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**Article**

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# The impact of firm size on the performance of trade in Serbia

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**Abstract:** The impact of firm size on the economy and trade sector performance is lately researched due to its economic importance. Concerning it, this paper researches the specifics and determinants of impact of firm size on overall performance of distributive trade (wholesale and retail), with special insight on European Union and Serbia. Empirical research in the world, European Union and Serbia show very significant role of small and medium enterprises in creation of overall performance of trade sector, expressed through the number of enterprises, number of employees, turnover and added value. In that we find significant role of large trade chains which operate globally in many countries, including Serbia, which is a central issue in this paper.

**Keywords:** number and category of enterprise, employment, added value, measures and performance determinants, internationalization

**JEL codes:** F65, L81, M40

## 1. Introduction

The firm size significantly affects overall performance of all economic sectors, including trade (wholesale and retail). The impact of firm size on the performance of trade sector differs among countries because the determinants differ, as a consequence of various business conditions.

This paper explores the impact of the firm size on the performance of distributive trade in EU to the necessary extent, so as to compare it with Serbia. The applied methodology of research of impact of firm size on the performance of distributive trade in Serbia is equal to one used in European Union.

*The research issue* in this paper is the impact of firm size on the performance of

distributive trade in European Union and, especially, in Serbia. The emphasis is on empirical analysis. The *research aim* is to thoroughly elaborate this issue, theoretically, methodologically and empirically, above all on the example of Serbia. We have in mind that there is no fundamental research in Serbia concerning problem analysed in this paper, in what we find its scientific and professional contribution. The *aim* and main *contribution* of this paper is that it should give theoretical, methodological and empirical basis for efficient and systematic control of impact of firm size on performance of distributive trade in Serbia as a function of achieving target profit in the future. The assumption for that is solid knowledge of current conditions and determinants of impact of firm size on the performance of trade sector in Serbia, what is the central issue of the research in this paper.

## **2. Literature review**

Extensive literature is written worldwide concerning the analysis of the impact of firm size on performance of the economy (Knego, 2001) and specific sectors (Knego, 1989; Lukic, 2014a; Ward, 2014; Vojteski Kljenak, 2015; Deloitte, 2015). In the European Union numerous researches were conducted concerning the role and importance of small and medium enterprises on total economy and specific sectors. Within that, special publications which study specific aspects of performance of trade sector (wholesale and retail), according to firm size, were published (Eurostat, 2013; Eurostat, 2014).

On contrary, there is no fully written paper in Serbia which, based on empirical data, analyses the impact of firm size on the performance of trade sector. This gap should be filled with this paper in which the research is based on the empirical results shown in worldwide literature, and especially on the studies of the subject conducted in the European Union.

## **3. Hypotheses, research methodology and empirical data**

The research hypotheses are defined in tune with the aim of this paper. These are: (H1) – the structure of the firm size is significant determinant of overall performance of distributive trade; (H2) – the efficient systematic control of the firm size structure can significantly influence on targeted performance of distributive trade; (H3) – the firm size structure in distributive trade

differs among countries, trade sectors, and knowledge of the subject is significant for efficient systematic control as a function of making targeted performance in particular country, in our case – Serbia.

The methodology of research of the given hypotheses is based on literature, studies research, and especially, comparative analysis. We used the statistical analysis to a certain extent.

Empirical data used to conduct this research were used from different relevant resources. These are: literature, Eurostat statistics, official statistics of the Republic of Serbia and the Business Registers Agency. Many empirical data, especially ones concerning Serbia, are statistically analysed as a function of conducting aim of this paper research.

#### 4. The structural performance of trade in European Union according to firm size

For the sake of international comparison, we will analyse the structural performance of trade in European Union and in Serbia, according to the firm size. In the European Union the enterprises are classified on the basis of the following criteria showed in Table 1.

**Table 1. The criteria of size-class in the EU**

Category company	Employees	Turnover	Or	Balance sheet total
Micro	<10	< € 2 million		< € 2 million
Small	<50	< € 10 million		< € 10 million
Medium	<250	< € 50 million		< € 43 million

Source: Eurostat, 2014.

Enterprises that belong to the category “large” in the European Union have more than 250 employees, with turnover more than 50 million €, and whose balance sheet total is over 43 million €. These criteria are also applied in Serbia.

As observed on the level of total economy and within the sectors, there is different economic importance of enterprises according to their size (Eurostat, 2011). Their economic significance is scored, as criteria, according to the share in the number of enterprises, number of employees, turnover and added value. In the European Union there are specific structural performance characteristics of distributive trade (wholesale and retail), expressed through the

number of employees, added value according to firm size (compared to other sectors and comparable countries) (Cornille, 2011). It can be seen from the data in the Table 2.

**Table 2. The performance of distributive trade in European Union (EU – 27) per firm size, 2010**

	Total	Small and medium	Micro	Small	Medium	Large
		(% from total)				
Employees (thousands)	32791	71,7%	36,7%	21,3%	13,7%	28,3%
Added value (million EUR)	1145812	67,9%	25,9%	23,6%	18,3%	32,1%

Source: Eurostat, 2013.

According to the data given in the table it can be seen that small and medium enterprises of distributive trade of European Union in 2010 participated in total number of employees with 71,7%, and in created total added value with 67,9%. The same year, large enterprises of distributive trade of European Union participated in total number of employees with 28,3%, and in total created added value with 32,1%.

Observed per sectors of trade, the economic significance differs concerning the share in total number of enterprises, employees and created total added value according to the firmsize. Table 3 shows the structural performance characteristics of wholesale and retail of the European Union concerning the economic significance of enterprises according to their size for 2011.

**Table 3. Wholesale and retail performance in European Union according to firm size in 2011**

	Total	Micro	Small/medium	Large
		(in % total)		
<b>Wholesale</b>				
Enterprises (million)	1,8	89,7%	10,1%	0,2%
Employees (million)	10,5	30,7%	50,3%	19,0%
Added value (million €)	593	22,4%	52,9%	24,7%
<b>Retail</b>				
Enterprises (million)	3,6	95,1%	4,8%	0,1%
Employees (million)	18,6	37,2%	25,9%	36,9%
Added value (million €)	453	29,2%	26,0%	44,7%

Source: Reynolds, 2014.

According to the data in the table, there is huge share of micro enterprises in total number of enterprises (89,7%) in wholesale of the European Union, small and medium enterprises in total number of employees (50,3%) and in created added value (52,9%). In retail trade of the European Union there is a large share of micro enterprises in total number of employees is (95,1%), micro and large enterprises in total number of employees (37,2%, 36,9%, respectively), and large enterprises in created added value (44,7%).

As to thoroughly analyse the characteristics of some sectors of distributive trade in European Union according to the firm size Table 4 shows the number of employees and added value in 2010.

**Table 4. The number of enterprises and added value of wholesale and retail in European Union (EU – 27) according to firm size, 2010**

	Wholesale	Retail	Total	%
<b>Number of firms</b> (thousands)				
Micro	1606,8	3467,6	5074,4	93,4%
Small/medium	180,4	174,0	354,4	6,5%
Large	2,9	4,0	6,9	0,1%
Total	1790,1	3,645,7		100
<b>Added value</b> (€ billion per year)				
Micro	132,7	132,6	265,2	25,5%
Small/medium size	313,3	117,9	431,2	41,2%
Large	146,6	202,8	349,5	33,4%
Total	592,6	453,3	1045,9	100

Source: Reynolds, (2014)

Data in the given table show that the micro enterprises participated in total number of enterprises with 93,4% in distributive trade of European Union in 2010. That same year small and medium enterprises participated in created added value with 41,2% in distributive trade of European Union. According to the firm size, average added value per firm (millions € per year) in European Union in 2010. was as follows: wholesale: micro – 0,08, small – 1,07, medium – 5,94 and large – 48,61; retail: micro – 0,04, small – 0,47, medium – 2,70 and large – 50,70 (Reynolds, 2014). In wholesale and retail, it was the highest in large firms. It is understandable considering the fact that significant funds are invested in modern technology, innovation, electronic trade development and application of sustainable growth concept (integrated economic, social and ecological dimension), as very significant sources, beside other, in creating of added value. Created added value belongs to very significant indicators of business efficiency of all trade companies, regardless their size.

Added value is created through the whole *chain value* on the global level (Mandal, 2008; Amador, 2014; Bnaga, 2014; OECD, 2014). In retail, added value is also created through the whole value chain (further reading: Eurostat, 2011). Because of that it is necessary to efficiently manage the value chains (Berman, 2010; Levy, 2007; Lukić, 2011; Lukić, 2013a, Lovreta et al.,

2011, Lukic, 2014a; Lukic2014c; Lovreta et al., 2013). In addition, the application of the concept of sustainable development and modern technology has big significance, as a key determinant of added value (Segetlija, 2014; Phillips, 2010; Lukic, 2012; Lukic, 2013b; Seeck, 2014; Shin, 2014; Slabinac, 2014; Lukic, 2014b; Lukic, 2014d).

In the European Union, as in other countries (Katua, 2014; Radović, 2014)), there is immense significance of *small and medium enterprises SMEs*. In 2013.in the European Union there was 21,2 million small and medium enterprises in non-financial business sector. They participated in total number of enterprises with 99,8%, number of employees 66,8% and total created added value with 57,9% (Eurostat, 2014).

Observed per sectors, the dynamics of development and economic growth (measured as a share of total number of enterprises, employees and created added value) of certain categories of enterprises in European Union differs according to the firm size. Table 5 presents the dynamics of development and significance of small and medium enterprises per sectors in European Union (EU – 28) in 2013.

**Table 5. Dynamics of development and significance of small and medium enterprises per sectors in European Union in 2013**

Sector	Number of small and medium enterprises (million)			Added value of small and medium enterprises (billion €)			Employment in small and medium enterprises (million)		
	2008	2013	share	2008	2013	share	2008	2013	share
Manufacturing	2,14	2,08	-15%	0,78	0,75	-47%	19,75	17,87	96%
Construction	3,34	3,08	-73%	0,51	0,40	-248%	12,90	10,66	114%
<b>Trade</b>	<b>6,17</b>	<b>6,15</b>	<b>-4%</b>	<b>0,79</b>	<b>0,82</b>	<b>63%</b>	<b>23,30</b>	<b>23,38</b>	<b>-4%</b>
Accommodation/Food sector	1,75	1,79	10%	0,15	0,17	36%	7,99	8,49	-26%
Business sector	3,45	3,84	111%	0,45	0,48	73%	8,92	9,45	-27%
Other	4,37	4,62	71,%	0,95	1,05	224%	17,95	18,99	-53%
Total	21,22	21,57	100%	3,62	3,67	100%	90,81	88,84	100%

Source: Eurostat, 2014.

According to the data, (wholesale and retail) trade in European Union in 2013. participated in total number of small and medium enterprises with 28,51%, total generated added value of small and medium enterprises with 22,34% and in total number of employees of small and medium enterprises with 26,31%. It means that, on the global level, the economic significance of small

and medium trade enterprises in creating total performance of all small and medium enterprises in European Union is enormous. Therefore, in the strategic development of the EU the considerable attention is devoted to them.

In selected countries and sectors the economic significance of small and medium enterprises in EU is different (further reading: Eurostat, 2014). So, for example, in European Union (EU – 28) in 2013. the share of small and medium trade enterprises (wholesale and retail) in total number of all small and medium enterprises moved in range from 27% (Slovenia) to 54% (Bulgaria), generated total added value of all small and medium enterprises in range from 28% (Slovenia) to 38% (Bulgaria), and in total number of employees in all small and medium enterprises in range from 25% (Slovenia) to 39% (Bulgaria) (Eurostat, 2014). Table 6 show the share of small and medium enterprises of distributive trade (wholesale and retail) in total number, created total added value and total number of employees of all small and medium enterprises in European Union (EU-28), for selected countries and its member states (selected according to the comparable criteria with Serbia, which is the central topic in this work), for 2013.

**Table 6. The share of small and medium enterprises, wholesale and retail in total number, created total added value and total number of employees of all small and medium enterprises in European Union (EU-28), for selected countries, 2013.**

	<b>Small and medium enterprises</b>	<b>Added value</b>	<b>Employment</b>
Slovenia	27%	28%	25%
Sweden	27%	32%	32%
United Kingdom	29%	24%	29%
Netherlands	31%	39%	38%
France	33%	30%	32%
Croatia	34%	33%	30%
Germany	35%	33%	34%
Italy	37%	28%	31%

Source: Eurostat, 2014.

The data in the table clearly show that the economic significance is huge per all analysed parameters of small and medium enterprises of distributional trade in all observed member states of the European Union. The average share in all observed variables is 1/3. It is more significant if the country is less economically developed (further reading: Eurostat, 2014).

The significant dimension of distributive trade is – international business. Large trade companies, wholesale and retail are of “multinational character” (Evans, 2005). They do business globally, in several foreign countries. So, for example, the first ten among 250 biggest global retailers in 2013 did their business in many foreign countries, and these are: Wal-Mart Stores, Inc. (U.S.) – 28, Costco Wholesale Corporation (U.S.) – 9, Carrefour S.A. (France) – 33, Schwarz Unternehmenstreuhand KG (Germany) – 26, Tesco PLC (U.K.) – 13, The Kroger Co. (U.S.) – 1, Metro Ag – (Germany) – 32, Aldi Einkauf GmbH & Co.o HG (Germany) – 17, The Home Depot, Inc. (U.S.) – 4, and Target Corporation (U.S.) – 2. They participate in total turnover of 250 largest global retailers with 29,7%; the food industry and consumer goods retailers are numerous (Deloitte: Global Powers of Retailing 2015). Table 7 shows top ten retailers in Europe in 2013.

**Table 7. Top 10 European retailers, 2013**

<b>Regional rang</b>	<b>Top 250 rang</b>	<b>Company</b>	<b>Country of origin</b>	<b>2013 Retail turnover (US \$ mil)</b>	<b>2013 Retail turnover, growth</b>
1	3	Carrefour S.A.	France	\$98,688	-2,4%
2	4	Schwarz Unternehmenstreuhand KG	Germany	\$98,662	9,5%
3	5	Tesco PLC	U.K.	\$98,631	-2,0%
4	7	Metro Ag	Germany	\$86,393	-2,5%
5	8	Aldi Einkauf GmbH & Co.oHG	Germany	\$81,090	4,7%
6	13	Casino Guichard-Perrachon S.A.	France	\$63,468	15,1%
7	14	Groupe Auchan S.A.	France	\$62,444	2,4%
8	16	Edeka Zentrale AG & Co. KG	Germany	\$59,704	3,3%
9	21	Rewe Combine	Germany	\$51,109	1,0%
10	23	Centres Distributeurs	France	\$47,671	4,1%

Source: Deloitte: Global Powers of Retailing 2015

Very significant characteristic of small and medium enterprises in European Union is *internationalization* – they significantly do business abroad. Table 8 shows the participation of small and medium enterprises in international trade in United Kingdom in 2012.

**Table 8. Participation of small and medium enterprises in international trade in United Kingdom, 2012**

	<b>Export</b>	<b>Import</b>
Large (250+)	52,8	65,1
Medium (50-249)	41,8	47,7
Small (1-49)	11,8	11,4

Source: Ward, (2014)

The data in the table show that large enterprises have significant participation in international business in United Kingdom. The share of medium enterprises is not negligible, too.

### 5. The structural performance of trade in Serbia according to firm size

In reliance on the previous results for the distributive trade of the European Union we will in detail refer to structural performance characteristics of trade in Serbia according to firm size. Table 9 show the share of trade in total economy according to firm size in Serbia for 2012.

**Table 9. The share of trade in total economy of Serbia according to firm size in 2012.**

	<b>Total, (%)</b>	<b>Firm size per number of employees</b>			
		<b>(% of total economy of Serbia)</b>			
		<b>Micro (0-9)</b>	<b>Small (10-49)</b>	<b>Medium (50-349)</b>	<b>Large (250 or more)</b>
Number of firms	44,24	40,27	30,47	19,06	13,86
Number of employees	22,29	39,76	28,29	17,93	13,11
Added value per factor costs	20,58	40,67	33,67	22,46	11,40

Note: Author's calculation

Source: Republican Statistical Institute, 2014.

According to the data in the table, the trade participated with 44,24% in total number of enterprises, total number of employees with 22,29% and created added value at factor costs with

20,58% in total economy of Serbia. The same year, small and medium trade enterprises participated in total number of Serbia with 49,53%. The share of large trade enterprises in total number of enterprises in Serbia is unsatisfactory, compared to the countries with developed market economies and European Union.

In 2012, trade participated in total number of employees with 22, 29%. According to the firm size, micro trade companies – entrepreneurs (independent retailers) have the highest share in total number of employees in economy of Serbia. Small and medium enterprises participated in total number of employees in Serbia with 46,22% in 2012. The share of large trade enterprises in total number of employees in Serbia is unsatisfactory, compared to the countries with developed market economies and European Union.

Concerning the share of trade in creating total added value at factor costs in the economy of Serbia, it amounted 20,58% in 2012. The biggest share had micro trade enterprises – entrepreneurs, and the smallest large trade enterprises (significantly lower than the countries of developed market economies and European Union). Small and medium trade enterprises in trade of Serbia participated in creation of total added value at factor costs with 56,13%.

**Table 10. The performance of trade in Serbia per sectors and firm size for 2012**

	Total	Firm size per number of employees			
		(In % total)			
		Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250 or more)
<i>Wholesale, retail and motor vehicle repair</i>					
Number of firms	32752	90,19	8,41	1,17	0,21
Number of employees	227401	36,54	22,66	16,86	23,92
Added value at factor costs (mil. RSD)	301071	20,34	28,70	22,37	28,57
<i>Wholesale, retail and motor vehicle repair</i>					
Number of firms	3058	89,33	9,48	1,14	0,03
Number of employees	17123	47,40	31,58	19,19	1,81
Added value at factor costs (mil. RSD)	18711	23,91	35,37	39,36	1,35
<i>Wholesale, except motor vehicle trade</i>					
Number of firms	23299	91,24	7,59	1,00	0,14
Number of employees	134160	43,37	24,46	16,69	15,27
Added value at factor costs (mil. RSD)	215030	23,24	31,58	22,70	22,46
<i>Retail, except motor vehicle trade</i>					
Number of firms	6395	86,75	10,88	1,81	0,54
Number of employees	76118	22,06	17,14	16,22	44,14
Added value at factor costs (mil. RSD)	67330	10,10	17,65	16,61	55,63

Note: Author's calculation

Source: Republican Statistical Institute, 2014

All in all, there is a big role and significance of trade in creating total performance of trade in Serbia. Envisaging the structure of trade enterprises concerning their size it could be said that the trade in Serbia is chopped compared to other countries of developed market economies and European Union. It reflected on the performance of trade sector, and total economy of Serbia. The role of large trade enterprises is negligible. It is necessary to change organisational structure

of trade in the aspect of the number of enterprises concerning their size - in such way to increase the number of large trade enterprises.

Table 10 shows the performance of trade in Serbia per sectors and firm size for 2012.

In 2012 there was a dominant participation of micro in total number of enterprises in trade and per sectors. The participation of small and medium enterprises in wholesale, retail and motor vehicle repair (total) was – 9,58%, wholesale and retail and motor vehicle repair – 10,62%, Wholesale, except motor vehicle trade – 8,59%, and retail, except motor vehicle trade – 12,69%. The participation of large trade enterprises was at a very low level. Concerning the size of enterprises and their participation, the situation in Serbia is similar to that of the European Union.

The participation of micro enterprises in total number of employees in trade and in sectors was significant in 2012 , nevertheless it is the lowest in retail, except motor vehicle trade. The participation of small and medium enterprises was 39,52% in wholesale, retail and motor vehicle repair; 50,77% in wholesale, retail and motor vehicle repair ; wholesale, except motor vehicle trade – 41,15% and retail, except motor vehicle trade – 33, 36%. In retail, except motor vehicle trade there is significant participation of large enterprises in total number of employees – 44,14%. The structure of employment in trade in Serbia according to the firm size is similar to that of the European Union.

In creating total added value of trade, and per sectors, there is significant role of small and medium enterprises in 2012. They participated in wholesale, retail and motor vehicle repair (total) with 51,07%; wholesale, retail and motor vehicle repair – 74,73%; wholesale, except motor vehicle trade – 54,28%, and retail, except motor vehicle trade – 34, 26%. It is specific that the participation of micro enterprises in creating total added value is smallest in retail, except motor vehicle trade – 10,10%. The highest participation of large enterprises is, also, in retail, except motor vehicle trade – 55,63%. The situation in trade in Serbia is similar to situation in European Union concerning the role of particular enterprises, their size and creation of total added value. The number and structure of employees in trade enterprises according to their size on creating total added value of trade in Serbia is very significant<sup>1</sup>.

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<sup>1</sup> This is shown by the results of statistical analysis: Pearson Correlation 0,962, Correlation is significant at the 0.01 level (2-tailed); Adjusted R Square ,901, Std. Error of the Estimate 31929,87366, Durbin-Watson 2,508; F 37,498, Sig. ,009; t 6,124, Sig. ,009; author's calculation with SPSS statistical software based on the data from Republican Statistical Institute (2014).

There is big significance of large enterprises concerning the number of employees and creating the total performance of wholesale sector, and especially retail. Concerning it, table 11 shows business revenues of the top 10 trade chains in Serbia in 2013.

**Table 10. Business revenues of the top 10 trade chains in Serbia in 2013**

Company	Business revenues (million RSD)
1.Delhaize Serbia	76,836
2.Mercator-S	63,397
3.IDEA	55,300
4.Knez Petrol	37,602
5.OMV Serbia	31,075
6.Lukoil Serbia	30,347
7.Nelt Co.	28,814
8.Veletabak	28,383
9. Intercomerc	27,041
10. PTP DIS	25,413
Share of 10 trade chains in total business revenues of 100 largest companies*	14,08%
Share of 10 companies in total business revenues of total trade of Serbia*	14,05%
Share of 5 companies in total business revenues of 10 largest trade companies*	65,36%

Note:\*Author's calculation

Source: Business registers agency

The data in the given table show that top 10 trade companies participated in 2013. in total business revenues of 100 largest companies in Serbia with 14,08%, and total trade of Serbia with 14,05%. The share of 5 in total business revenues of 10 largest trade companies in Serbia is 65,36%. All data show the existence of specific “monopoly” on the retail market in Serbia. It reflected on the creation of total added value as a significant indicator of efficiency of trade business sector in Serbia.

In all trade companies in Serbia, regardless their size, significant attention is given to the application of modern information and communication technology. The percentage of goods sold and services on internet in 2013. was over 20%. The significant innovative actions are realised: innovation of products and processes, organisation and marketing (Republican Statistical Office,

2014). This has positive effect on improving overall performance of trade enterprises (of all sizes) in Serbia.

## 6. Conclusion

The comparative analysis of structural and performance characteristics of distributive trade in European Union and Serbia showed that they are similar concerning the significance of firm size. In the trade of European Union there is big significance of small and medium enterprises concerning the total number of enterprises, employees, and created total added value. The same situation is in the trade of Serbia, as the results of the conducted research showed.

Organisationally observed, in respect to the structure of trade enterprises and their size the total trade of Serbia is “chopped” compared to European Union (and USA), because of the domination of “small” trade enterprises. The specific about the trade of Serbia is high share of large enterprises in total number of trade enterprises. It is understandable considering the fact that there are numerous global retail chains in Serbia. Their presence significantly contributes to advancement of total performance of trade in Serbia, especially retail. They apply modern technology and the sustainable development concept, which increases their profit. Domestic retail chains, notwithstanding their size in an aim of achieving higher profit, should apply more new concepts of managing costs, modern technology and the concept of sustainable development.

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*Wpływ wielkości przedsiębiorstw na kondycję handlu w Serbii*

*Streszczenie*

Wpływ wielkości przedsiębiorstw na gospodarkę oraz sektor handlu podlega w ostatnich latach badaniom z uwagi na swe ekonomiczne znaczenie. Mając to na uwadze, niniejsze opracowanie bada specyfikę oraz determinanty oddziaływania wielkości przedsiębiorstw na ogólny stan handlu dystrybucyjnego (hurtowego i detalicznego), ze szczególnym uwzględnieniem Unii Europejskiej i Serbii. Wyniki badań empirycznych na świecie, w Unii Europejskiej i Serbii wykazują ogromną rolę małych i średnich przedsiębiorstw w kontekście funkcjonowania sektora handlu, co potwierdza liczba przedsiębiorstw, ich udział w ogólnym zatrudnieniu, wielkość obrotów i wartość dodana. Znaczenie to przejawia się poprzez ogromne łańcuchy handlowe działające globalnie, w tym w Serbii.

**Słowa kluczowe:** liczba i klasyfikacja przedsiębiorstwa, zatrudnienie, wartość dodana, determinanty i mierniki kondycji, internacjonalizacja