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CLUSTERS AS A MODEL OF ECONOMIC DEVELOPMENT OF SERBIA

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Abstract:

Insufficient competitiveness of small and medium enterprises in Serbia can be significantly improved by a system of business associations through clusters, business incubators and technology parks. This connection contributes to the growth and development of not only the cluster members, but has a regional and national dimension as well because without it there is no significant breakthrough on the international market. The process of association of small and medium enterprises in clusters and other forms of interconnection in Serbia is far from the required and potential level. The awareness on the importance of clusters in a local economic development through contributions to the advancement of small and medium sized enterprises is not yet sufficiently mature. Support to associating into clusters and usage of their benefits after the model of highly developed countries is the basis for leading a successful economic policy and in Serbia there are all necessary prerequisites for it.

Keywords: clusters, small and medium enterprises, competitiveness, economic development.

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INTRODUCTION

In today's economic environment, the clusters represent a very important way of connecting small and medium-sized enterprises and development of entrepreneurship. They contribute to the economic development of certain regions, and are particularly

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important for increasing exports and internationalization of the region. The effects of association in clusters are the introduction of new technologies and innovations, the introduction and improvement of quality standards and processes within the cluster, associating across various sectors and strategic alliance, access to new markets, increase of exports, and the effects of economies of scale. Associated small and medium enterprises are becoming a more important partner in dealing with large companies as part of their production chain, research institutes and universities, financial institutions and policy makers.

Cluster policy has become one of the priority development policies of the European Union, with the widely accepted view that clusters are directed towards prosperity in terms of increased productivity, incentives to innovation, high technology and technological transfer, improvement of the quality system, greater competitiveness and overall economic growth. Companies linked to clusters achieve synergy effects arising from the interaction of improving connections and exchange of information, knowledge and personal experiences.

Business associations have become the reality of global economic activities and successful performance in the market, as the imperatives of growth and development of the company, increase of productivity and continual generating of innovation. The small and medium-sized enterprises sector is the holder of development, especially in the field of innovative activity, and the medium size of the organization becomes decisive for business success.

This paper will analyze the business environment in which sector of small and medium enterprises and entrepreneurs (SMEs) operates in Serbia, the achieved level of clustering in the country, institutional and financial support to the process of association, the problems that hinder and slow down the increase in the competitiveness of the SME sector as a key precondition of their growth and development, as well as the perspective of cluster members and the association as a whole. By defining the importance of clustering on economic development and by comparative analysis with data of the EU countries and the region, a basis will be provided for supporting faster and more efficient development of these processes in the growth and development of SMEs sector. Drawing conclusions about the impact of clusters on the competitiveness of small and medium enterprises has been supported by empirical and inductive-deductive scientific method.

The aim of the work is the need to improve policies, programs and initiatives in order to increase opportunities for cluster formation in the Serbian economy, highlighting their importance and role in the new export-oriented model of economic development and suggesting future activities of public authorities, associations and individual companies in the direction, taking into account the experiences and examples of good practice of developed European countries. Given the synergistic effects that this type of network cooperation realizes, the clusters can also be labeled as promoters of the economy. Consequently, the resulting intrinsic need for their implementation at all levels and in all areas of economic growth and development originates thereat.

1. CLUSTER POLICY IN DEVELOPED COUNTRIES

Small and medium enterprises in developing countries make up 99.8% of the total number of businesses, employing 60%–80% of the total employed workforce and make a significant contribution to the achievement of higher gross domestic product (GDP). It is also shown by the European trend, since the beginning of this century, small businesses in the European Union, employed 66% of the total number of employees as follows: Italy-79%, France-63%, Germany-60%, and UK-61, 5% of employees (Burns 2001). In contrast, in developing countries with significantly lower GDP, the sector of small and medium-sized enterprises is neglected and underdeveloped. Efforts to increase the competitiveness of individual enterprises in the undeveloped environment cannot make a significant impact. Hence the adoption of the Lisbon Treaty, which marks the transition management, knowledge-based economy is a challenge for the European Union. A step further is the adoption of the Small Business Act (SBA) in June 2008. Ten principles of this document are based on the SME sector, entrepreneurship and entrepreneurs, who are becoming a dam to global processes of transnational companies' dominance.

Clusters are identified as the most relevant macroeconomic factor affecting the development of the region, and the regional economic development in the EU is associated with the output level of clusters. About 38% of employees in the EU work for the companies that are members of a cluster, which makes the clusters indispensable part of the economic reality in the EU (Commission of the European Communities — CEC, 2008). Notion of clusters is based on geographic concentrations of interconnected groups of companies, specialized complementary companies and institutions in a particular sector, which compete with each other, but also co-operate (Porter 1998). In addition to the importance of geographical proximity, vertical and horizontal linkages for companies to create active channels for the transfer of knowledge and innovation in the formation of clusters play a key role, and institutions such as regional development agencies, scientific research and other sectors. In the cluster decentralization of business functions is realized, organizational units can act as an independent profit centers or independent business units that have to be market-oriented and independent in the operation. By clustering the connection with the trade of manufacturing entities, producers of raw materials and parts is achieved, and thus the whole is more open to the environment, faster flow of information and faster adaptation to changes is enabled, management is more efficient and human resources are used more efficiently.

By associating into clusters, enterprises have the ability to increase competitiveness, allowing them access to new and larger markets and access to new sources of funding. Cluster development creates positive effects for the companies and members of the general area in which the clusters are located. Thus, the transaction costs are reduced and specialized local markets are created. Clusters stimulate competition in a way that improves productivity by the improved access to information providers and companies in the mutual cooperation can meet the need for innovation and new ideas. Companies, thus establish the communication faster, with available human and material resources of the cluster members so they can make better quality products or services (Tijanac 2009). Cluster members can take advantage of association in the cluster using advisory services and specialist knowledge in areas that are not related to them, with a

particularly important role in scientific research institutions. Highly functional clusters contribute to the development of enterprises and thereby enhance the development of the region and contribute to the creation of an economy based on knowledge and innovation. They appear as a model of regional and local development. Clustering leads to an increase in production and innovation capacity at local and regional levels, to attract capital, knowledge, increase of the degree of specialization, infrastructure development, employment increase, exports increase and competitiveness.

Politics of cluster forming is not independent but is related to a set of policies that affect the development of clusters — regional, industrial policy, policy of encouraging innovation and adoption of quality standards and so on. The European Union emphasizes the importance of clear views of clusters in the economic development of countries. Thanks to the development of clusters many European regions have developed their comparative advantages in specialized products and services such as financial services of London, petrochemical products in Antwerp, the flowers in the Netherlands and many others. In furtherance of the strategies that the EU economy becomes the strongest and most dynamic in the world, the task of promoting and supporting clusters in regional, industrial and innovation policies stands out.

The practice of developed countries shows that the clusters are formed in several steps and stages: in the first step the impact of certain industries on economic growth is measured, the leading industry branches are determined (the star branches) that have the greatest impact on economic growth and development. In the second step the leading industries of the future of clusters in the domestic and international markets are positioned. Further, companies within the activities are recorded and a star company is determined, and the fourth step is the selection of network expansion strategy (Ilic 2006.) Cluster development is a long-term socio-economic process and can take years, and occurs as a result of spatial concentration of firms and institutions, based on extensive business cooperation and rivalry, with a synergistic effect.

The selection and clustering should be formed by a multidisciplinary team of experts, which should in the first phase perform an objective and professional monitoring, and in the second a detailed techno-economic and cost-benefit analysis as well as detailed analysis of the impact of clusters on the region's development and overall economic development. Further steps in the development of the clusters can be taken by the very cluster managers, independently or with the help of the multidisciplinary team of experts. If the process of cluster formation is not quality and well designed there comes to a problem in the relationship between cluster members or to the collapse. Inadequate development of clusters means that business owners in the region stay without other cluster advantages as well, such as lower input prices, qualified and educated workers, as well as more efficient logistics (Drucker 2005). As a necessary prerequisite for the establishment and development of clusters the following can be distinguished: geographically concentrated critical mass of related firms and institutions, clearly defined sector activities, support of local industry leaders who believe in collaboration in changes and are willing to motivate other members, strong relationships with suppliers and customers, access to research and educational institutions, supportive labor market and infrastructure.

Larger firms, as a rule, have a more specific advantage, because it is considered that with a greater asset base and capital it can be easier to deal with the risks associated with international operations. To customers it is an indication of their resource power.

Changes in ownership structure shifts the emphasis from large to small businesses. Contrary to the wave of enlargement, there is expectation that the future of economic efficiency is in small and medium-sized firms, and, to this end, large companies have to decompose to small and medium-sized organizational units (Figaro 2003). This is particularly important because, for example, 99% of the total business in the United States have been implemented by small companies, which, at the same time, employ more than half of the workforce in the private sector. Also, the share of innovation in small firms is double than in the business of large companies (Alvarez 1998). Especially if one takes into account that innovations today are not a coincidence, but the strategy (Dulanovic and Ondrej 2002). Present time introduces new elements to the definition of management, because once comparative advantages in economies of scale are replaced by small and medium-sized high-tech enterprises. This, in turn, leads to changes in the organization and use of resources, and, therefore, it is necessary to constitute new management principles that contain and exercise innovation.

Clusters are developed near the most important resources for business, close to major industries and consumer goods markets, near or within the university centers and scientific and technological institutes. In the EU, it is common case of starting an initiative of establishment of clusters by the two countries in order to use the advantages offered by developed economic, infrastructure and human resources in the border regions and developed cross-border economic relations. The most successful clusters in the EU are in the area of processing of metal, wood and plastic products, textiles and garments, leather and footwear, household appliances, optics, video-technology, hardware and software for personal computers. The business association of companies through clusters, business incubators and technology parks are the basis of regional policy in all highly developed countries. Developing countries have less-developed system of this connection, which is one of the causes of low competitiveness of companies from these countries, and high regional disparities, which in turn leads to the inhibition of the overall development, unexploited resources and unfavorable migration flows.

2. MACROECONOMIC ENVIRONMENT OF BUSINESS OF THE SME SECTOR IN THE REPUBLIC OF SERBIA

The main macroeconomic indicators of the Serbian economy (GDP, industrial production, unemployment, inflation, the foreign trade deficit ...) are much lower than the EU countries' average. Changes in ownership structure during the transition period have not led to solving problems of structural imbalances in the economy in Serbia so that since 2008 it records the fall in competitiveness from 84 to 95 place in the world in 2012, according to the Report of the World Economic Forum in 2012. Serbian economy is not sufficiently adapted to the high demands of competitive foreign markets, so that exports are concentrated in developed regions, while the share of certain underdeveloped region in total exports and imports is symbolical. Foreign investors also concentrate on the areas of major cities and developed regions, which further deepens the already significant regional differences in the development. In the transition period regional companies have disappeared that were carriers of local development and employment, and the consequences of this development is the

departure of qualified personnel from underdeveloped areas to regional centers, so it will be more difficult to implement future policy development in local communities. The transition process has had an extremely negative impact on the region-centers of traditional industries, such as metal complex, the production of transport equipment, textiles, footwear and others that hired a large number of working-age population.

Further, qualitative indices of level of development of small and medium enterprises' sector and of entrepreneurs (SME), — employment per company, turnover, BDV and profit per employee- are significantly lower in relation to the average in EU and most of the countries of the region (Table 1).

Table 1. The indices of operations of SME sector in the selected countries in EU and Serbia in 2009.

	EU	Czech	Romania	Slovenia	Serbia
No. of companies in 000	20.727	899	440	102	314,8
No. Of employed in 000	90.006	2.505	2.633	424	872,5
Turnover, in millrd E	14.284	245	268	51	46,6
BDV, in millrd. E	3.626	49	37	11	8,7
No of SME per 1.000 capita	41,6	86,6	20,4	50,7	43,0
Turnover per employed 000 E	158,7	97,8	101,8	120,3	53,4
BDV per employ. in 000 E	40,3	19,6	14,1	25,9	10,0

Source: EUROSTAT, DG enterprise and Industry. Data for Serbia, RWB, RBS

Characteristic of small and medium enterprises (SME) sector of Serbia is extremely low level of competitiveness and insufficient internationalization, as well as the dependence on unfavourable external sources of financing. Insufficiently developed SME sector, under the existing circumstances, has not managed to increase the degree of mobility and development of internal potentials and prevent the decrease in the competitiveness level, so that in the commodity export of Serbia still dominating are the products that do not require the usage of advanced technology and intellectual work engagement. The export based on these products does not represent the basis for achieving respective competitive position on the international market.

Although it has become an important segment of the economy, the SME sector has not grown into the driver of national economy development. In order to achieve that it is necessary to eliminate numerous limitations of the sector's development, of which, according to the opinion of the author, the most significant are: unrounded institutional environment and regulations; insufficient knowledge and qualifications of entrepreneurs and employees; insufficient promotion of research-developmental and managerial competences; unfavourable financing conditions; inappropriate forms and scope of financial support; undeveloped program approach to finances; insufficient association with great companies; insufficient incentives for introduction of modern technologies, innovations, quality standards and similar; insufficient stimulus for internationalization and lack of information about markets.

Table 2. The share of SME in non-financial sector in the selected countries of EU and Serbia in 2009

	EU	Czech	Romania	Slovenia	Serbia
Number of companies	99,8	99,8	99,6	99,7	99,8
Number of employed	67,4	67,6	63,6	67,0	66,7
Turnover	57,7	58,8	58,7	63,2	67,8
BDV	57,7	54,8	42,2	59,8	57,4
Profit	49,4	31,5	34,8	29,1	54,1

Source: EUROSTAT, DG enterprise and Industry. Data for Serbia RBL, RBS

In the previous years, the economic entities in Serbia operate under conditions of high indebtedness and chronic illiquidity. This for example, at the end of September 2012, according to data of the National Bank of Serbia, about 60.000 companies and stores has blocked accounts due to the debt level of 174,4 milliard dinars, computed interest excluded. Under receivership there 2.754 companies whereas 172 companies are in the phase of restructuring. The negative tendency of founding and closing down of the companies and stores has continued, and according to the data of the Economic Registry Agency, during the first eight months of 2012 there have been 5.804 newly-founded companies and 19.783 entrepreneurs registered. Unfortunately, during the same period 6.340 of economic associations have been shut down and also 21.863 entrepreneurs. Unfavourable circumstances are also the regional concentration (over 50% of companies is operating in the area of Belgrade and south Backa region) as well as the sector distribution (over two-thirds of companies is operating in three sectors: wholesale and retail 37.4%, processing industry 19.0% and scientific, innovative and technical activities 10.9%). In such macroeconomic environment the results of foreign trade exchange are unfavourable as well, so that throughout the entire transitional period the import is far greater than export (Table 3).

Table 3. Foreign trade exchange of Serbia in the period 2008–2011

	2008	2009	2010	2011
Commodity export	7.428,9	5.961,3	7.393,4	8.441,4
Commodity import	16.478,1	11.504,7	12.622,0	14.250,0
Trade deficit	-9.049,2	-5.534,4	-5.228,6	-5.808,6

Source: National Bank of Serbia, 2012.

Unfavorable macroeconomic environment in which SMEs operate lasts many years, and the most important negative factors are: large debts of the state to the economy, a monopoly of large retail chains and the cartel position of the banking sector, weak protection of creditors and the slow resolution of commercial disputes, large fiscal appropriation, huge administrative procedures, slow reforms and other legislation. In such conditions, greater institutional and financial support to the SME sector is necessary, and one of the possibilities of faster growth and development of the sector is the cluster linking of companies and joint entrance on the market.

The practice of economically developed countries points that one of the most successful models of growth and development of small and medium-sized enterprises is their association by the clusters. Economic clusters in each country are comprised of

companies that are associated by vertical (buyer/supplier) or horizontal (common customers, technology, etc.) connections, where the main actors are within one nation/state. Geographic concentration of competitors, customers and suppliers in the region within the cluster will promote innovation and competitiveness (Andreozzi 2005).

The process of cluster connections are, belatedly, taking place in Serbia with regard to immediate changes in economic policy and placement in the foreground of economy branches capable of producing and exporting products that will be competitive in the international market. The strategic goal of the economic sector cluster is that the Serbian economy is technological bridge between the western producers, disposing of high technological base and the countries of South Eastern Europe and other less developed regions. On the way successful a strategic objective cluster members must significantly improve their business, and the main factors to improve the operations are quality improvement of business operations, increase of productivity, upheaval of technical and technological basis, the development of integrated management systems, and other.

Development of clusters in Serbia started in 2004. through mobilizing stakeholders and capacity building at the national level, most notably of the Ministry of Economy and Privatization, and later on of the Ministry of Economy and Regional Development. Strengthening the elements of business infrastructure is built into many strategic documents of the Government of the Republic of Serbia, the Government of the Autonomous Province of Vojvodina and local government regulations. Among them the most important are National strategy of economic development of the Republic of Serbia from 2006 to 2012, The Development Strategy of Small and Medium Enterprises 2003–2008, The Strategy and Policy of industry development of the Republic of Serbia for the period from 2011 to 2020. The international organizations have significantly contributed to the cluster development, notably the program ENTRANS in the implementation of Sintef organization, funded by the Norwegian government, USAID, LEDIB² program, funded by the Danish Government, as well as the Austrian Development Agency.

However, the analysis of the current state of clusters in Serbia points that the level of development of clusters in our country is still unnoticed. The small number of economic entities in Serbia is involved in the operation of the clusters - somewhat less than 2% of local companies and only 3% of the working population engaged. For the purpose of analogy, if 45.4% of total employment is the percent share related to SMEs, then we can unambiguously conclude that the companies in Serbia are little involved in cluster networks (NARD 2011).

² LEDIB is the abbreviation for Local Economic Development in the Balkans, it is a five-year program focusing on the development of the SME sector, and takes place in the territory of Nis district. The development objective of the program is balanced socio-economic development and job creation.

3. THE ACHIEVED LEVEL OF ASSOCIATION OF SMES SECTOR AND THE FUTURE DEVELOPMENT DIRECTIONS

For development of clusters in Serbia there are necessary assumptions embodied in the material and human resources, and companies, the members of the cluster and the clusters themselves have a clear vision and strategy for its development. Most clusters in Serbia have a local or regional character, although some are established to be a national clusters ("AC Serbia" as a national cluster of car components industry, "ICT Serbia" as the national ICT sector and cluster "Wood Agency" as a national cluster of Wood processors) (NARD, 28). The minimum requirements for cluster establishment according to our positive rules are association of at least nine companies of which at least 60% are SMEs and at least 3 are the associated institutions of which one is a scientific research center.

Significant resources of clusters in Serbia are knowledge and industry experience of Serbian engineers and workers, acquired during the second half of the twentieth century in adopting and adapting new technologies to market demands. The clusters are formed in branches that are traditionally present in the Serbian economy: metal sector, textile and footwear, car industry, production of furniture and plastics products. These activities are a new model of economic development envisaged as holders of exports and increase of the competitiveness of small and medium enterprises. A favorable circumstance is that for such activities there is an adequate raw material basis, which means that there is no high import dependence.

Table 4. The number of clusters that are supported within the cluster development

	2007	2008	2009	2010	2011
Number of clusters	16	14	13	8	9

Source: NARD 2011, 24.

The comparative advantage of clustered SMEs is based on three aspects. They are: specialization, cooperation and flexibility. Specialization of companies is the most important to the success of the cluster, because small businesses are focusing their resources (which are often extremely limited) to what they do best. Specialized firms typically do not have problems with quality control, because they deal with only one activity, but because therein they have to give full contribution to meeting the set standards.

The cluster development is accompanied by an increase of specialized technical and marketing skills of local human resources. Local workers, technicians, managers and consultants often move from company to company and thus the advantage of specialization belongs to the local system, not just one company. Therefore, local infrastructure and training the training the institutions are becoming specialized for the cluster activity and trust and interpersonal relationships within the cluster members is also necessary.

operations. One of the most common reasons of associating into clusters the entrepreneurs find in the sustainable development and profit, because the activities such as technology transfer, capturing new markets, buying licenses, the impact on prices of inputs and etc. cannot be successfully done by the entrepreneur itself. Clusters, which are established in the real sector develop specialization and contribute to the growth of labor productivity of the members, to the commercialization of technological innovations and scientific discoveries; provide technological restructuring and diversification of industries in the local and regional level; increase the competitiveness of companies, clusters, and the whole industry on the international market. By attracting foreign investment they are increasing production volume and growth of exports, ensure economic growth of regions and contribute to balanced regional development, stimulate growth of innovation, diffusion of technological knowledge and new technologies. The effects of association for SMEs are the benefits of specialization and flexibility of production in terms of adapting to changes in the size of the batch, updated technology and product range and production cooperation with large enterprises in order to use economies of scale; in the combination of production and service activities multiple sectors are linked and SME cooperation and the public sector at the local and regional level is enabled (Ilic 2006).

The most common business objectives of clusters are reflected in:

1. increasing the share on the domestic market and exports, increasing the value of output per worker, increasing the share of products with higher levels of processing, etc.;
2. connecting the clusters of suppliers of equipment, parts and finished products in certain broader regions, cross-sectoral local and regional associations;
3. strengthening and promotion of clusters with universities, research institutes and institutions of research and development;
4. connection with EU programs and funds.

The set goals are implemented through appropriate projects that companies bring within the cluster, as well as projects with producers from other countries, such as:

- long-term cooperation in the production of equipment, parts and finished products, servicing and after-sales services with local partners and joint appearance on third markets,
- expanding cooperation on new products and new partners in other countries and testing capabilities to enter neighboring markets,
- development of products whose price would be acceptable, a prototype of new products and their joint testing,
- developing innovative product variants according to the specific requirements of regional markets,
- preparation of the starting point for technology transfer and cooperation in the production of final goods with local and regional partners.

One of the most important European trends in the field of clusters is working on their internationalization. Special attention is paid to the so-called smart specialization, which means more development activities of the sectors that involve the use of nano, bio and similar cutting-edge technologies in the world (European Conference 2012). European countries are behind the growth and development of the clusters and the concept "triple helix" which involves cooperation of public, educational, scientific and business sectors, with emphasis on enhanced connectivity between R & D institutions

and industry. Further development of the clusters will be based on the "bottom up" principle instead of the old "top down" when it comes to the formation of cluster initiatives and cluster organizations. Cluster initiatives are seen on the regional level as the tools for achieving the regional growth and development (Infocluster 05, 2012, 13).

For the success of the process of clustering in Serbia it is necessary to raise the state of being informed of the SME sector to the highest possible level, to provide a strategic approach to cluster development as the instrument of regional development, establish centers and training programs for building up the capacity of cluster facilitators and cluster managers, to develop public-private partnerships, etc.. It takes significant financial support from the state and greater interconnectivity of clusters in Serbia with Euro and the Balkan clusters in order to increase the competitiveness of SMEs and their internationalization (Days of clusters 2012).

CONCLUSION

The growing competition in the global market, the strong development of new products and services and dynamic changes in the global and national markets necessitate the implementation of the economic structure that will successfully meet the existing challenges. Associating into clusters is one of the main drivers of economic development in local, regional and national level. Clusters themselves are not sufficient to address the weaknesses in the business environment, but if they become part of a strategy of competitiveness' increase they can significantly contribute to the achievement of positive results that independent policies would not be able to achieve.

Associating into clusters increases the competitiveness of member companies through increased productivity, adoption of innovation, development of new technologies and adopting latest quality standards. The clusters in Serbia are formed in industries with a long tradition where there is domestic raw material base, necessary experience in production and favorable qualification structure of the labor force. The international competitiveness of Serbian enterprises increasingly depends on the capacity of mutual cooperation at the local level; networking process ensures expansion of business relationships, monitoring of development trends, sharing information about the strategies of other companies, openness to new ideas, collaboration with successful businesses, saving time and other.

Bearing in mind that the development of clusters in Serbia is still at an early stage, as well as the level of competitiveness of enterprises, more significant involvement of the state is necessary in terms of encouraging associations, the creation of an institutional framework and a favorable business environment for the successful development of these processes. The state institutions must not be a brake to faster development of companies, but in turn, have to timely follow the speed of change in the economy. On the other hand, adequate support to cluster development in Serbia would also lead to correcting the structural imbalances in the economy and more balanced regional development.

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