (% of claim)	**20,84**	**28,90**	23,80	33,00	15,00	12,00	28,90	12,70
Access to finance								
Strength of legal rights (0-10)	**6,81**	**8**	8	6	7	9	8	5
Depth of credit information (0-6)	**4,47**	**5**	6	5	5	4	5	2
Skills and innovation								
SMEs introducing product or process innovations (% of SMEs)	**34,18**	**18,32**	20,72	34,86	16,82	17,55	18,03	31,02
SMEs introducing marketing or organizational innovations (% of SMEs)	**39,09**	**18,05**	17,35	45,88	20,52	18,65	25,81	39,38
SMEs innovating in-house (% of SMEs)	**30,25**	**27,83**	17,09	29,58	12,60	13,76	16,66	-
Innovative SMEs collaborating with others (% of SMEs)	**11,16**	**3,50**	3,50	11,28	7,15	6,40	2,27	14,24
Sales of new to market and new to firm innovations (% of turnover)	**13,26**	**10,01**	14,20	18,67	16,44	9,84	14,87	16,31
SMEs participating in EU funded research (number per 100.000 SMEs)	**20,95**	**3,70**	5,25	3,12	10,33	3,26	5,68	27,52
SMEs selling online (% of SMEs)	**13**	**12**	4	19	7	7	6	10
SMEs purchasing online (% of SMEs)	**28**	**14**	4	32	17	11	7	16
Internationalization								

Cost required to import (in USD)	**1098**	**1559**	1666	1165	1215	884	1175	765
Time required to import (in days)	**12,35**	**14,00**	21,00	20,00	17,00	25,00	13,00	17,00
Number of documents required to import	**5,35**	**6**	7	7	7	5	6	8
Cost required to export (In USD)	**1044**	**1398**	1551	1060	1225	1043	1275	710
Time required to export (in days)	**11,71**	**12,00**	23,00	17,00	18,00	17,00	12,00	19,00
Number of documents required to export	**4,5**	**6**	5	4	5	5	5	6

Source*:* DG Enterprise & Industry „Annual report on EU SME 2010/2011"

In comparison to results of previous years the Report found out that *Serbia made improvement in majority of policies supportive to SMEE development*. Within the broad context of development polices of SMEE the example of good practice is new Law on bankruptcy from January 2010. The Law stipulated that debtor can initiate bankruptcy procedure because of indebt and news is bankruptcy procedure with reorganizational program, as well. New procedure ought to be less expensive, shorter and simpler then before. The aim is not to close economic subject.

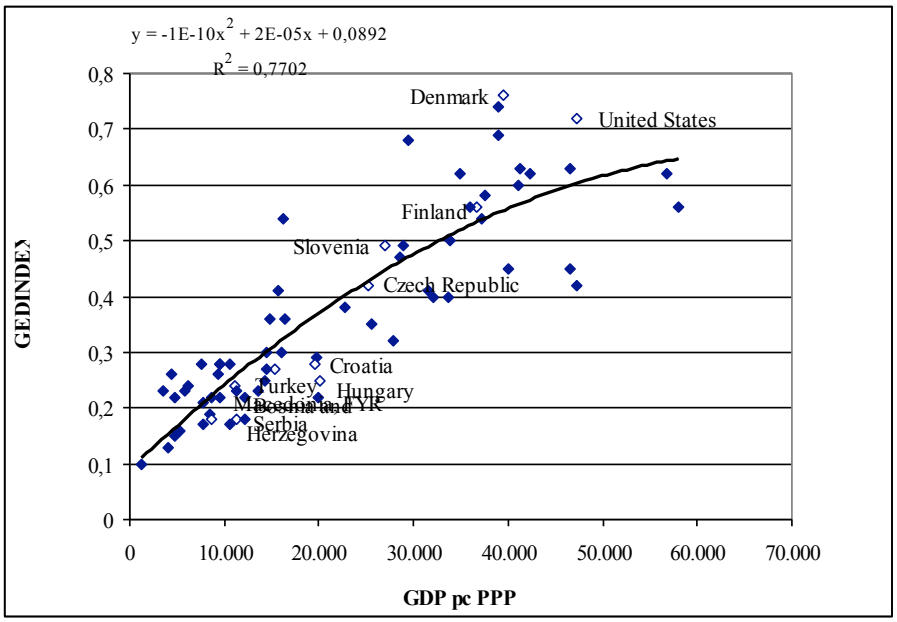
4 Global Entrepreneurship Development Index (GEDI)

Global Entrepreneurship Development Index - GEDI is the indicator of entrepreneurship quality, particularly related to effects of entrepreneurship and innovations, which are caused by individual and institutional factors. It covers three different dimensions of entrepreneurship, as follows: a) entrepreneurial attitude (ATT) - mirrors citizens′ attitude to SMEE; b) entrepreneurial activity (ACT) – measures entrepreneurial activity with potential of fast development; c) Entrepreneurial intentions (ASP) – it measures new products and innovations implementation[4].

4 Acs, Zoltan J., Autio, Erkko and Szerb, László, National Systems of Entrepreneurship: Measurement Issues and Policy Implications (February 20, 2012); Acs, Markus, Szerb – „Measuring the entrepeneurial behavior of the established business: An individual and a country-level investigation", 4th GEM Research Conference, London Imperial College, 2010; Szerb, László and Acs, Zoltan J., The Global Entrepreneurship and Development Index Methodology (June 4, 2011)

General GEDI value for Serbia[5] *is 0.18 with the rank of 62, which is four times less than for Denmark (0.76) with highest value of GEDI, and two times less than average value of all countries covered (0.37). In the group of countries which development is pushed by efficiency*[6] *Serbia is the last*. The first is Malezia (0.36), and Ecuador is the last (0.17). In comparison to the economic level achieved, GEDI level and all three sub-indicators (ATT, ACT and ASP) in Serbia are not encouraging, and level bellow the trend line is not good sign, as well.

Figure 3:
GEDI Index



Source: The Entrepreneurship and the United States, SBA

In comparison to overall development level Serbia has a comparative advantage in the skills possessed by beginners in business, while weakness is related to a fewer chances for start up of new firms, human sources quality, new products and technology implementation, and low level of SMEE internationalization.

5 Z.Acs, L.Szerb – "Global Entrepreneurship and The United States", SBA, 2010

6 The average of group "The second phase – economies pushed by efficiency", „The Global Competitive Index 2011-2012", Word Economic Forum

The main recommendation for improvement in SMEE development level is the switch to the new model of economic growth, which is based on export demand, employment increase, investments increase, public spending decreasing, industrial sector strengthening. In line with existed measures and activities for SMEE *support the development of dynamic companies has the main role.*

Table 5:
Global Index of Development (GEDI)

	Serbia		B&H		FIROM		Croatia		Romania		Hungary	
	G	**P**	**G**	**P**	**G**	**P**	**G**	**P**	**G**	**P**	**G**	**P**
GEDI	0.18	62	0.18	64	0.24	49	0.28	38	0.25	48	0.25	47
Subindex A:Entrepreneurial attitude	0.29	51	0.21	63	0.25	56	0.32	44	0.27	53	0.3	49
1 pillar: Opportunity perception	0.31		0.19		0.27		0.17		0.17		0.06	
2 pillar: Start up skills	0.57		0.37		0.38		0.43		0.22		0.48	
3 pillar: Nonfear	0.21		0.01		0.18		0.43		0.45		0.66	
4 pillar: Networking	0.21		0.24		0.14		0.41		0.31		0.24	
5 pillar: Cultural support	0.23		0.25		0.3		0.26		0.23		0.31	
Subindex B: Entrepreneurial activity.	0.13	68	0.11	69	0.21	54	0.22	52	0.29	44	0.27	49
6 pillar: Opportunity start up	0.04		0.06		0.13		0.1		0.28		0.36	
7 pillar: Technology sector	0.19		0.09		0.26		0.33		0.14		0.3	
8 pillar: Quality of HR	0.13		0.1		0.24		0.16		0.69		0.32	
9 pillar: Competition	0.19		0.18		0.21		0.33		0.19		0.13	
Subindex C: Entreprenurial attitude	0.12	63	0.22	42	0.27	34	0.31	32	0.18	47	0.19	44
10 pillar: New products	0.03		0		0.03		0.12		0.08		0.12	
11 pillar: New technologies	0.11		0.09		0.19		0.36		0		0.29	
12 pillar: High growth	0.24		0.21		0.28		0.37		0.32		0.17	
13 pillar: Internationalization	0.15		0.51		0.48		0.7		0.69		0.5	
14 pillar: Venture capital	0.12		0.47		0.64		0.19		0.02		0.01	

Note: G – GEDI Index, P – GDP p.c.ppp
Source: Global Entrepreneurship and the United States SBA

Other recommendations are as follows:
a) SMEE Supportive framework should be finished including help to companies in growth and development;
b) Shift from broad policy supportive to all SME to policy supportive to dynamic companies and gazelles; c) Shift in existed financial support (public sources, different sorts of donation, subsidies and soft credit lines) to combination of public and private sources, to credits for Research & Development and donation for innovations, business angels kind of support and securities, as well;
d) The change in structure of services offered by non financial support from basic advices for business start up, business planning and operations to the advice based on experience on venture capital, strategic planning, support for joining business chains, internationalization and development;
e) Advantage in financial sources access to the most dynamic companies;
f) Legal framework reform oriented not only to dismantling of limits for start ups, but for dynamic companies establishment, as well.

5 Innovative companies are better adapted to worsened business conditions

For the first time Serbian SME were subject of investigation, precisely innovative companies, fast growing companies and gazelles, in broad EU environment[7] . Those companies from EU countries were analyzed comparing the current state in 2009 and in 2011[8]. One third of SME (33%) in the EU stated that they have introduced a new or significantly improved products or services to the market. This was the most likely innovative activity among SME in EU. Over a half of SME in Malta, Montenegro, Serbia (53%) and Latvia said that they have introduced a new or significantly improved products or service in the last 12 months, much higher than in EU. The spread of activity is somewhat more pronounced with regard to introducing a new or significantly improved production processes or methods. Malta had significant increase, on the one hand, and decrease was noted in Romania, on the other hand. Serbia (53%) again, together with Montenegro and FIROM, was above EU average (32%). Regarding introduction of new organization of management during the last 12 months EU average is slightly above 1/5 of SME, while Serbia (35%) together with Czech Republic and Montenegro were pretty higher with organizational innovation

7 EC – SMEs' Access to Finance Survey, EC, December 2011

8 Although data for Serbia (and other countries of Western Balkan) were given for 2011 only and can be questioned regarding quality and objectivity, as it was investigation on the basis of questionnaire fulfilled by SME managers, results are interesting and useful.

introduced in SME. During the last year around two fifths of SME in Ireland and Malta have introduced a new way of selling gods or services, ahead of Romanian and Greece, while Serbia was on the level as Malta (40%).

When asked how much their firm had grown on average per year over the last 3 years in terms of number of employees, the largest proportion of SME in EU (39%) said they have experienced "no growth". At the same time over ¼ (26%) said that their business did see growth of up to 20%, a further 11% said that their business grew over 20% per year (so - called gazelles) and finally, nearly ¼ (23%) said that their business "got smaller". The proportion for Serbia measuring employment growth was as follows: 11% (got smaller), 28% (no growth), 45% (growth up to 20%) and 17% (over 20% of growth). Those results are not surprise as Serbia was in the first phase of SME development, when fast employment growth can be expected. In terms of turnover EU-27 proportion (for 2011) is: 15% (over 20% per year), 37% (les then 20%), 20% (no growth) and 26% (got smaller), while Serbian proportion is: 19%, 16%, 43% and 22%. Unfortunately, majority of Serbian SME are facing severe problems and fewer chances then before. *The investigation also covered gazelles, as high growth companies with average growth over 20% per year, and included both SME and LSE. According to the investigation in EU-27 2% of all companies can be labeled as gazelles and in Serbia 1%, only - not surprisingly.* It is interesting to note that *the analysis proved that innovative companies increased faster than non-innovative. The proportion for growth of turnover for innovative companies EU-27 was: 18:37:18:25 and non-innovative: 12:36:23:27*.

Conclusion

During the transition period in Serbia SMES sector became important economic agent with high share in GDP formation and overall employment. Facing the global economic crisis SME were suffering like other economic subjects. It is important to note that some SME – micro and small companies - successfully adopted to worsen economic environment and found their own market place due to reorientation of their activities. Medium scale companies, as less adaptive, could not do it easily. Due to their high share in overall SME sector the data for business demography for SME are negative and alarming. It asks for urgent reaction of the Government and introduction of measures for general support of SME, like during the first phase of SME development, which can the decreasing number of SME return into growth, and more important open new working places. Several reports prepared by international organizations found out that like micro and small companies, which found way to survive and develop their business, innovative companies and gazelles are during the crisis better adapted to worsening business environment. This finding emphasized need for stronger governmental support of those companies

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