

Edvard Jakopin

Ministry of Economy  
Department of Regional Development  
and Strategic Analyses of Economy  
Belgrade

## REGIONAL DRIVERS OF ECONOMIC GROWTH

### Regionalni pokretači privrednog rasta

*Entrepreneurship is a force that exploits other resources to satisfy market demand, an ability to create and build up something practically out of nothing. (Chouhan, 2012)*

#### Abstract

Regional development of Serbia, after waves of recession, faced an additional challenge: a trend of increasing regional demographic regression, economic gap, etc. Entrepreneurs and SME sector are particularly hit hard by the economic crisis. But, in addition, in Serbia there are 1.2% rapidly growing enterprises (1,103, of which 160 gazelles) that boast growth potential (before the crisis, there were 3%). These are the drivers of regional economic growth.

The basic research results of the regional dynamic entrepreneurship: 1,103 dynamic enterprises (2009-2013) participated in the increase in business revenues of Serbia with 110.5% (these enterprises covered 10.5% of the loss of the remaining segment of economy), generated 1/3 of profit growth in the economy and created 10,000 new jobs in the economy. Regional driving forces of growth and development had, in a certain number of regions, an extremely important role in the change of economic structure, increase in employment, and improvement in competitive performances of local economic structures.

Economic recommendations presented in the paper go in two directions: firstly, it is vital to set up additional stimulating mechanisms for dynamic regional entrepreneurs in order to create conditions conducive to a faster growth of dynamic entrepreneurship in Serbia. Secondly, a way out of regional poverty will depend mostly on the building of institutions and affirmation of regional strategic planning.

**Key words:** *regional drivers of economic growth, dynamic entrepreneurship, regional strategic planning*

#### Sažetak

Regionalni razvoj Srbije se, nakon recesivnih talasa, suočio sa dodatnim izazovima: trend povećanja regionalne demografske regresije, ekonomski jaz, i dr. Preduzetnici i sektor MSP posebno su teško pogođeni ekonomskom krizom. Ali, i pored toga, u Srbiji postoji 1,2% brzorastućih preduzeća (1.103, od kojih su 160 gazele), koja imaju potencijal rasta (pre krize radilo je 3% brzorastućih preduzeća). To su regionalni pokretači privrednog rasta.

Istraživanje regionalnog dinamičkog preduzetništva pokazalo je da je 1.103 brzorastućih preduzeća učestvovalo u rastu poslovnog prihoda Srbije sa 110,5%, što znači da su ova preduzeća pokrivala i 10,5% gubitaka ostalog dela privrede, generisala 1/3 rasta dobiti u privredi i kreirala 10.000 novih radnih mesta u privredi. Regionalni pokretači rasta i razvoja su u jednom broju regiona odigrali izuzetno značajnu ulogu u promeni privredne strukture, povećanju zaposlenosti i poboljšanju konkurentskih performansi lokalnih privrednih struktura.

Ekonomске poruke u radu usmerene su u dva pravca: prvo, neophodno je kreirati dodatne podsticajne mehanizme preduzetnicima kako bi se stvorili uslovi za brži rast dinamičkog preduzetništva u Srbiji, i drugo, izlaz iz regionalnog siromaštva zavisice najviše od izgradnje institucija i afirmacije regionalnog strateškog planiranja.

**Ključne reči:** *regionalni pokretači privrednog rasta, dinamičko preduzetništvo, regionalno strateško planiranje*

## Introduction

Social entrepreneurship is in the focus of competitive economy, it is the epicentre of the growth strategy “Europe 2020”. Social economy has been recognized as the priority of funding in the EU regional policy with about EUR 90 million allocated for the new instruments of the support to capital investment in the period 2014-2020. The primary goal of the EU is to facilitate the access to the private capital for social entrepreneurs.

---

### Effects of the recession on EU entrepreneurship

- Added value of SMEs in EU-28 in 2013 was just 1% higher than in 2008.
  - Employment in 2013 was still 2.6% below the employment in 2008.
  - Micro companies suffered the greatest decline in the number of employed persons in the period 2008-2013.
  - Effects on SMEs vary significantly depending on which Member State they are in, sectors and size.
- 

OECD is warning that entrepreneurship, small and medium enterprises and local development are confronted with increasing risks due to fewer and fewer financial incentives. Different attitude coming from financial institutions would contribute to the prevention of the collapse and employment increase. It is crucial that main preconditions are created, which, according to OECD, in the first place refers to the reduction of bureaucracy. Bureaucracy comprises about 3.5% of GNP, therefore if the bureaucracy was halved, GNP would increase by 1.5-2%.

Regional entrepreneurship presents an answer to the increasing problem of rising unemployment of the young. For example, in the Netherlands, where unemployment rate is the lowest in Europe, over 65% of young people start their work experience in social economic entities which prepare them for work and for the labour market, where they will be directed when they finish their education. “Schools and faculties should introduce social entrepreneurship in educational programs but as an activity as well. That would stimulate the capacity building of social entrepreneurs for managing their own economic activities,” *Marc Tarabella*, a member of European Parliament pointed out.

The fast-growing companies that boast growth potential (dynamic enterprises and gazelles) present

the propeller of development of any economy [5, p. 103]. Dynamic enterprises make use of their resources in a market environment most efficiently; they manage to raise employment continually, improve their balance positions, respond to market signals fast and, accordingly, make business decisions swiftly.

Encouraging the development of regional dynamic entrepreneurship is a development chance for Serbia. Primary tasks are to continually strive to create a stimulating environment and address key development problems of enterprises in the stage of growth and development [13].

The subject of the research is orientated to two directions: the testing of regional dynamic entrepreneurship in Serbia as a driving force of economic growth and the identifying of the key systemic determinants of the improvement in regional strategic planning and development management.

## Trends and challenges of the regional development of Serbia

Regional transitional balance: The reflection of economic balance

Positive effects of the transitional economic balance (2001-2013) which reflect in the growth of the number of economic entities (45.9%), growth of the total revenue (48.9%) and growth of the profit (370.7%) of Serbian economy, have been in the shadow of perennial cumulative negative effects which reflect in the indebtedness (the growth of debt – 82.5%), insolvency, illiquidity and high losses (the growth of losses – 35.5%, cumulative losses – 14.5%), which present crucial limitations for the growth of productivity and competitiveness of Serbian economy (see Table 1).

One decade since the transition started, the Serbian economy is still operating unprofitably. In 2013 the negative financial result was EUR 265.7 million (EUR 1.3 billion in 2001; EUR 534.2 million in 2008). The loss (EUR 4.2 billion) is 6.7% bigger than the realized profit (EUR 3.9 billion) and it accounts for 12.2% of GDP.

Positive net financial result was made in 2006, 2007 and 2011 (see Figure 1), however, insufficiently dynamic structural reforms, which were additionally aggravated by the effects of global economic crisis, made it impossible

**Table 1: The indicators of the economy of the Republic of Serbia from 2001 to 2013 (growth rates)**

Indicator	2001=100		2008=100
	2001-2008	2001-2013	2008-2013
Number of enterprises	42.2	45.9	2.6
Employment	-17.8	-27.3	-11.6
Revenues	69.6	48.9	-12.2
Liabilities	61.6	82.5	12.9
Profit	370.1	370.7	0.1
Loss	45.2	35.5	-6.7
Cumulative loss	-18.7	14.5	40.7

Source: author's calculations

for the economy to get out of the zone of net loss-makers in the long run.

Operating of Serbian companies during the whole analysed period was burdened by high indebtedness and cumulative losses (see Table 2). Total liabilities in 2013 were two times bigger than at the beginning of the transitional period and exceed the capital value by 46.6% (in 2001 total liabilities accounted for 64.5% of the capital value), while cumulative loss accounts for 50.7% of the capital, 15.1 of structural points more than in 2001.

The high amount of cumulative losses (EUR 25.4 billion) affected the decrease of capital – the rate of the lost economic capital in 2013 was 39.1%. Cumulative losses per one employed person exceed many times the profit per one employed person and in the analysed years they have an upward trend.

### Demographic regression

For many decades demographic trends have been posing the greatest developmental risk. Constantly negative population growth accelerated the process of demographic

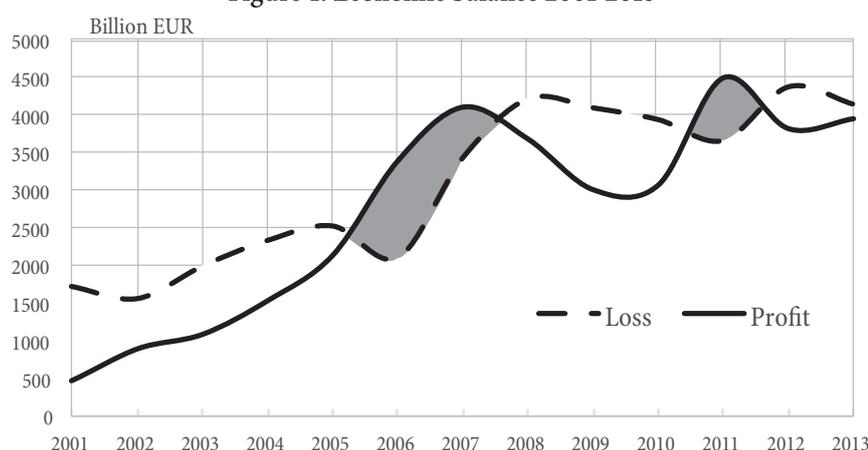
**Table 2: Economic transition results 2001-2013**

	2001	2008	2013
Cumulative loss/capital (%)	35.6	34.5	50.7
Capital loss rate (%)	34.0	27.8	39.1
Debt/equity (%)	64.5	124.3	146.6
Profit per employee EUR	340.2	3,277.5	3,977.7
Loss per employee EUR	1,261.2	3,752.8	4,244.9
Cumulative loss per employee EUR	9,007.0	15,013.1	25,608.6

Source: author's calculations

ageing, which represents the additional multi-dimensional developmental risk (see Figure 2). In the last few years the ratio between the young and the old has been 4 to 5, at the beginning of the transition, in 2002, the figures were almost the same. Demographic regression continued also in 2012 and 2013 when the decrease of population in Serbia was estimated at over 34,945 (see Figure 3); the regional aspect which is the most unfavourable is Vojvodina (the loss of almost 20,000 inhabitants) compared to central Serbia (a bit over 15,000). Migration flows heading to the capital city and other 23 cities with negative population growth greatly determine economic and social predispositions of municipalities and cities – educational as well as the potential of certain age, the level at which people are employed, economic and social structure. Human resources are particularly important in the process of planning of the economic growth [4]. The specific aspect of depopulation mirrors in extreme territorial asymmetry – concentration in cities and depopulation of the wider area.

Regression trends of natural and mechanical movement accelerated not only the volume, but also the structure of population – the process of ageing population in the period 2002-2011 increased from 40 to 42 years. On the

**Figure 1: Economic balance 2001-2013**

Source: author's calculations

other hand, the share of population younger than 15 has declined, from 15.7% to 14.3%, and the share of population older than 65 has increased from 16.5% to 17.4%. The ageing of population affects the changes in economic structure in the long term. *Coefficient of economic dependency* shows the increase in the number of people who are non-self-supporting, persons with personal incomes and the unemployed, showing the ratio between these categories and one employed person in all regions, except in Belgrade, South Backa region, and Srem region.

**Transitional deepening of regional disparities**

The causes of transitional growth of regional disparities are manifold – the lack of uniformity dating from the past, effects of privatization, lack of coordination between the sector and developmental policy, etc. The differences are to a great extent a product of regional specificities, particularly of the economic structure which determines the intensity of their adaptation to current economic and social changes [5].

If we analyse regions (NUTS-2), the regions that contributed to GDP in Serbia in 2013 the most were (see Figure 4): Belgrade region which contributed with 39.8%, the region of Vojvodina with 27.5%, followed by Sumadija region and West Serbia with 18.8%, and the regions of South and East Serbia with 13.8%.

The analysis of regional GDP PPS of Serbia per capita, compared to EU-27 average, indicates that Belgrade region, as the most developed region of Serbia, had the index level

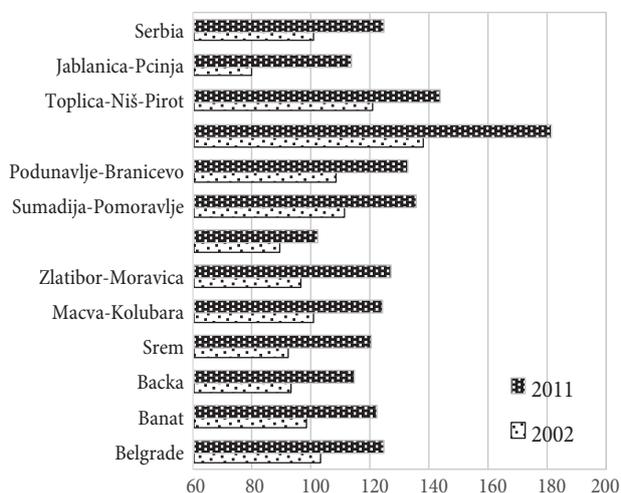
of 65% in 2009 and that in 2010 it dropped to 61%, while in 2012 it stayed at the same level (60%). The main cause of the decline, above all, is that in 2010 there was not only nominal decline of GDP PPS per capita in Belgrade region (from 15,216 PPS units per capita in 2009 to 14,811 PPS units in 2010), but also the average growth EU-27 of 4,3%.

There was 1.5 times less economic development in Belgrade region in 2009 than the regional average EU-27, and about 1.7 times less economic development in 2012. Vojvodina region was at approximate level of the average of Serbian regions in 2013, i.e. three times less than EU-27 average. It has to be stressed that the asymmetry between the regions is reflected in employment and unemployment – the Belgrade region has the share of 33% in the total employment of Serbia and the share of 14% in the total unemployment, the region of Vojvodina has the share of

**Figure 3: Depopulation 2002-2011**



**Figure 2: The regional index of demographic aging**

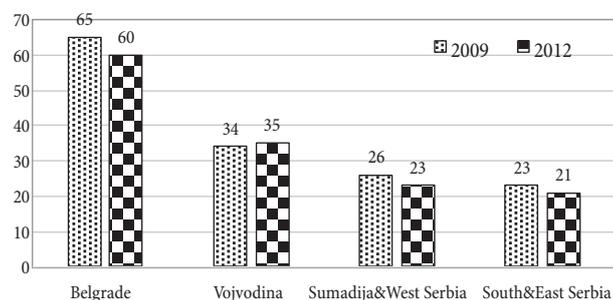


Source: author's calculations

A - Demographic extremely progressive area (>220.0) (municipalities)  
 B - demographic stable area (100.0-219.9) (13)  
 C - demographic weakened (regressive) area (70.0-99.9): (37)  
 D - demographic the affected area (45.0-69.9): (37)  
 E - demographic extremely vulnerable area (<44.9): (73)

Source: author's calculations

Figure 4: Regional GDP PPS p.c. NUTS-2 compared to the EU average



Source: author's calculations

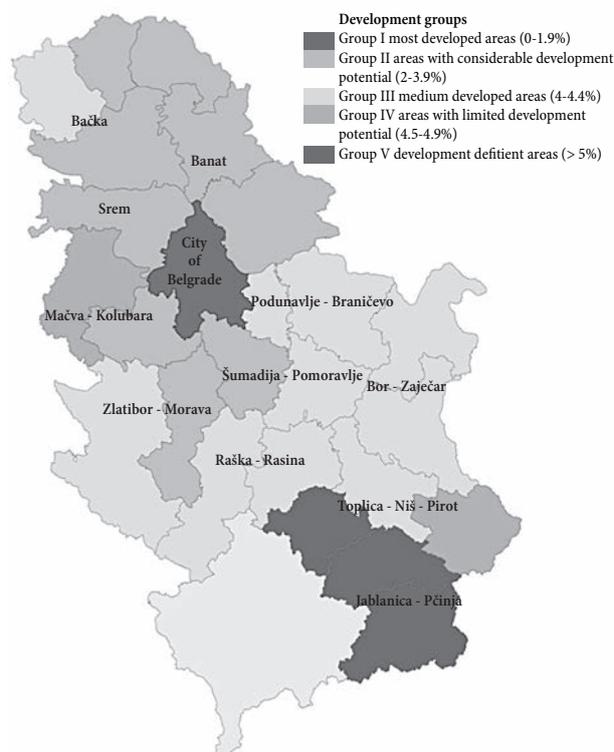
26% of both employment and unemployment. In the region of Sumadija and West Serbia almost 1/4 is employed, with the share of 1/3 in the number of unemployed of Serbia, while regions such as South Serbia and East Serbia have the share of 18% in the employment and the share of 26% in the unemployment.

Analysis of regional disparities at regional levels (NUTS-3) displays a real proportion of regional disparities in Serbia. Extreme values have slightly increased in the period 2006-2013 (see Table 3), that is the Index of Endangered Regions (IER)<sup>1</sup> indicates that the correlation between Belgrade and Toplica Region increased from 6.8:1 in 2006 to 7:1 in 2013, i.e. the City of Belgrade is seven times more developed than Toplica Region (see Figure 5). However, the value of IER recorded the decline for even 21 districts compared to 2011.

Serbian cities represent the driving force of regional development, but they have different intensities depending on the size, number of inhabitants, economic activities, and the level of development. In spite of the fact that the number of cities in Serbia has increased in the last decade, and that many municipalities received prerogatives of urban even regional centres, many indicators show that their role is insufficiently economic, social and developmental. Disparities within very cities are even more noticeable in the transitional period.

More than 50% of all economic activities of Serbia are done in the area of the City of Belgrade. As opposed to Belgrade there are 22 cities with 2.7 million of inhabitants, with 34% of companies doing their business activities

Figure 5: Index of Endangered Regions (IER)



Source: author's calculations

and 34% of the total number of employed people. The economy of 22 cities makes 34% of income, 37% of profit and has the share in the total loss of Serbian economy of 38%. Disproportions among 22 cities are the following:

- according to the number of companies 30:1 (Novi Sad : Zajecar);
- according to the number of employed 22:1 (Novi Sad : Zajecar);
- according to the total revenue 49:1 (Novi Sad : Zajecar);
- according to the profit 201:1 (Novi Sad : Zajecar);
- according to the loss 300:1 (Novi Sad : Novi Pazar).

From the aspect of developmental imbalance, the area of Belgrade stands out, being the most protruding point of the polarization and the most developed region of Serbia. Regional analysis of disparities at municipality level just confirms the thesis of the transitional pattern of the increase in regional differences, according to all representative indicators, showing that the number of municipalities which have the level of development below 50% of the Serbian average increases.

The correlation between the unemployment rate and the rate of underdevelopment in municipalities is very high, in accordance with that it reaches its maximum

<sup>1</sup> IER contains five developmental dimensions: economic, demographic, educational, infrastructural and environmental (where each dimension can be divided into a few representative indicators – altogether 13).

Table 3: IER – changes 2006-2013

Development group	Values scale	Number of districts (municipalities)		Changes 2006-2013
		2006	2013	
<b>I group</b> - the most developed area	0-1.9	City of Belgrade		without changes
<b>II group</b> - areas with significant development potential	2-3.9	8 (51)	9 (58)	<ul style="list-style-type: none"> <li>• Srem and Central Banat District from III to II</li> <li>• West Backa District from II to III group</li> </ul>
<b>III group</b> - medium developed areas	4.0-4.4	8 (49)	10 (57)	<ul style="list-style-type: none"> <li>• Kolubara District from IV to III group</li> <li>• Nis District from II to III group</li> </ul>
<b>IV group</b> - areas with limited development potential	4.5-4.9	5 (27)	2 (12)	<ul style="list-style-type: none"> <li>• Raska, Rasina, Zajecar and Bor District from IV to III group</li> <li>• Pirot District from III to IV group</li> </ul>
<b>V group</b> - development affected areas	>5.0	3 (17)	3 (17)	without changes

Source: author's calculations

values in municipalities which have had the status of underdeveloped for decades. The more underdeveloped an area is, the more obvious are inverse proportions between employment rates – the ratio of the employed to the unemployed is 100 to 40 in developed municipalities and cities, whereas in underdeveloped municipalities that ratio is over 250 of unemployed to 100 of employed (Zitoradja and Tutin). Out of 145 of municipalities in Serbia, in 58 the unemployment rate in 2013 was more than 50% of Serbian average, and if the marginal value is 20% over the average, then 83 municipalities had higher unemployment than the Serbian average. On the other hand, higher employment than the national average was achieved by 16 municipalities.

## Regional driving forces of economic growth

### Theoretical framework

The first systemic research into dynamic entrepreneurship had primarily been driven by the research done by *Edith Penrose* dealing with the theory of enterprise growth [17, p. 5], later named *theory of resources* (resource-based view of the firm). The theory of resources was rediscovered at the start of the last decade of the 20th century [19]. The core of the resource theory lies in the claim that a competitive advantage is acquired through resources that are valuable and scarce but that are hard to imitate and substitute.

*Nonaka* and *Sveiby* [16], [23] upgraded the resource theory with the proposed dynamic theory of organizational knowledge about creation through interactions of individuals. They argue that “*dynamic characteristics of knowledge are pivotal for managers*” [23, p. 344].

Basic researches into dynamic entrepreneurship show a high degree of correlation between growth factors and overall economic growth [7]. A usual division of growth factors is to motivation, (2) abilities, and (3) opportunities [22], while others suggest that growth of a company is primarily influenced by the following factors: (1) company's exterior and interior setting, (2) entrepreneur or entrepreneurial team itself, (3) innovativeness and realization of changes, (4) growth and strategic access, (5) business model and management system, (6) human resources, and (7) growth of financing [10], [21, p. 10].

Factors that have a crucial impact on the development of entrepreneurship can be covered by the term entrepreneurial-stimulating environment; the term refers both to factors in a broad sense of the word (socio-economic order that fosters or prohibits profit motives, cultural and religious aspects of a society and a general attitude to work, knowledge etc.) and individual elements which determine the behaviour and conduct of an entrepreneur and a company in an environment.

Entrepreneurial growth is influenced by many other factors in a specific social-economic system, such as the health care system, pensions, labour legislation, protection of knowledge and industrial property, the degree of professional attainment and the access to knowledge [9], protection of buyers and providers, regulation of the capital market, management of public companies, etc.

Over the past few decades some business researchers have devoted ever more time to the study of ecological factors that impact on the development of entrepreneurship and growth of companies and vice versa (the impact of a company's growth on living environment). *Gabe* [8] has

developed an empirical model that measures effects of an active environment policy on the growth of companies.

Numerous European researches have proved the link between the success of European gazelles and economic development [20, p. 65] by studying a set of stimulating measures: financial, fiscal, legal and other incentives for starting a business, attitude to entrepreneurship, tolerance of business failure, readiness to take a risk, an overall entrepreneurial climate, and favourable legislation for companies' growth.

Over the last decade the European Commission has repeatedly stressed that the business environment is no longer conducive to entrepreneurship development. The latest comprehensive analysis have shown that 85% of new jobs [6] can be attributed to the growth of micro, small and medium-sized enterprises, while the rate of employment growth in these enterprises is twice as high as in large enterprises [6].

Interdisciplinary treatment of entrepreneurship, as a socio-economic phenomenon [20, p. 63], is linking at least three basic approaches:

- (1) *the economic aspect*: from the macro-economic and socio-economic aspects we can establish, assess and measure the contribution of "entrepreneurship" to economic growth, employment, advanced stage of the country's economy, and the prosperity of the society. From the micro-economic point of view, we can establish the economic effects of individual entrepreneurial entities, their optimum size to achieve the expected return and balance the use of resources to achieve the maximum effects;
- (2) *the business-organisational aspect* helps us to assure the economic goals in an entrepreneurial organization – an enterprise – and administer and manage the business functions that are prerequisite for the specialization of entrepreneurship to achieve the economic and socio-economic goals;
- (3) *the aspect of entrepreneurial management and entrepreneurial behaviour* allows us to clarify, to a certain extent, what the entrepreneurial handling and conduct of the entrepreneur (or the entrepreneurial team, resp.) and the entrepreneurial organization should be like to be able to apply the

professional techniques and models developed by the business and organizational science and achieve economic, as well as non-economic goals as set by the entrepreneur and all other ones entering the organizational relationship.

Dynamic enterprises can be found in all developmental stages of an enterprise, not only in the so-called stage of growth. The long-term growth is related to, and depends on, the assertion of the leadership professionalization and the development of an entrepreneurial and managerial team, as well as on an advanced, professional organizational structure, tailored to the nature of the business. Underlying for the dynamic enterprise leadership is the understanding and awareness of the management techniques of a growing enterprise, which means that we cannot expect the most dynamic enterprises to be led by individual entrepreneurs, but by strong entrepreneurial and management teams, under the lead of an influential entrepreneur or an entrepreneurial manager, who must not necessarily be the founder of the enterprise.

#### Research and methodological framework

The research of company's growth is based on various methodological concepts, which include most representative indicators, such as: an increase in total or business income, gross value added, the number of employees, the market value of a company, market shares, the value of goods or service brands, company's assets, etc. The paper promotes an entirely new methodological concept of measuring the dynamic entrepreneurship in Serbia. Criteria and indicators result from a continual research into dynamic entrepreneurship in Serbia [10, p. 7]. The research is based on the quantitative analysis of growth of all the companies in Serbia during the recession period 2009-2013. The methodological framework for studying the dynamic entrepreneurship in 2009-2013 has been based on the following criteria that had to be met by rapidly growing companies:

- They had more than 2 employees in 2013 or more than one employee (this criterion refers to entrepreneurs);
- Their business income was higher than EUR 63,000 in 2013 (the border value represents average business income in economy);

- Their GVA (gross value added) per employee in 2013 on 2009 was larger than EUR 12,400 (the border value represents an average GVA per employee in the economy);
- Their enterprise worked continuously over the analysed period of 5 years;
- Their enterprise had at least the same number of employees in 2013 and higher GVA in 2013 compared to 2009;
- They created at least twice as high average growth of business income than created in the economy ( $2 * 2.89\%$ ) over the period 2009-2013;
- The minimal cumulative profit was registered over the period 2009-2013;
- Enterprises are not in majority ownership of the state (over 50%) on December 31 2013;
- Enterprises dealing with the following activities have been excluded: L – Real estate; O – Public administration and defence, compulsory social insurance; S – Other services; T – Household activities with employers; various goods; U – extra-territorial organizations and institutions.

The listed criteria were met by 1,103 enterprises in Serbia in 2013, which equalled 1.2% of the total number of enterprises in Serbia.

The methodological process of ascertaining gazelles in Serbia was based on the well-known Birch's indicator<sup>2</sup> [2], which analyses changes to the number of the employed, gross value added, or their combination. The application of the Birch's indicator has helped differentiate 160 gazelles in Serbia, which is slightly more than 10% of dynamic enterprises.

Total economic growth in Serbia is generated by 1% of companies

During the period of economic recession 2009-2013 dynamic companies generated total economic growth in Serbia. In all other economies this number is between

3-5% by all companies, they have over average revenue and employment growth, they are the bearers of innovations and sustainable development. Each economy has to focus on such companies and encourage them, continuously creating conditions for their growth. Dynamic companies are for Serbia, based on the research done in the last ten years, driving forces of economic growth.

Comparative research of dynamic entrepreneurship in Serbia was done in two five-year periods: (a) period 2006-2010, and (b) 2009-2013. The main findings can be concisely put as follows:

During the period of recession 2009-2013 all economic performances were weakened [12], but the fast-growing companies kept the role of the driving force of the economic growth. The research singled out 1,103 dynamic companies (out of which 160 are gazelles – the most dynamic companies) which, during this period:

- had the share in the growth of Serbian economic revenue of 110.5%, which implies that these companies covered 10.5% of losses of the rest of the economy;
- generated three times bigger growth of gross value added in Serbia (the total economy in 2013 had smaller GVA than in 2009);
- generated 1/3 of growth in the economy;
- created 10,000 new jobs in the economy (2% of total employment in the economy), while in economy the employment declined by 78,000.

Total economic growth in the period 2009-2013 was made by 1,103 dynamic companies, i.e. 1.2% of all companies. The recession negatively affected extremely positive economic performance of fast-growing companies from the period 2006-2010, but dynamic companies kept showing positive performances and remained the driving force of economic growth and development in Serbia (see Figure 6).

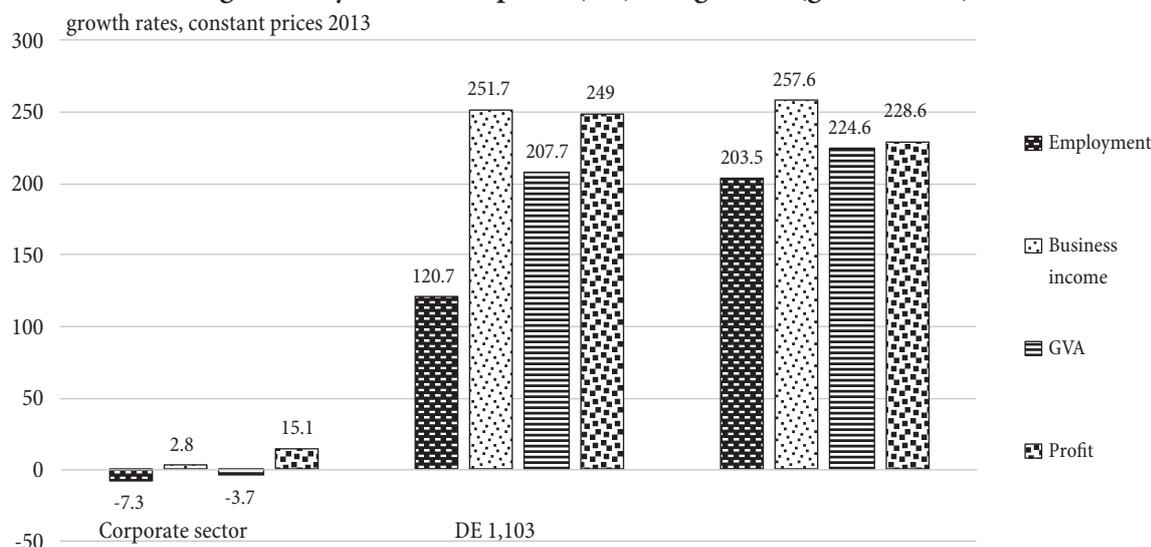
### Sectoral structure of dynamic entrepreneurship

Dynamic enterprises increased their contribution to economic growth in all dimensions of research. According to all the relevant economic indicators, the impact of 1,103 dynamic enterprises over the period of five years has tripled despite recession tendencies:

2 The Birch's indicator aims to reduce the impact of a company's size on the growth indicator, and presents a combination of the proportional and absolute rise in employment:

$$m = (X_{it} - X_{i,t0}) * (X_{it} / X_{i,t0})$$

whereby  $X_{it}$  and  $X_{i,t0}$  present the number of employees at the end and at the beginning of the period of reference.

**Figure 6: Dynamic enterprises (DE) and gazelles (growth rates)**

Source: author's calculations

- The share of employment rose from 0.8% to 2.0% (from 9,000 employees to 19,859);
- The share of business income rose from 1.3% to 4.3%;
- The share of the gross value added rose from 1.2% to 3.7%;
- Profit increased from 1.7% to 5.2%.

Dynamic enterprises have increased their contribution to economic growth in all dimensions of research (see Table 4). Development of the share of 160 Serbian gazelles within the corporate sector is faster than that of the share of dynamic enterprises – the largest contribution is that of lower unemployment and diminishment of social tensions (160 gazelles in 2009 employed 3,184 people, and in 2013 they had 9,665 employees).

The section structure shows that dynamic enterprises are concentrated in sectors of Trade (336 enterprises or 30%) and Manufacturing industry (201 enterprises or 18.2%). Negative developments in the sector of manufacturing industry are illustrated by all the indicators: shares in the number of employees, business income, and gross value added are down. Industrial dynamic entrepreneurs and industrial gazelles are to face even larger challenges than over the five years of reference.

#### Regional creators of economic growth

Regional distribution of dynamic companies and gazelles is in the shadow of economic concentration in the City of Belgrade and South Backa region (see Figure 7): out of 1,103

**Table 4: Sectoral structure of DE**

Sector	Number of companies	Employment		Business income		GVA		Profit	
		2009	2013	2009	2013	2009	2013	2009	2013
A Agriculture	4.9	3.7	3.9	6.2	6.0	4.5	4.0	7.6	5.3
B Mining	0.5	2.1	1.8	0.4	0.3	1.1	1.2	0.1	0.9
C Manufacturing	18.2	30.1	28.0	21.0	19.8	24.9	23.1	24.4	24.3
D Electrical energy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
E Water supply, etc.	2.1	2.3	1.9	1.6	2.1	2.1	2.3	2.4	3.0
F Construction	6.7	8.9	10.0	7.8	11.5	11.6	14.7	11.4	17.2
G Trade	30.5	22.1	22.4	47.3	45.1	26.1	23.6	36.4	27.5
H Traffic	15.5	13.1	12.1	8.6	7.7	13.3	12.1	5.5	7.8
I Accommodation and food services	0.7	2.6	3.0	0.5	0.6	1.3	1.8	0.3	1.6
J Information, etc	5.6	5.4	6.0	2.0	2.0	5.7	6.0	4.1	3.4
K Finance and insurance	0.4	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
M Professional, scientific act.	11.6	7.3	8.2	3.4	3.6	7.7	9.2	6.7	7.5
N Administrative and etc activities	2.6	1.8	2.2	1.0	1.1	1.4	1.6	0.9	0.9
Q Health and social work	0.3	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.2

Source: author's calculations

dynamic companies, 627 or 61.3%, are concentrated in these two areas. The trend of ever faster economic concentration is shown by all other indicators of dynamic companies, that is the reason why 54.3% of employed persons, 61.3% of business revenue, 60% of GVA and 60% of total profit were generated in 2013 in the City of Belgrade and South Backa region. Therefore, 60% of Serbian gazelles operate in this area.

Regional driving forces of growth and development had, in a certain number of regions, an extremely important role in the change of economic structure, increase in employment and improvement of competitive performance of local economic structures. The share of fast-growing companies in creating the economic growth in Macva region was 12.5%, and in Podunavlje region it was 4.3%. The weakest regional contribution to the economic growth in the previous period of recession was made in Pirot, Zajecar, Bor and Branicevo regions (less than 3% of total value added).

### Institutional building of regional development

#### Strategic planning and regional development management

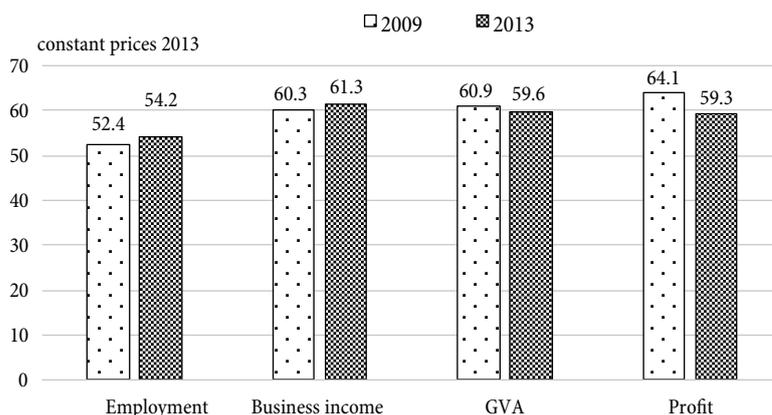
Global recession had an impact on the emphasised affirmation of strategic planning and development programming. Transitional period partially affirmed strategic development planning, above all, through numerous development strategies and policies. However, planning, as the main method of transformation of one system and cushioning of transitional blows (economic, social, regional, political),

did not play the key role in development (and regional development). It was not efficient enough in cushioning strong market blows of transformation of one system and the transfer to the market model of economic activities.

The lack of many resources will only increase the importance of planning as a developmental instrument. Probably the best possibilities for planning could be found in social management in the public sector. Positive impulses can also come from the process of ‘stimulating civil initiatives’. Strategic (developmental) planning is getting priority increasingly, as much for alleviating the negative effects of world economic crisis, as for the growth of the importance of environmental protection and sustainable planning, but also for the need of the government in charge of planning at various levels of the management and of the local units for higher certainty in the conditions of uncontrolled growth and its negative consequences. Strategic planning integrates economic and regional planning, including social and environmental component more and more. Regional developmental plans will have an integrating role, encompassing socio-economic development, its regional and environmental component. Naturally, a synthesis-based approach of regional sustainable development will have to meet most expectations. The concept of regional sustainable development cannot be realized without planning.

Efficient and successful national, regional and local development is unthinkable without the strategic planning. Efficient incentive policy (fiscal, monetary, state aid, etc.) should be based on the priorities of the regional development and local self-governments through the

Figure 7: Participation DE Belgrade and South Backa District



Source: author's calculations

process of strategic planning. The planning of regional and local economic development is a system-based process in which all persons involved, from private, public and non-governmental sector, work together with the aim of creating better conditions for economic growth and improvement of life quality for all citizens in a certain area.

### The importance of regional level for regional development

The circumstances that have changed, when post-industrial society came into being, created the need for new strategies of regional policy. The economy which is more and more connected at regional level gets special attention. Special attention mirrors in the economy which is increasingly connected at the regional level. The importance of regions reflects in the strengthening of regional identity at both cultural and political levels.

Numerous factors have an impact on the regional level, as a result of such impact, this level becomes more and more important for the economic development. The change of perspective is based on understanding that economic development of regions is the basis for achieving national economic goals. Thus a state depends on both regional resources and their economic structure, which involves its social and cultural qualities. New circumstances of the improvement of regional development at regional level reflect in three interrelated subtypes: (1) endogenous, (2) cooperative and (3) polycentric regional development.

(1) *Endogenous regional development.* The greatest obstacle is reflected in significant differences at the regional development level, which is the consequence of the influence of the lack of harmonisation among sectoral policies on social events. A well-balanced and continuous development is economic development made to suit the environment, which leaves preserved natural resources to future generations, owing to sustainable social development. Endogenisation of regional development will be carried out particularly through the affirmation of regional centres that are of national importance, where regional development programs are prepared and regional institutions are established. This

requires 'hardware' infrastructure' (transport and communication connections, protection of the space), 'software' infrastructure (support to regional development agencies, preparation of developmental initiatives, assessment of the maintainability of the space, coordination between advisory activities, incubators, faculties) and adequate stimulation (such as financial stimulations, economic zones, certificates about the implementation of ancillary activities – training, consultations, etc.). Municipalities and rural areas should cooperate within the frame of regional development programs. As a rule, regional gravitational area includes more than 150,000 inhabitants. The development of national regional centres is of the primary importance for the regional development management and planning, since they represent regional development policy-makers. In the context of the European integration, the creation of small regions which do not have adequate regional centres, could negatively affect strategic interests of Serbia.

- (2) *Cooperative regional development.* Owing to the exchange of information, communication and coordination, the coordination should provide possible solutions for innovation, developmental problems [22, p. 5], and aspects of organizational behaviour [25]. Under these circumstances the lack of institutions at regional level reflects on inefficient preparedness for planning and program making, since these institutions in numerous cases are better and faster at the preparation of developmental programs which contain specificities of an area. Numerous aspirations for centralization cause the conflict of local interests, which in most cases damages both the state and municipalities.
- (3) *Policentricity – new leading principles for the implementation of well-balanced regional development.* The creation of integrated regional strategies by means of urban 'clusters' is connected to polycentric development in modern world, particularly in border-areas, and to the improvement of modern infrastructural integrations at interregional level

and strengthening of economic cooperation at regional level. For more even regional development, at the national level, it is important that economic development increases attractiveness of the whole region thus improving life quality. In spite of heterogeneity of an area and its size, the decentralised concept of network between cities whose structure of activities is compatible is something to aspire to.

The existence of strategic plans does not mean that regional and local economic development is managed according to the plan

Strategic planning of regional and local development has significantly evolved in the last few decades. Although there was not a single positive regulation in the Republic of Serbia which prescribed that cities and municipalities were obliged to prepare strategic development plans as well as particular perennial strategies for certain areas (education, employment, tourism, support to the young, investment attraction, development of social security services, sustainable development etc.), most local self-governments have at least one developmental strategy and certain municipalities have a whole set of different strategies which cover a good part of their original competences, and some even go further than that.

The results of a regional research imply that in the Republic of Serbia there are three types of municipalities:

- a) those which have a thorough development plan;
- b) those which have just some sectoral development plans (certain important areas);
- c) those municipalities which do not even have sectoral development plans.

A few handbooks of a good quality have been published in the last few years. Although they explain system-based approaches to the preparation of local strategies, establishment of a project cycle, the importance of integrated planning and harmonization of plans and activities from the strategies and action plans with the process of preparation and budget realization, the quality of local strategies is not at the highest level. Specific problem is that in the very process of implementation one does not have the impression that that priorities stressed in strategies become those projects for which one can apply and which

get external resources for financing and co-financing. The existence of development plans does not imply that the development is managed according to the plan. The main problem is the budget preparation without relying on any particular planning document and, as a result, municipalities very often do not act in accordance with plans. Deadlines in strategic documents and priorities are changed by individuals and their own will.

The most frequent practice of the application of the concept of strategic management reflects in the realization of sectoral plans. Accordingly, a comprehensive approach is not realized while segments which will develop according to the given model are chosen. These models are most often those which can currently be found in the focus of political decision-making (for example strategies for the young, action plans for the Roma education or residence, social security strategy, etc.).

Regional strategic development planning: Advantages and disadvantages

Regional strategic document presents the result of multi-sectoral planning process; however, this document is not the very aim, the primary aim is its efficient realization.

*Regional strategic planning is a systematic process oriented to goals, cooperation and coordination.*

The practice of strategic regional planning and local development plan stressed numerous advantages:

- Regions and local self-governments understood that regional planning is efficient instrument for implementing complex developmental processes;
- The established principle is that perspectives of regional and local strategic planning depend on interrelatedness and coordination of activities of numerous participants;
- New mechanisms of communication and cooperation through the formation of various institutional forms (coordination bodies, mixed working groups, operating bodies, various forms of partnerships) have been adopted;
- Regular monitoring and control of developmental activities through the system for monitoring by means of representative developmental indicators is applied;

- A greater number of participants in developmental decision-making get opportunity to participate;
- Regional and local strategic planning of the development presents an efficient frame for constructive and practical solutions for developmental problems.

On the other hand, some old as well as some new disadvantages and problems of strategic regional and local development planning have been pointed out:

- Regional strategic planning is extremely demanding and complex process which must be highly coordinated;
- The organization of the process of strategic regional planning requires significant financial resources;
- The necessary teamwork and communication process depend a lot on the culture of cooperation;
- It is getting more difficult to find experts with the ability to have strategic, analytical and methodological approach;
- Planning in crisis periods requires different analytical approach;
- If competences are not respected in developmental decision-making, successfulness of implementation is limited;
- Vertical developmental hierarchy in developmental processes in decision-making loses its strength – developmental activities are agreed on by more participants;
- The practice of strategic regional financial planning based on frequent auditing in the public sector reflects on the processes of making strategic documents which results in regional development strategies that are hard to implement;
- There is a lack of funds for the engagement of experts in developmental processes, therefore coordinators must rely on the existing resources;
- Developmental experts are not familiar with possible shortcomings of contemporary approaches to developmental planning, which as a result either causes opposite effects or just implies that the mere form is satisfied;
- The formalization of the planning process can cause opposite effects, which makes it impossible to recognize the specificities and development of social innovations.

## Conclusion

*“The relationship between inequality and growth is positive, the development process requires the presence of the initial disparity”* [1, p. 15]

Growth factors of dynamic enterprises will ever more depend on the strategy for developing knowledge systems or knowledge spirals [15, p. 17], whereby learning happens within the company’s structure. *„The entrepreneurs provide a magical touch to an organization, whether in public or private or joint sector, in achieving speed, flexibility, innovativeness, and a strong sense of self-determination. They bring a new vision to the forefront of economic growth”* [3]. Entrepreneurs are not gamblers and they strive to reduce the risk to a minimum. A structured access to knowledge management and a strategic access to knowledge design through initiatives based on the mapping of critical knowledge will be increasingly needed [26, pp. 6-10].

Given their development potential of job creation, dynamic enterprises draw attention not only of economic scholars but also of economic policy creators who are aware of the fact that these enterprises can help diminish the rate of unemployment, and boost economic growth and development. Small and medium-sized enterprises are most propulsive enterprises, and over the last five years of the 20<sup>th</sup> century in the EU they created more jobs than the largest ones lost, whereby they saw the largest increase in income and profit [21, p. 53].

Research into regional dynamic entrepreneurship in Serbia has shown how much these enterprises have contributed to economic growth of Serbia: 1,103 dynamic enterprises in period 2009-2013 had the share in the growth of Serbian economic revenue of 110.5%, generated three times bigger growth of gross value added in Serbia, generated 1/3 of growth in the economy, and created 10,000 new jobs in the economy. Although the results are due to the recession, twice as weak as in the period 2006-2010, the fact is that regional dynamic entrepreneurs are the drivers of economic growth and development.

Regional driving forces of growth and development had, in a certain number of regions, an extremely important

role in the change of economic structure, increase in employment, and improvement of competitive performance of local economic structures.

Research results indicate that the acceleration of economic growth in Serbia should be sought in fostering dynamic entrepreneurship. It is necessary to create a supportive environment for the growth and development of dynamic entrepreneurship (unnecessary administering, tax burdens) and internationalization. It is necessary to promote confidence in entrepreneurship and in the institutions that would allow potential entrepreneurs to invest more easily.

Crucial precondition for faster development of the regional dynamic entrepreneurship is the institutional building and strategic regional development planning [4, pp. 342-343].

The effects of regional strategic development planning are as follows:

- It encourages reaching consensus on a common developmental direction, i.e. developmental priorities, by different participants;
- It affirms new ideas and improves the cooperation among interested parties;
- There is synergy effect among activities which are carried out by different participants in the process;
- It helps to solve antagonisms among different participants;
- It creates the atmosphere of positive expectations;
- It encourages the competitiveness of developmental ideas;
- Partnership and communication process create the feeling of ownership over the strategic document;
- It improves decision-making through the orientation towards the solving of crucial development problems;
- It brings strategic planning into connection with the budgetary process;
- It focuses on efficiency, results and achievements;
- It stimulates the use of new resources in a more efficient, coherent and transparent manner;
- It focuses its resources on key priorities.

The measures for the improvement of regional strategic development planning include:

- Defining the methodology (precise guidelines) for strategic planning and regional development management;
- Giving more precise guidelines of “partnership” and “consultations” process;
- Consultative process has many dimensions; the successfulness of the process depends on the communication culture of a certain society, on the skills of coordinators and facilitators, as well as on previous results of the success or failure of consultative processes. It should be clarified how citizens can get involved in developmental processes. Classic public discussions in the process of regional planning have shown that citizens are often involved at the very end when they cannot have any influence on the content. Consultations should be planned in advance;
- What is least known is in connection with the vertical functioning of the institutional frame. New legal solutions must clearly and precisely prescribe institutional competence of all participants in the process of regional development planning;
- Regular auditing of analytical bases is necessary for the sake of monitoring of regional development strategies on the basis of defined indicators;
- It is necessary to harmonize regional and spatial planning development;
- Although SWOT analysis is a good tool, it is necessary to use alternative analytical tools;
- A very reliable methodological tool in the form of a tree of problems and aims, which is based on inductive and deductive analysis as well as on cause-and-effect relations, should be used in the methodological procedure while determining hierarchies of goals, priorities and measures;
- Terminology of strategic planning should be consistent with the terminology of strategic documents in EU;
- Regional Action plans should contain financial plans for three years.

## References

1. Arbia, G., Dominicus, L., & Piras, G. (2005). Regional growth and regional inequality in Europe: A spatial econometric approach. *Congress of the European Regional Science Association*. Amsterdam.
2. Birch, D. (1987). *Job creation in America: How our smallest companies put the most people to work*. New York: Free Press Macmillan.
3. Chouhan, V., Vasita, M. L., & Vyas, D. K. (2012). *Entrepreneurship challenges and opportunities: Indian scenario*. Retrieved from <http://www.publishyourarticles.net/knowledge-hub/articles/entrepreneurship-challenges-and-opportunities-indian-scenario>
4. Dimitriou, T. H., & Thompson, R. (2007). *Strategic planning for regional development in the UK: A review of principles and practices*. New York: Routledge.
5. European Commission. (2013). *SME's access to finance survey. Analytical report*. Brussels: European Commission.
6. EIM. (2011). *Do SME's create more and better jobs? The report prepared for the European Commission under the Competitiveness and Innovation Programme*. Retrieved from [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/do-smes-create-more-and-better-jobs\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/do-smes-create-more-and-better-jobs_en.pdf)
7. Europe's 500 (n.d.). *Growth plus*. Retrieved from <http://www.europes500.eu/index.html>
8. Gabe T. M. (2000). *Economic development incentive and enterprise growth (firm learning)* (doctoral dissertation). Retrieved from ProQuest, Digital dissertations.
9. Hennessy, Ph. (2012). A Framework of knowledge management for higher education business incubation. *Journal of Knowledge Management Practice*, 13(1). Tipperary, Ireland: Limerick Institute of Technology. Retrieved from [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/do-smes-create-more-and-better-jobs\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/do-smes-create-more-and-better-jobs_en.pdf)
10. Mei-Pochtler, A. (1999). *Strategies for growth*. Edinburgh: Europe's 500.
11. Jakopin, E. i grupa autora (2003 | 2008). *Srpske gazele*. Beograd: Republički zavod za razvoj.
12. Jakopin, E. (2011). Održivost srpskih gazela - Tiha voda. *Biznis i finansije*, 82/83, 43-44.
13. Jakopin, E., & Tontić, S. (2012). Transition effects on the development of dynamic entrepreneurship: The case of Serbia. *Revija Međunarodno inovativno poslovanje*. Maribor: DOBA fakultet.
14. Jakopin, E. (2014). Strukturne reforme u kontekstu regionalnih i socijalnih nejednakosti u Srbiji. Međunarodni naučni skup: *Regionalni razvoj i demografski tokovi JIE*. Niš. Ekonomski fakultet.
15. Kor, Y. Y., Mahoney, J. T., & Michael, S. C. (2005). *Resources, capabilities and entrepreneurial perceptions* Retrieved from [http://www.business.uiuc.edu/Working\\_Papers/papers/05-0120.pdf](http://www.business.uiuc.edu/Working_Papers/papers/05-0120.pdf)
16. Nonaka, I. (1994). A dynamic theory of organisational knowledge creation. *Organisation Science*, 5(1), 14-37.
17. Penrose, E.T., (1959). *The theory of the growth of the firm*. New York: John Wiley and Sons.
18. Petrakos, G., Rodriguez-Pose, A., & Rovolis, A. (2005). Growth, integration and regional inequality in Europe. *Environment and Planning A*, 37, 1837-1855.
19. Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review*, 68(3), 79-91.
20. Pšeničny, V., Jakopin, E., Vukčević, Z., & Čotrić, G. (2013). Dynamic entrepreneurship: Generator of sustainable economic growth and competitiveness. International Conference Challenges of Europe: The Quest for New Competitiveness. Split. *Management*, 19(1), 61-92.
21. Roue, J. (1999). *Europe's most dynamic entrepreneurs: The 1998 job creators*. Brussels: Europe's 500.
22. Stenholm, P., & Toivonen, J. (2009). The attributes of firm growth: Why and not a firm does grow. *Frontiers of Entrepreneurship Research*, 29(13), Article 4. Retrieved from <http://digitalknowledge.babson.edu/cgi/viewcontent.cgi?article=1590&context=fer>
23. Sveiby, K. E. (2001). A knowledge-based theory of the firm to guide in strategy formulation. *Journal of Intellectual Capital*. 2(4), 344-358.
24. Thorbecke, E., & Charumilind, C. (2002). Economic inequality and its socioeconomic impact. *World Development*, 30(9), 1477-1495.
25. Williamson, O. (1996). *The mechanisms of governance*. New York: Oxford University Press.
26. Winkelen, V., & McKenzie, J. (2011). *An investigation into human capital management and the ambidextrous organization* (white paper). Retrieved from [http://www.henley.ac.uk/web/FILES/corporate/cl\\_White\\_Paper\\_Human\\_capital\\_management\\_Christine\\_Winkelen.pdf](http://www.henley.ac.uk/web/FILES/corporate/cl_White_Paper_Human_capital_management_Christine_Winkelen.pdf)



### Edvard A. Jakopin

is Assistant of Minister of Economy, Head of Department for Regional Development and Strategic Analyses of the Economy. During the period 2001-2011 he was Director of the Republic Development Bureau. He has obtained all the academic titles (B.Sc., M.Sc., Ph.D. in Economics) at the Faculty of Economics in Belgrade. He has written numerous scientific papers in the field of macroeconomics, economic development planning, regional strategic planning, structural changes and competitiveness. He has been the project team leader in various national research projects and studies: the National Strategy for Economic Development of Serbia 2006-2012, the Strategy for Regional Development of the Republic of Serbia 2007-2012, Industrial Policy of Serbia 2011-2020, etc. He is national representative at the European Association of Development Research and Training Institutes, and during the period 2004-2014 he was a member of the EADI Executive Board. He is a member of the Presidency of the Serbian Association of Economists and an associate member of Scientific Society of Economists.