

BUSINESS FAILURE RISK ASSESSMENT AND MAPPING ACTIVITIES WITH THE GREATEST POTENTIAL FOR DEVELOPMENT – SECTOR ANALYSIS

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Given that medium-sized enterprises are key drivers of economic growth, identification of sectors and activities in which these enterprises are most successful is a prerequisite for effective policy support. This is particularly relevant for developing countries that face numerous challenges in achieving sustainable economic growth and development. Accordingly, the objective of the research is to assess the risk of financial failure of medium-sized enterprises and map the activities with the greatest potential for development in the Republic of Serbia. The subject of the research is the key financial performance of medium-sized enterprises in 2019. The data were obtained from the official financial statements publicly available on the website of the Business Registers Agency. The research objective was realized by applying the financial analysis method and Altman Z-score model. The purpose of the research is to identify activities that are attractive for investments and in which there are enterprises with significant potential for business innovation and networking. The research results show that enterprises operating in the wholesale and retail trade sectors have the lowest financial failure risk. The largest number of activities with significant potential for development are identified in the manufacturing sector. Also, the research determined which activities in the sectors of wholesale and retail trade, construction and agriculture have the greatest potential for development.

Keywords: Financial failure, development potential, medium-sized enterprises, sector analysis, Altman Z-score

JEL Classification: G32, G33

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1. Introduction

Applied research often aims to assess the profitability and efficiency of planned investments or investments that are made in certain economic sectors. Such research is based on the need for precise determination of the most promising economic activities, while it aims to assess the innovation capacity and ability of enterprises to engage in global value chains. Also, government agencies need this type of research when preparing a set of measures for policies to enhance economic activity. The research topic was determined considering such policy practice. The purpose of the research is to identify activities that are attractive for investments and in which there are enterprises with significant potential for business innovation and networking.

By using data from the financial statements of enterprises, the research aims to assess the risk of financial failure and map the activities with the greatest potential for development. The subject of the research is financial performance that is used in the Z-score model. By applying the Z-score model, the financial performance of all medium-sized enterprises registered in the territory of the Republic of Serbia was analysed. In particular, the paper analysed the performance of medium-sized enterprises operating in the sectors that generate the largest number of entities. The largest number of medium-sized enterprises was identified in the manufacturing sector. The second largest is the wholesale and retail trade sector, while the third and fourth in size are agriculture, forestry and fisheries (agriculture) and the construction sector. The performance of medium-sized enterprises in the service sector has not been analyzed because this sector in the Republic of Serbia does not generate a significant number of medium-sized enterprises. The hypotheses were tested by using the above methodology. The research starts from the hypothesis that various indicators in the Z-score model map different activities with the greatest potential for development.

The focus of the research is on medium-sized enterprises because they stand out for their significant share in the total economic activity. The importance and role of medium-sized enterprises stem from their participation in key indicators of economic growth. Accordingly, activities aimed at supporting and developing medium-sized enterprises should be a priority in the economic policies of developed, and even more of developing countries.

2. Literature Review

The use of limited resources and the ability to create new value determines the survival, growth, development, and competitive advantage of enterprises. The way resources are used reflects the company's ability to manage financial and non-financial goals which efficient implementation leads to the creation of new value (Đuričin, 2019). Successful creation of

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new value contributes to the development of activities within the sectors (Cantele & Zardini, 2018).

Different approaches in defining strategic organizational goals have resulted in the development of several types of performance measures that are integrated into modern methods and techniques of measuring business efficiency. One of the performance measurement methods that have been considered extensively in the recent years is the balanced scorecard (Sarraf & Nejad, 2021; Revuelta-Bordoy et al., 2019). Another, very common model for measuring business efficiency is the Altman Z-score (Yu-Chien et al., 2017; Fu & Su, 2021). The Altman Z-score model uses data from the company's financial statements. The efficient realization of financial and non-financial goals is reflected in the financial statements (Elmashharawi & Sabour, 2020). Effective financial management of organizational performance is primarily determined by the information that is the subject of financial analysis, i.e., the quality of data disclosed in the basic set of financial statements. Financial reporting is of high quality if it provides the following (Malinić, D., 2011, str. 245):

1. a fair and complete representation of economic performance, financial position and risks to which an enterprise is exposed; and
2. relevant information for forecasts of expected gains and cash flows in future periods.

By applying the Altman's Z-score, financial failure is assessed by using a small number of indicators of great informative power. The analysis of the overall company profile is performed based on five key performance indicators. By applying the Altman model, data on the efficiency of individual companies are generated, which allow conclusions to be drawn about the development perspective of the entire sector in which these companies operate (Vavrek et al., 2021; Woo et al., 2020).

Drawing conclusions about the sectors and activities with the greatest potential based on data from the analysis of the efficiency of medium-sized enterprises is justified by the importance that these enterprises have in the overall economic development (Tamulevičienė & Androniceanu, 2020; Beraha & Đuričin, 2020). The entire SME sector is characterized by a high level of flexibility and adaptability to new business conditions. Although they do not form the leading group in terms of participation in the overall structure of companies and the SME sector, medium-sized enterprises, according to key development indicators, are the main drivers of economic growth. For years now, medium-sized enterprises have made the greatest contribution to increasing employment, gross value added, turnover and foreign trade activities, which is why they are considered the backbone of growth and development of the national economy (NMSP, 2018). Medium-sized enterprises make up only 2% of the total number of business entities in the Republic of Serbia. However, they generate 16% of employment, 17% of revenues, 16% of expenditures, and 16% of net profit of all enterprises in the country. In terms of participation in the main indicators of development in the SME sector, medium-sized enterprises account for only 0.7% of the total number of SMEs, but

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generate 48% of exports, 40% of imports, 29% of employment, 30% of turnover and 33% of GVA (Ibid.).

3. Methodology and Data

The research objective was realized by using desk method, Altman's Z-score model, quantitative and qualitative financial analysis, synthesis and description methods (Đuričin, 2018). The desk method includes classical methods of data collection and analysis. Using these methods, data were generated on the total number of enterprises, medium-sized enterprises and enterprises operating in different sectors. Also, classical methods of data collection and analysis generated data from the companies' financial statements in 2019. Based on the individual financial statements, a summary balance sheet and income statement are prepared. The summary balance sheet and income statement are made at the level of all companies registered in the Republic of Serbia, medium-sized enterprises and individual sectors. Within the sector, individual financial statements were used for each company operating in the sector. Data from the financial statements were used for financial analysis and for the application of the Altman's Z – score model (Altman, 1968). According to the data of the Republic Bureau of Statistics, in the Republic of Serbia, a total of 88,224 enterprises were registered in 2019, for which consolidated financial statements were prepared. Consolidated financial statements were prepared for all medium-sized enterprises, i.e., 1,004 enterprises according to the latest records (NMSP, 2016). Also, the analysis included the sectors that generate the largest number of medium-sized enterprises. To assess the risk of financial failure and map activities with the greatest potential, the analysis included the sectors of manufacturing, wholesale and retail trade, construction and agriculture which generates approximately 37%, 27%, 9% and 7% of medium-sized enterprises in the Republic of Serbia, respectively. Other sectors, with a significantly smaller number of medium-sized enterprises, were not considered for the analysis. Consolidated financial statements at the level of all enterprises, medium-sized enterprises and individual sectors were obtained from the Statistical Office of the Republic of Serbia.

Mapping of activities with the greatest potential for development and assessment of the financial failure risk were performed by the Altman's Z – score model. By applying the Altman's Z – score model, an estimate of the probability of bankruptcy of medium-sized enterprises was determined (Altman E., I., 1968; Đuričin et al., 2018). In this way, results were obtained on sectors in which most enterprises operate in the white, grey, and black business zones. To estimate the probability of bankruptcy as accurately as possible, the data contained in the official financial statements for the 2019 were used. To reduce the risk of inaccurate assessment of the bankruptcy occurrence, data for one business year were used. The Altman model intended for companies whose securities are not listed on the stock exchange was used to assess the financial failure risk (Altman, E., I. 2000, 25):

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$$Z = 0.717 x_1 + 0.847 x_2 + 3.107 x_3 + 0.420 x_4 + 0.998 x_5 \quad (1)$$

The Altman's model is a linear combination of five financial performances weighted by an appropriate coefficient. The amount of weight is determined based on the importance that a specific financial performance has in the process of determining the difference between successful and unsuccessful companies. The indicators are calculated as follows:

- X1 – Working capital / Total assets;
- X2 – Retained Earnings / Total Assets;
- X3 – Earnings before interest and taxes / Total Assets; EBIT / Total Assets;
- X4 – Book value of equity / Book Value of Total Debt;
- X5 – Sales / Total Assets.

According to the discrimination zone, after calculating the value of the Z-Score, the probability of bankruptcy is assessed. The discrimination zone in the model is as follows:

- Black zone $Z < 1.23$
- Grey zone $1.23 < Z < 2.90$ and
- White zone $Z > 2.90$.

The method of financial analysis is used in the further research. The subject of financial analysis is the performance of medium-sized enterprises operating in the white zone. The focus of the analysis is on the activities within the Wholesale and retail trade, Manufacturing, Construction and Agriculture sectors in which the largest number of companies is in the white zone. By applying the quantitative and qualitative analysis of each individual financial indicator in the Z-score model, the data on financial stability, profitability, productivity, reproductive ability, and ability to sell products and services were obtained (Đuričin & Beraha, 2021). Based on these data, the activities that have the greatest potential for growth and development are defined within each sector. The potential for the development of each activity was assessed based on the value of each individual indicator from the Z-score model. The research started from the hypothesis that various indicators from the Z-score model map different activities with the greatest potential for development. Accordingly, when drawing conclusions, the greatest importance in mapping the activity was given to the X3 indicator to which the highest value is assigned in the Z-score model. The level of weights was taken as a decisive factor because it reflects the importance of the indicator in the process of determining the difference between successful and unsuccessful companies. To classify the activities, an official national document corresponding to the international NACE Rev.2 classification was used - Statistical classification of economic activities. Sector analysis of financial failure is the subject of research in many papers (Edmund et al., 2021; Apan et al., 2018; Nanayakkara & Azeez, 2015). These papers focus on specific enterprises, rather than on activities within the sector they operate. Also, the existing literature lacks similar analyses

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for medium-sized enterprises, which in most countries represent the bearers of economic activity (Đuričin & Beraha, Aqeel et al., 2021; 2021; Stanisławski, 2020). Applying this methodology to enterprises in other countries would be very useful. This primarily refers to the region and Europe, but also beyond. The use of international NACE classification and the recognized Altman's Z - score model testifies to the possibilities of applying the selected methodology in other countries as well. Conducting an identical analysis in other countries would provide an opportunity to compare the results obtained. A comparative analysis of data obtained using the Altman's Z - score model and national economic development programs would allow identification of best practices. In addition, opportunities for business cooperation and inclusion of enterprises in regional and global value chains would be improved.

4. Results and discussion

The Z-score results for 2019 show that the entire economy of the Republic of Serbia operated in the grey zone. The grey zone was recorded at the level of all medium-sized enterprises and individual sectors (agriculture, construction, manufacturing and wholesale and retail trade). For Z-score calculations, all indicators from X1 to X5 are calculated first. The indicators were calculated based on data from the summary financial statements for the entire economy of the Republic of Serbia, the summary financial statements of all medium-sized enterprises and the summary financial statements of each analysed sector. The calculated indicators were multiplied by weights from the Z-score model. Using the formula $Z = 0.717 x_1 + 0.847 x_2 + 3.107 x_3 + 0.420 x_4 + 0.998 x_5$, Z-score values were calculated for the entire economy, the level of medium-sized enterprises and for each observed sector. Z-score value for the entire economy of the Republic of Serbia in 2019 is 1.65, and for medium-sized enterprises is 1.77. Compared to the entire economy, medium-sized enterprises operate with less risk of financial failure. With the Z-score of 2.74, medium-sized enterprises in the wholesale and retail sector recorded the highest score value. The manufacturing, construction and agriculture sectors recorded the Z-score values of 2.10, 1.77 and 1.61, respectively. It is important to point out that more than 60% of medium-sized enterprises are registered in the manufacturing and wholesale and retail trade sectors. The manufacturing sector absorbs 37% of the total number of medium-sized enterprises, and the wholesale and retail trade sector 27%. In the structure of the total number of medium-sized enterprises, the share of enterprises registered in the construction and agriculture sectors is 9% and 7%, respectively. The share of medium-sized enterprises in other industry sectors is significantly lower.

The Z-score results show that medium-sized enterprises in the wholesale and retail trade sector are the least likely to go bankrupt. After the wholesale and retail trade sector, the lowest risk of financial failure is recorded by medium-sized enterprises in the manufacturing sector, followed by construction and agriculture sectors. The obtained data are synthetic, and

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they are calculated based on information from the summary financial statements of medium-sized enterprises in the wholesale and retail trade, manufacturing, construction, and agriculture sectors. Drawing a conclusion on the activities with the greatest potential for development requires an analytical approach and a detailed analysis of the financial performance of each individual sector and enterprise.

Table 1. Structure of medium-sized enterprises according to Z-score results (in%)

Sector	Wholesale and retail trade	Manufacturing	Construction	Agriculture
White zone	60	31	35	32
Grey zone	29	44	36	43
Black zone	11	26	28	25
Total	100	100	100	100

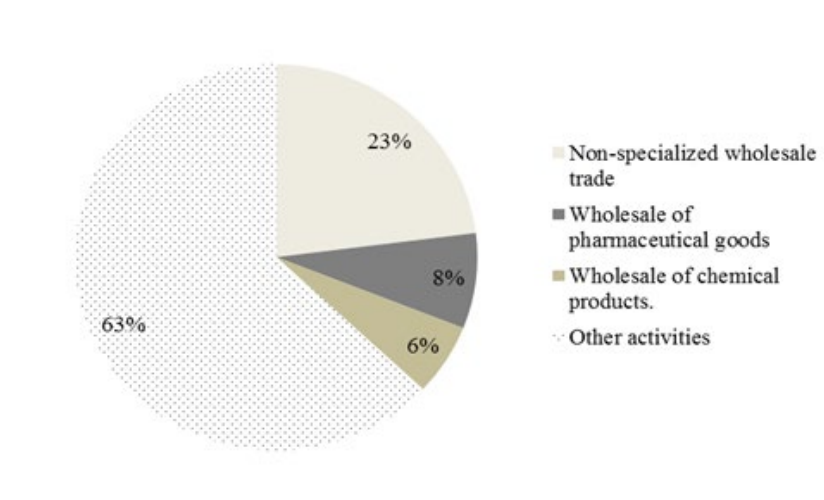
Source: Authors' survey

11% of enterprises in the wholesale and retail trade sector operate in the black zone and they are at high risk of bankruptcy. High bankruptcy risk was recorded in 26%, 28% and 25% of enterprises in the manufacturing, construction, and agriculture sectors, respectively. The largest number of enterprises in the manufacturing industry, construction and agriculture sectors operate in the grey zone i.e., 44%, 36% and 43%, respectively. 29% of enterprises in the wholesale and retail trade sector operate in the grey zone. The largest number (60%) of enterprises in the wholesale and retail trade sector operate in the white zone. Operation in the white zone is recorded by 31%, 35% and 32% of enterprises in the manufacturing, construction, and agricultural sectors, respectively.

Within the wholesale and retail trade sector, the largest number of enterprises is engaged in the Non-specialized wholesale trade activity (activity code: 4690). Most enterprises that perform this activity are in the white zone, however there are also those in grey and black zones. 23% of the total number of enterprises in the wholesale and retail trade sector that operate in the white zone are engaged in the Non-specialized wholesale trade, as well as 12% and 17% of the total number of those in the grey and black zone, respectively. Observing the total number of enterprises in all three zones it can be concluded that the 4690-activity code has the greatest potential for development within the wholesale and retail trade sector. Considering the number of enterprises in the white zone, the Wholesale of pharmaceutical products (activity code: 4646) and Wholesale of chemical products (activity code: 4675) take second and third place within the wholesale and retail trade sector. More precisely, 8% and 6% of the total number of enterprises in the white zone are engaged in the Wholesale of pharmaceutical products and Wholesale of chemical products, respectively. Therefore, to identify the activity with the greatest potential for development, the subject of further analysis is the financial performance of enterprises engaged in these three activities. Other enterprises in the white zone are not significantly grouped in specific activities.

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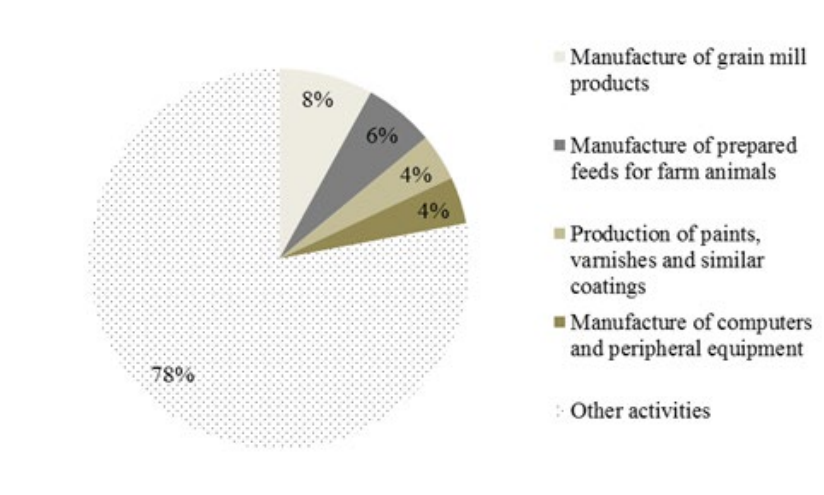
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Source: Authors' survey

Figure 1. Structure of activities according to the number of enterprises in the white zone – Wholesale and retail trade sector

As regards the manufacturing sector, the largest number of enterprises in the white zone are engaged in the Manufacture of grain mill products (activity code: 1061). These enterprises account for 8% of the total number of enterprises in the white zone.



Source: Authors' survey

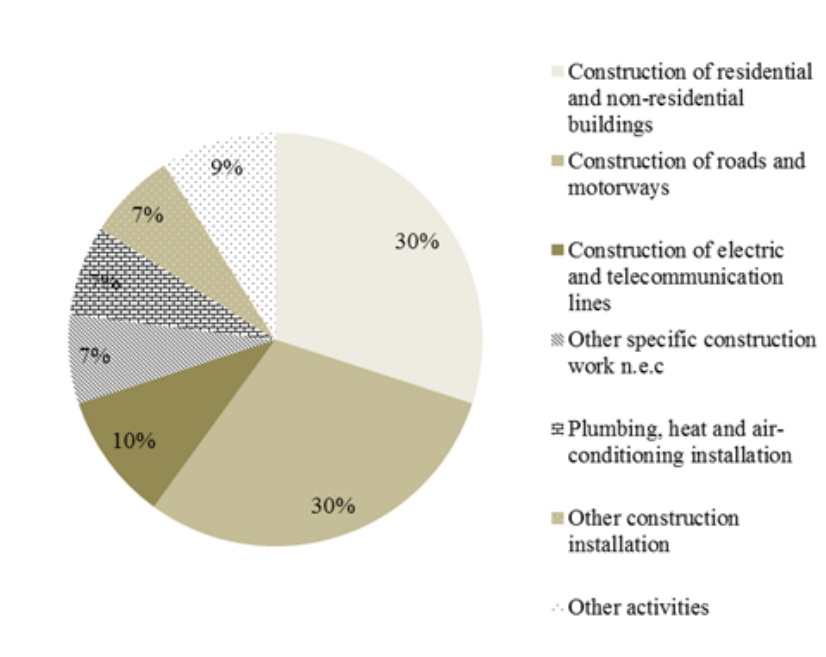
Figure 2. Structure of activities according to the number of enterprises in the white – Manufacturing sector

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Enterprises engaged in the Manufacture of prepared feeds for farm animals (activity code: 1091) account for 6% of the total number of enterprises in the white zone. Enterprises engaged in the Production of paints, varnishes and similar coatings (activity code: 2030) and in the Manufacture of computers and peripheral equipment (activity code: 2620) are in third place with a share of 4% each. To identify activities with the greatest potential for development, the further analysis is focused on the financial performance of enterprises engaged in these four activity codes. Other enterprises in the white zone are not significantly grouped in specific activities and are not subject to further analysis.

As regards the construction sector, the largest number of enterprises in the white zone are engaged in the Construction of residential and non-residential buildings (activity code: 4120) and Construction of roads and motorways (activity code: 4211). Enterprises engaged in these two activities account for 30% each in the total number of enterprises in the white zone. Enterprises engaged in the Construction of electric and telecommunication lines (activity code: 4222) are in the second place with a share of 10%, while those engaged in Other specific construction work n.e.c. (activity code: 4399), Plumbing, heat and air-conditioning installation (activity code: 4322), and Other construction installation (activity code: 4329) are in third place with a share of 7% each in the total number of enterprises in the white zone.



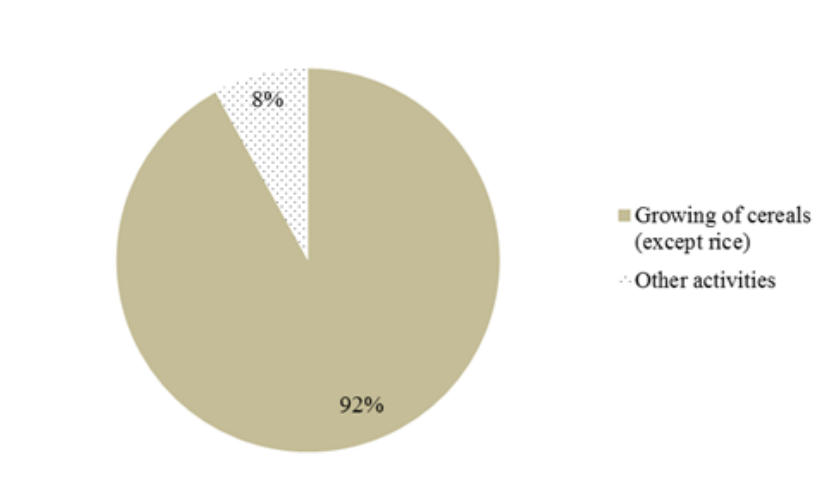
Source: Authors' survey

Figure 3. Structure of activities according to the number of enterprises in the white zone – Construction sector

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As regards the construction sector, almost all enterprises that operate in the white zone are engaged in the Growing of cereals (except rice), leguminous crops and oil seeds (activity code: 0111). The enterprises engaged in this activity account for 92% of the total number of enterprises in the white zone. Other enterprises in the white zone are not significantly grouped in specific activities and are not subject to further analysis.



Source: Authors' survey

Figure 4. Structure of activities according to the number of enterprises in the white zone – Agriculture sector

Assessing the activities with the greatest potential for development requires a detailed analysis of each financial component of the Z-score model of enterprises in the white zone. A detailed analysis of the business operations of enterprises in the white zone in selected activities shows that:

- The optimal value of the X1 indicator is not defined, but it is generally accepted that the business operations of enterprises whose indicator value has a growing trend are assessed positively. The value of the X1 indicator shows the financial stability and potential to expand business operations. The financial analysis results show that in the wholesale and retail trade sector, 5%, 13% and 17% of enterprises in the white zone that are engaged in activities 4690, 4646 and 4675, respectively are characterized by the lack of financial stability and the possibility of business expansion. In the manufacturing sector, all enterprises in the white zone that are engaged in the activity codes 1061, 1091, 2030 and 2620 are assessed as financially stable and with the possibility of expanding business operations. In the construction sector, 11% and 50% of enterprises in the white zone that are engaged in activities 4120 and 4399, respectively are characterized by the lack of financial stability and the possibility of business expansion. Also, in the construction sector, all enterprises operating in the white zone in the activities 4211, 4222, 4322 and 4329 are assessed as financially stable and with the possibility to expand business operations. Finally, in the

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agriculture sector, all enterprises in the white zone that are engaged in the activity 0111 are assessed as financially stable and with the possibility of business expansion.

- Indicator X2 whose value is zero or lower than zero ($X2 \leq 0$) indicates the unprofitable business operation and the absence of the possibility of survival in extraordinary adverse circumstances. In the wholesale and retail trade sector, such characteristics have been observed in 8% and 25% of enterprises in the white zone that are engaged in the activities 4690 and 4646, respectively. In the manufacturing sector, all enterprises in the white zone that are engaged in the activities 1061, 1091, 2030 and 2620 are assessed as profitable and able to survive in extraordinary, unfavourable circumstances. As regards the construction sector, among enterprises operating in the white zone in the activities 4211 and 4399, 11% and 50%, respectively are unprofitable and do not have the possibility of survival in extraordinary, unfavourable circumstances. In the agriculture sector, all enterprises in the white zone that are engaged in the activity 0111 are evaluated as profitable and able to survive in extraordinary, unfavourable circumstances.
- The value of the X3 indicator, which is zero or lower than zero ($X3 \leq 0$), indicates that enterprises are not able to make a profit from the total invested assets. In the wholesale and retail trade sector, in activities 4690, 4646 and 4675, 11%, 38% and 33% of enterprises in the white zone, respectively manage their assets unproductively. In the manufacturing sector in activities 1061, 1091, 2030 and 2620, all enterprises operating in the white zone generate profit from the total invested assets. In the construction sector in activities 4211 and 432, 11% and 50% of enterprises in the white zone, respectively manage their assets unproductively. In the agricultural sector within activity 0111, all enterprises operating in the white zone generate income from the total invested assets.
- The value of the X4 indicator that is zero or lower than zero ($X4 \leq 0$) indicates the absence of the ability to maintain its own reproduction. In the sector of wholesale and retail trade, in activities 4690, 4646 and 4675, 9%, 13% and 17% of enterprises in the white zone, respectively are not able to maintain their own reproduction. However, among the mentioned enterprises, there are those that not only maintain their own reproduction but are also able to increase their business activity. These companies are not only able to repurchase fixed assets and inventories at the same physical level from their own resources but can also expand their business activity. In the sector of wholesale and retail trade in activities 4690, 4646 and 4675, 78%, 25% and 33% of enterprises in the white zone, respectively, can perform expanded reproduction. In the manufacturing sector, in activities 1061, 1091, 2030 and 2620, all enterprises in the white zone can maintain their own reproduction. Additionally, 62%, 67% and 25% of enterprises in the white zone in activities 1061, 1091 and 2620, respectively can perform extended reproduction. Particularly, enterprise engaged in the 2030 activity stand out because they all have the possibility to perform extended reproduction. In the construction sector, in all activities, enterprises in the white zone can perform simple reproduction. In addition, 89% and 67% of enterprises in activities 4120 and 4211 respectively, can perform expanded reproduction, while all enterprises engaged in activities 4222, 4399 and 4329 can perform expanded reproduction. In the agricultural sector, within the activity 0111, all companies in the white zone are able not only to maintain their own but also expanded reproduction.

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- A value of X5 indicator that is higher than zero ($X5 \geq 0$) indicates a progressive market share. In the wholesale and retail trade sector, all enterprises in the white zone engaged in activities 4690, 4646 and 4675 record successful sales based on engaged assets. They not only have a stable market share, but also have great potential for growth. In the manufacturing sector, all companies in the white zone engaged in activities 1061, 1091, 2030 and 2620 record successful sales based on engaged assets. Also, all enterprises in the white zone within the activity 2620 have the potential for market share growth, while this potential is recorded by 75% of companies in the activity 1061 and 2030 each, and by 83% of enterprises in the activity 1091. In the construction sector, in activities 4120, 4211, 4222, 4399, 4322 and 4329, all enterprises in the white zone record successful sales based on engaged assets. Additionally, all companies in the white zone within the activities 4399 and 4329 have the potential for market share growth, while this potential is recorded by 78% of companies in the activity 4120, 89% of companies in the activity 4211 and 50% of companies in the activity 4322. In the agricultural sector, within the activity 0111, all enterprises in the white zone record successful sales based on engaged assets, and 23% of them have the potential for market share growth.

Table 2. Review of obtained results – activities mapped in relation to the observed indicator

Z-score Indicator	Wholesale and retail trade	Manufacturing	Construction	Agriculture
X1	4690	1061, 1091, 2030, 2620	4211, 4222, 4322, 4329	0111
X2	4675	1061, 1091, 2030, 2620	4120, 4322, 4222, 4329	0111
X3	4690	1061, 1091, 2030, 2620	4120, 4222, 4399, 4322	0111
X4	4690, 4646, 4675	1061, 1091, 2030, 2620	4120, 4211, 4222, 4399, 4322, 4329	0111
X5	4690, 4646, 4675	1061, 1091, 2030, 2620	4120, 4211, 4222, 4399, 4322, 4329	0111

Source: Authors' survey

Note: Activities in which enterprises achieved above-average values of a specific indicator are bolded.

The research results confirm the hypothesis that various indicators in the Z-score model map different activities with the greatest potential for development. Based on the results obtained from the analysis of each individual indicator, conclusions were drawn about the activities with the greatest potential for development. The activity potential was observed by analysing each indicator individually, and the research results were derived considering the weight of each indicator in the Z-score model.

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5. Conclusion

The results show that all activities, which were previously selected based on the number of enterprises in the white zone, in the manufacturing and agriculture sectors have the potential for development. Because of the number of enterprises in the white zone, only the Growing cereals (except rice), leguminous crops and oil seeds activity was analysed within the agricultural sector. Observed from the aspect of each individual indicator of the Z-score model, the activity of Growing of cereals (except rice), leguminous crops and oil seeds has the potential for development, especially in terms of the ability of enterprises to maintain simple and extended reproduction. Also, considering each individual indicator of the Z-score model, all analysed activities in the Manufacturing industry have the potential for development. Considering the ability of enterprises to maintain simple and extended reproduction, special emphasis is on the Production of paints, varnishes and similar coatings activity. Considering the ability of enterprises to increase their market share, the Production of computers and peripherals is particularly relevant.

The analysed activities in the wholesale and retail trade and manufacturing sectors do not have equal potential for development. Considering the financial stability and the ability of enterprises to productively manage their assets, the Non-specialized wholesale trade is the only activity in the wholesale and retail trade sector that has the potential for development. On the other hand, considering the company's ability to survive in extraordinary circumstances, the Wholesale of chemical products stands out as the only activity with the potential for development. Observed from the aspects of the ability to maintain simple and expanded reproduction and potential for market share growth, in addition to the Non-specialized wholesale trade and Wholesale of chemical products, the Wholesale of pharmaceutical products also has the potential for development.

Considering the possibility of maintaining simple and extended reproduction and growth of market share, all analysed activities in the construction sector have the potential for development. In terms of the ability to maintain simple and extended reproduction, the following activities are particularly relevant: Construction of electric and telecommunication lines stand out; Plumbing, heat and air-conditioning installation and Other construction installation. From the aspect of the possibility of expanding market share, Other construction installation activity, and Other specific construction work n.e.c. have the greatest potential for development. However, from the aspect of financial stability, it was estimated that there is no potential for development in the activities of Construction of residential and non-residential buildings and Other specific construction work n.e.c. In terms of the company's ability to survive in extraordinary, unfavourable circumstances, it was assessed that there is no potential for development in the activities of Other specific construction work n.e.c and Construction of roads and motorways.

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By using the indicator with the highest weight in the Z-score model as an evaluation criterion, the value of indicator X3 is taken as the most important criterion for evaluation. Considering the company's ability to manage its assets in a productive way, the following activities have the greatest potential:

- all analysed activities in the manufacturing industry:
 - 1061 - production of mill products,
 - 1091 – production of ready-made food for domestic animals,
 - 2030 – production of paints, varnishes and similar coatings,
 - 2620 – manufacture of computers and peripheral equipment.
- analysed activity in the agricultural sector:
 - 0111 – growing of cereals (except rice), leguminous crops and oil seeds.
- activity in the construction sector:
 - 4120 – construction of residential and non-residential buildings,
 - 4222 – construction of electric and telecommunication lines,
 - 4399 – other specific construction work n.e.c.,
 - 4322 – plumbing, heat and air-conditioning installation.
- activity from the trade sector:
 - 4690 – non-specialized wholesale trade.

The practical application of research results is multiple. First, economic policy makers can use research results to define programs and measures to stimulate economic development and attract investment. The obtained results are useful for the Republic of Serbia, but the methodology can be applied in other countries as well. Sector analysis is particularly useful as it provides data for adapting national development programs to policies at regional and individual sector level. This primarily refers to the allocation of subsidies for the development of specific sectors, improving the business environment to attract investment, support for cooperation between medium-sized companies from various industries, etc. Also, the research results can be used to stimulate investments in activities with the greatest potential for development, as well as in those that are underdeveloped but useful for national economic growth. The obtained results can be useful for the management of medium-sized enterprises. The applied methodology reveals the weaknesses of medium-sized enterprises in specific activities while providing an insight into the possibilities for improving their financial performance. Improving the financial and strategic decision-making process would have a positive impact on business activity and the number of enterprises in the white zone, thus increasing their development potential.

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The results obtained in this paper have limitations and are considered as a starting point for further research. The main limitation of the research is that it is based exclusively on financial data. Non-financial performance of companies is partly considered as it is measured indirectly through financial indicators (consumer loyalty, job satisfaction, etc.). The results obtained by applying the methods of financial analysis and the Z-score model are the starting point for further research that should include other non-financial components such as macroeconomic environment, international trends, labour market, national development strategic goals, etc.

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