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**ENTREPRENEURIAL CLIMATE IN REPUBLIC
OF MACEDONIA ACCORDING TO GLOBAL
ENTREPRENEURSHIP MONITOR**

Abstract

This paper analyzes the trends in the entrepreneurship and the entrepreneurial climate in the Republic of Macedonia. Using the comprehensive survey of the Global Entrepreneurship Monitor (GEM) we follow various GEM indicators, from the first Country Report for 2008, up to the last available for 2013. We present our understanding of the results and based on it, we offer some practical suggestions for future research and to the key stakeholders in

the country: the employment, the economic policy and the education authorities. As typical post-communist transitional country of the Western Balkans, Republic of Macedonia after the harsh transition towards a market driven economy, shows some positive change in terms of the slow growing from necessity towards opportunity driven motivation and investments. New generations of graduates particularly those in Information and telecommunication, construction and similar professions who do not want to pursue employment or to leave the country as economic emigrants, are much more opportunity than a necessity driven entrepreneurs. Having all that in mind, we advise that the Country should continue to reform its education system introducing content that fosters initiative, creativity and innovation. The free market initiative and democratization of the education system at all levels could only help these processes and, finally we stress the need for even further elimination of the bureaucratic barriers for small businesses startups and self-employment persons.

Keywords: Entrepreneurship, Startup, Small Business, Education for Business, Global Entrepreneurship Monitor

INTRODUCTION

Although the entrepreneurship as a process has been present for centuries, the entrepreneurship as an academic area of study was introduced only recently. Moreover, like other economic and social disciplines, it does not have clear-cut borders. Consequently, definition of the entrepreneur and entrepreneurship varies across fields of research. Learning the nuances of the entrepreneurship and understanding what drives the entrepreneurs are interesting issues for the creators of the economic policies. The small businesses provide app. 98% of all business entities in the developed world. Using the country data for the Republic of Macedonia, we explore the latest development of the entrepreneurial climate in the country and offer some practical advice to the creators of the relevant policies and to the educators how to accelerate even further the apparent positive trends in the entrepreneurial attitude of the people. Moreover, these measures could slowly eliminate the weaknesses indicated by the GEM and change the situations in some critical areas of the entrepreneurship support. However, we will start with a short reference to the theoretical aspects of the issue.

THE EVOLUTION OF ENTREPRENEURSHIP

There is little consensus in literature in defining entrepreneurship and the entrepreneurs and this creates a fertile ground for diversified theoretical and empirical approaches and a futile ground for reconciling results of different studies (Sorensen and Chang, 2006). While the problems of defining the words “entrepreneur” and “entrepreneurship” and of setting of proper boundaries of the field have not yet been solved (Bryyat and Julien, 2000) the question raised more than 20 years ago still remains relevant: “Is the field of entrepreneurship growing, or it is just getting bigger (Sexton, 1988).

The entrepreneur frequently appears in writings of classical economists, but without clearly defined form or function (Low and MacMillan, 1988). The earliest definition of entrepreneurship, describe the process of bearing the risk of “buying at certain prices and selling at uncertain prices” (Di-Masi, 1993). The entrepreneur has been long recognized as the one who bares great responsibility for the stability of the free enterprise society and determinant of the behavior of the company (Baumol, 1968). Broadened definition includes the concept of bringing together the factors of production limiting the concept to a form of management Di-Masi (1993).

In Cantillion’s view, the entrepreneur operates, creates and captures value in already established organizations. Only the later definitions of the entrepreneurship

see the entrepreneur as a founder and the definition includes creation of new enterprises (Sorensen and Chang, 2006). Cantillon's view puts forward the personal characteristics of the entrepreneurs, like their willingness to take risks and their networking skills (Parker, 2004). Ronald Burt (1992) and his Structural Holes Theory in which value is created by connecting disconnected actors is further promotion of the brokerage concept.

Schumpeter changed the emphasis towards the innovation of production process, factors, organization or market. Wealth is created when innovation brings new demand and when innovative mix of inputs creates value for the customers that is greater than the input costs (Druker, 1995). The brokerage approach significantly narrows the concept, while the investors are interested prissily in the innovative dimension (Sorensen and Chang, 2006).

For Di-Masi (1993) an entrepreneur is a person who perceives market opportunity and has motivation, drive and ability to mobilize resources to grab it. He lists the major characteristics of entrepreneurs starting with self-confidence, readiness to face risks, difficulties and discouraging circumstances, not inventing but being able to carve out a new niche in the market place, result orientated, hardworking, with energized and single-minded (Di-Masi, 1993).

Entrepreneurial personality is shaped in a childhood and the nations that are widely recognized by their enterprising behavior admire businesspersons and use them as role models. Young love the apprenticeship and do not share the common fears related to the self-employment (Gibb at al.,1993). Data collected by the Global Entrepreneurship Monitor prove that there are no countries high in entrepreneurship and low in economic growth (Reynolds at al., 2004). Similarly, other surveys indicate a positive relationship between the business start-up rate and the economic growth (Nickell, Nicolitsas & Dryden, 1997).

ENTREPRENEURSHIP IN REPUBLIC OF MACEDONIA

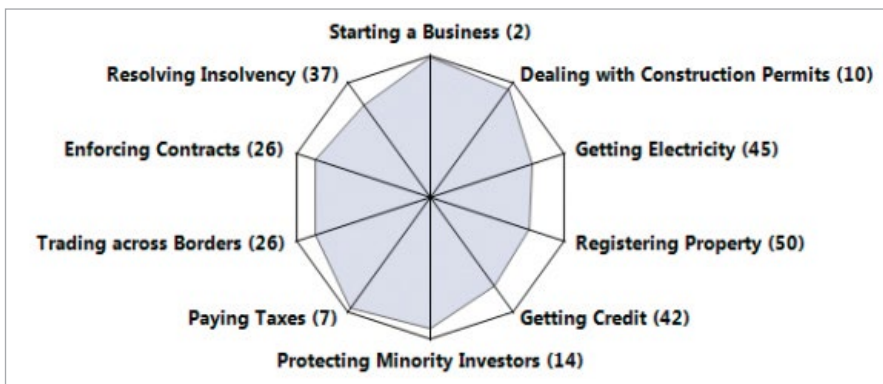
The Global Entrepreneurship Monitor Report classifies countries based on relation between the type of entrepreneurship and the level of economic development. There are three stages of economic development and three types of national economies: factor – driven, efficiency - driven and innovation –driven. Republic of Macedonia is classified as an efficiency-driven economy. This means that we still compete on low prices of factors (labor and natural resources) and not on ability to innovate, use improved manufacturing, products or services. In factor-driven economies the entrepreneurs are mainly necessity-driven trying to create (self) employment opportunities for supporting the family and earning only

for life. In the innovation-driven economies, the entrepreneurs are predominantly opportunity driven. In Republic of Macedonia, both concepts exist in parallel. The transition process towards the free trade created large contingents of lay-off workers who had to try some necessity driven venture. On the other hand, there are many new ventures started as opportunity-driven and in advanced business services, transportation, logistics, telecommunications or software.

Financial institutions to help large enterprises are necessary for creating the basis of the entrepreneurship (Porter and Schwab, 2009). In these terms the Macedonian Bank for Development Promotion coordinates and channels large amounts of EU funding available for small and medium sized businesses and recently Innovativeness and Technology Development Fund was establish to support the opportunity and innovativeness driven entrepreneurs. However, sophisticated forms of financing, like mezzanine, or venture capital are still not present or just emerge. The country has good foundation for creation of knowledge-based, innovative, and competitive economy. There is compulsory tuition free secondary education, several state universities charge only symbolic tuition and there are many private universities charging also affordable fees. The educational programs are updated regularly and modern models of curricula are implemented at all levels, starting from preschool up to the universities.

Republic of Macedonia is determined towards a wide-scale transition in fully flagged free trade economy. Moreover, it is the best ranked among the countries in the region of Western Balkans in all relevant classifications and indexes that are monitoring the free trade and the conduciveness for business. It is ranked second in the world in terms of the easiness of starting business, but with identified lags in infrastructure, construction permits, inefficient and sluggish courts (See: *IFC Doing Business 2013, Economy Profile, and Macedonia*).

Chart 1: Rankings on Doing Business for 2016 – Macedonia



Source: Doing Business 2016

It seems that the entrepreneurs, especially those from small and medium sized businesses support these findings of the GEM. Mazllami (2016) found that 32% of the entrepreneurs in the area of Tetovo consider the support from the local government sufficiently good, and 57% claim same for the support from the central government. Similarly, Ramadani (2013) stated that Macedonia has improved significantly its overall business environment in recent years. Risteska Jankuloska et al. (2016) offer following measures that could further stimulate the small and medium business in the country: (1) continued macroeconomic stability, (2) reforms of the judiciary (3) increased access to finance and (4) stimulation of the innovation and significant growth of the portion of the GDP dedicated for research. Tomoska et al. (2016), interviewing a sample of business students found that the education for entrepreneurship results in more positive attitude towards entrepreneurship, sense of control and higher social approval of the entrepreneurial attitude. Kosturanov (2013) claims that, if we want to support the entrepreneurship and the intrapreneurship, the closer collaboration between all in the triad made of the business, the government and the education system is the main precondition. Similarly, the European Training Foundation working on the Entrepreneurial Learning Strategy of Republic of Macedonia stressed that the implementation of the document calls for strong commitment from all the policy makers and the educators (ETF, 2014).

Regarding the overall entrepreneurial climate, the Republic of Macedonia, despite the challenges maintains macroeconomic stability, low inflation and stable national currency. The public debt is moderate and the Gross Domestic Product per capita was last recorded at 12,725 US dollars in 2015, when adjusted by purchasing power parity (PPP). It is equivalent to 72 percent of the world's average. GDP Growth Rate in Macedonia averaged 3.26 percent from 2004 until 2014, reaching an all-time high of 8.20 percent in the second quarter of 2005 and a record low of -2.40 percent in the second quarter of 2009 (Trading Economics, 2017). Services are the major contributors to the country GDP (61.4%), followed by industry (27.5%) and agriculture (11.1%). The reported unemployment rate is app. 25% although some entrepreneurs report difficulties in obtaining the labor force for their businesses. The plants are mainly new and the level of sophistication of the applied equipment is high. However, the data of the investments show that the level of the investments is approximately at 22% of the GDP (Trading Economics, 2017). The capital formation rate is insufficient for a country that tries to approach the EU average development. Particularly low is the percentage of the research and development expenditure, which is extremely below the targeted 3.5% of the GDP. As a result, the country's competitiveness is stagnant (Ministry of Economy, Cluster Atlas, 2013).

RESEARCH OBJECTIVES

The aim of this research is to study the development of entrepreneurship in the Republic of Macedonia since the first GEM Report in 2008, up to the last for 2013. The objective is to explore, in more details, the factors that trigger and fuel the entrepreneurial mindset. In other words, to explore what drives people in Macedonia to become entrepreneurs.

GEM, the Global Entrepreneurship Monitor is the world's foremost study of entrepreneurship. The concept began in 1999 as a joint project between the Babson College (USA) and the London Business School (UK). GEM is established and referent source for researchers and policy makers worldwide. Contributors, more than 500 experts and 300 research institutions, conduct more than 200,000 interviews each year, worldwide (*What is GEM*, 2016).

GEM is based on telephone survey of the general population and structural interviews with experts and entrepreneurs. The first sample (public) is made of 2,000 citizens and traces their perceptions and views on the entrepreneurship, the level of the entrepreneurial activity and the entrepreneurial aspirations of the people. The panel of experts answers questions in nine predefined areas of the society. GEM examines the linkages between the entrepreneurship and economic development and the way these elements influencing each other. The environment for business is divided into three parts. The first denotes the basic preconditions for development, such as functional institutions, infrastructure, and macroeconomic. The second part contains efficiency enhancers in the economy in general and towards the entrepreneurship. The third part contains nine environment factors that directly and specifically affect the decisions of individuals: finance, government policies, programs to support entrepreneurship, entrepreneurial learning, transfer of R&D, commercial and legal infrastructure, openness of the market, infrastructure, cultural and social norms. This part of the Survey is done by feedback from the panel of experts.

The results of the survey are grouped into three components of the entrepreneurial process: (1) entrepreneurial perceptions and attitudes, (2) activities and (3) aspirations. Entrepreneurial perceptions and attitudes reflect the extent to which people value entrepreneurship. Entrepreneurial activities measure the involvement of individuals in various stages in the entrepreneurial process. They also distinguish whether the entrepreneur started his/her business based on some identified market opportunity or as a necessity. Entrepreneurial aspirations are crucial in identifying the social and economic impact of entrepreneurship. They provide the qualitative nature of the entrepreneurial activity since only the realization of entrepreneurial aspirations impact the national economies.

The first GEM Report for Macedonia was compiled for the year 2008. The Report showed relatively high entrepreneurship attitude in the country. Almost every second respondent believed that in the next 6 months there were good opportunities for starting a business personally knew business and felt that he/she has adequate skills and knowledge for starting a business. Only 35% believed that fear of failure would prevent them from starting a business, and 40% considered commencing a business in the next 3 years. High 80% believed that the entrepreneurship is good career choice and 66% thought that the media provide appropriate attention to the entrepreneurship. With its 14.5% TEA (Total Early-stage Entrepreneurial Activity) Index, Republic of Macedonia in 2008 scored highest in the entrepreneurial activity in Europe. The TEA Index means that 14.5% of the respondents aged 18-64 are entrepreneurs. Half of them were nascent (or up to 3 months in business) and half were run new businesses (up to 3.5 years in business). However, for the half of the entrepreneurs in Macedonia in 2008, the entrepreneurship was a necessity rather than opportunity. The average entrepreneur was man, aged between 25 to 34 years of age, with higher level of education and higher income. The overall entrepreneurial activity in the country was assessed at high 24.8%. Among the most common reasons for business discontinuation in 2008 were (1) unprofitable business and (2) lack of financing. The informal investors were close family members and the most common source of formal financing was bank loan. Table 1 gives the changes in the key Index constituencies from 2008 up to the latest available, compared with the EU averages.

Table-1: *the GEM indexes for Republic of Macedonia*

	Nascent	New businesses	Early Stage TEA	Necessity driven	Opportunity driven
GEM 2008	7.20	7.70	14.50	47.17	13.45
GEM 2010	4.80	3.10	7.90	59.00	23.00
GEM 2012	3.73	3.25	6.97	51.95	22.95
GEM 2013	3.35	3.53	6.63	60.98	22.04
EU average	4.80	3.30	8.00	22.70	47.00

Source: GEM 2013 Macedonia

Lowering of the percentage of the nascent and the new businesses makes our score to converge towards the EU average. The same can be said for the TEA Index. However, the country still marks high necessity driven and low opportunity driven business startups scores. The average is again a male, aged 25 to 34, with higher education and higher income level. The rate of termination of business is 3.30%

and is similar to the EU average. The most frequent reasons remained the low profitability and the lack of financing. Other important issue to stress is the fact that the orientation towards the innovation shows declining trend, both in the case of the TEA and in the case of the established businesses. In fact, these figures for the Republic of Macedonia are the worst compared with in the whole region of Balkans. The panel of experts indicated that the teaching in the primary and in the secondary education fails to sufficiently encourage the creativity, self-reliance and personal initiative of the students.

CONCLUSIONS

To sum up the discussion, despite some inconsistencies, Republic of Macedonia continues to develop its entrepreneurship climate in the right direction. The TEA continues to drop approaching the EU average indicating that the country is developing in efficiency driven economy. The new businesses are with a relatively good survival rate and that makes the TEA index set at a desirable 6 to 7.

The necessity driven portion of the new businesses is still high in comparison to the EU countries. However, the newly graduates in IT and other engineering disciplines who start their business are in fact looking for an opportunity and they are not driven by necessity.

It is worth to conclude that the field research confirms the GEM findings. Small and mediums sized businesses consider that the support that they get for the local and the central government is sufficiently good.

The future research and the policy interventions should focus more on the high school students and their entrepreneurship education and training. The country should stimulate technical high schools that provide tangible and profitable business opportunities for their graduates. The country should continue to reform the education systems towards content that fosters students' initiative, creativity and innovation and not insist in formal memorized knowledge. Development of free market initiative in the education system could help this process. The findings of field researches confirm the GEM Reports. The education for entrepreneurship brings more positive attitude towards the entrepreneurship, a sense of control of own career and higher social appreciation of the entrepreneurial attitude.

The country should continue towards the improvement of the overall business climate and towards further elimination of the red tape, improving the likelihood of survival of the newly started ventures. Special emphases deserve the ventures based on new technologies in knowledge-based industries. If the country wants to support the entrepreneurship there should be even closer collaboration between all

stakeholders of the process (businesses, government and education institutions). The implementation of the National Entrepreneurial Learning Strategy requires strong commitment from the policy makers and the educators. Measures for further stimulation of the entrepreneurship should focus on continued macroeconomic stability, reforms of the judiciary, access to various forms of finance for business, fostering the innovation and on growth of the portion of the GDP dedicated for research and development.

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