

Organization of Small and Medium Enterprises in the Republic of Northern Macedonia

Ilaz Ameti¹, Naser Ameti², Xhelal Luma³, Jerina Vukaj Nazaj⁴

¹Faculty for Business Administration, State University Tetovo, Tetovo, Republic of North Macedonia

²Sekretariat for Implementation Ohrid Agreement, Skopje, Republic of North Macedonia

³Faculty of Technical Sciences, University of Pristina-Hasan Prishtina, Prishtina Republic of Kosovo

⁴Faculty for Economy & Agrobusiness, Agricultural University of Tirana, Tirana, Republic of Albania

Email address:

ilaz.ameti@hotmail.com (I. Ameti)

To cite this article:

Ilaz Ameti, Naser Ameti, Xhelal Luma, Jerina Vukaj Nazaj. Organization of Small and Medium Enterprises in the Republic of Northern Macedonia. *International Journal of Finance and Banking Research*. Vol. 8, No. 2, 2022, pp. 73-77. doi: 10.11648/j.ijfbr.20220802.14

Received: March 12, 2022; **Accepted:** April 7, 2022; **Published:** April 14, 2022

Abstract: Small and medium enterprises (SMEs) have a very important economic and social role, due to their contribution to the functioning of the economic network and job creation. These contributions are very valuable in the conditions of crisis and rising unemployment. Especially in the Republic of Northern Macedonia, the development of SMEs can affect the many challenges related to economic development, the effects of inequality, high unemployment and demographic growth. In addition, the development of the SME sector can contribute to strengthening competitiveness and productivity, while increasing Gross domestic product (GDP) and per capita income growth. This development will also promote the structural transformation of the SME sector, due to its connection with innovation and technological development. The study aims to identify and analyze the main structuring that affect the success and growth of small and medium enterprises (SMEs), ie their performance, as well as to analyze the effects that these indicators have on the economic growth of SMEs. In this research are addressed some important issues and general problems of the financing system, the financial situation of small and medium businesses in northern Macedonia. Also, this paper will present, both from a theoretical and practical point of view, the relationship between these key performance indicators, or in other words, SME growth. Therefore, the development of the SME sector is very important in Macedonia, especially considering that social problems are largely the consequence of unequal economic growth.

Keywords: Economic Role of SMEs, Increased Competitiveness, Contribution of SMEs, Economic Development

1. Introduction

The transition process has brought about significant changes, making it necessary for the Republic of Northern Macedonia to adapt to the tendencies and needs for a sustainable economic development, capable of operating according to the rules of the European Common Market. At the same time, the diversification of the local economy, as a result of free market demands, increased competition and development dynamics, requires adjustments and reassessments of the priorities and relationships that exist between government, business enterprises and the community, as well as within the community. business, in order to set up cooperative structures which will help in the

sustainable development of the economy of our country and our region. In this new situation, where the economy of Northern Macedonia, in addition to the need to adapt to the new rules of free competition, the requirements to prepare to face the challenges of the European Common Market (ECM), must adapt to the challenges that arise.

As a consequence of the globalization of the economy, openness to international competition. It is therefore important that economic policies try to focus on determining future directions for good management of available resources, in determining clear of the role of development factors, and new policies for further development of these success-determining factors. According to statistics, the economy in the Republic of Northern Macedonia suffers

from the slow pace of business growth and the evolution of small businesses to medium and large ones. It is very difficult for the Macedonian economy to become competitive with such a business structure, where over 95% of them today are small and micro businesses. Therefore, given this situation, I think the basic problem (which is in center of discussion of the whole topic) is the growth and expansion of small businesses. As scholars and the general public have recognized the great importance of SMEs (Raimi N, (2008), Michael P Nicholas Wilson, (1996) [7, 11] consider Small and Medium Business as the "locomotive of economic growth". Generally about 65% of the total number of employees according to (Madsing (1997) [8, 14] are employed by small or micro businesses. While in developing countries SMEs are employed by about 22% of the adult population. Curran et al. (1986) [10], says there is no doubt that small businesses remain economically important in any free and industrialized society, they participate in almost every major sector of the economy, while Binks dhe Coyne (1983) [1] say continue to provide a level high employment not only in traditional industries such as construction, but also in newer sectors such as professional and scientific services. According to Drucker P. F. (1985) [3] flexibility to changes in the environment, innovation, impact on employment, growth of economic dynamics make SMEs not only attractive but also important in economic and strategic development. Small and Medium Enterprises are the backbone of the private sector which make up over 90% of the enterprises worldwide and which contribute to 50-60% of employment, [5, 6], while in the Republic of Northern Macedonia, exceeds 95% and are considered to be the engine of national economies. We European Union (EU), micro, small and businesses secondary have an important role in the economy. They are a great source of entrepreneurial skills, innovation and employment opportunities. Based on a study conducted in 2005, at the EU level, it turned out that about 23 million SMEs offered about 75 million jobs and represented 99% of all businesses [4], as the commissioner himself said, "Micro enterprises, Small and medium-sized enterprises (SMEs) are the engine of the European economy. "They are an essential source of jobs, they create an entrepreneurial spirit and they bring innovation to the EU and thus they are important for boosting their competitiveness and employment" [13]. If we want to give a definition of what small and medium enterprises are we will see that not only is it very difficult, but also that there is no consensus among researchers, economists and policy-makers. The fact that there are so many small businesses in the economy raises a number of questions, especially in how we can measure exactly how many businesses exist in an economy at a given time. Shumë biznese të vogla qëllimisht nuk regjistohen pranë autoriteteve shtetërore. Others have a short life span as state authorities fail to register their existence before they cease to exist. Finally, many businesses are so small that the state can not consider them eligible to register, and these companies are exempt from the obligation to register on a size basis. This causes problems in terms of measuring the

size of the small business sector, their contribution to volume, production and employment, in making measurements if this phenomenon changes over a period of time, and in making comparisons with other countries. For all these reasons, small business statistics tend to be somewhat speculative according to Storey, (1994). [12]. As a result we can finally say that achieving success can be a daunting task, especially in the first years of the career. There will probably be strong competition from other small businesses, while larger companies with prices will try keep them out of the market. Therefore, to increase the chances of success, there are some key factors that we should be aware of such as the quality of scientific research, the possibility of innovation, the degree of technology mastery and financial criteria are usually considered as the most appropriate measure for success business, but many small and medium business owners are motivated to start a business based on lifestyle or personal factors.

2. Purpose and Objectives of Punishment

This selected topic aims to identify and analyze the main indicators that affect the success and growth of small and medium enterprises, their performance, as well as to analyze the effects on the economic growth of SMEs in. This topic aims to study and analyze what are the factors that most influence the economic growth of SMEs and the importance and weight of small and medium enterprises in the development of the country's economy and the performance and performance of SMEs.

3. Methodology

For the realization of this work, a special place has the methodology used relying on a secure basis and clear orientation in the stages of conception and methodological elaboration. The main stages through which the realization of this scientific work has passed are: Selection of the existing Literature related to the object of study. It includes the study of books, scientific articles, scientific publications, papers of national and international conferences, official newspapers and the next phase is based on secondary information from the Republican Statistical Office, OECD, Ministry of Economy, Agency for Renewal and Innovation, Customs Agency in Northern Macedonia etc.

4. Study Cases

4.1. Definition of Businesses in the Republic of Northern Macedonia

In the Republic of Northern Macedonia, the definition of businesses is based on the two laws "Law on Accounting" and "Law on Transformation of Socially Owned Enterprises". [9] Based on the existing norms and according to the "Accounting Law" in the Republic of Northern Macedonia there are only two categories of enterprises: small enterprises

and large enterprises. Small enterprises, according to this law are those business entities that employ less than 250 employees (but which usually means 50 - employees). According to this Law as a small enterprise "is considered the business entity which in the final accounts of two consecutive years, respectively for each year, has included at least two of these criteria:

- 1) the average number of employees, based on working hours, to be up to 50 employees.
- 2) annual income, to be less than 8000 average salaries - bruto (average bruto salary of a worker in the Republic of Macedonia, according to statistical data).
- 3) the average value of the Archive assets (at the beginning and at the end of the year) to be less than 6000 gross average salary in the Republic of Macedonia.

According to the Law on Transformation of Socially Owned Enterprises, the classification of business entities is based on similar criteria and within this definition the categories of medium enterprises are differentiated.

In the Republic of Northern Macedonia in 2004 a classification of business entities was performed according to their size, the classification covered by the Law on Business Organizations and according to it commercial enterprises are divided into micro enterprises, small and medium enterprises and large enterprises.

According to Article 470 of (Official Gazette of the Republic of Northern Macedonia no: 21/2011) for micro trading companies is considered a trader who in each of the last two years of accounting, ie in the first year of his work he completes the following two criteria. level. (Table 1)

Table 1. Classification of entities based on employees, and annual income.

COMPANIES	Small	Medium	Large
Number of employees	Up to 50 workers	Between 50 and 250 workers	Over 250 workers
Annual income (general)	Over 8000 average-gross salaries per year	Between 8000 and 40,000 average gross wages per year	Over 40,000 average gross wages per year
Total value of business assets	Up to 6000 average gross salaries per year	Between 6000 and 30,000 average gross wages per year	Over 30,000 average gross wages per year

Source: Processed and analyzed from data of various authors

These definitions lack qualitative criteria for the definition of enterprises such as: the market involved in which it operates, the ownership of capital, income from realization, etc. Given the contemporary trends of globalization of the world economy, it is necessary to raise the issue of harmonization of the existing definitions in the Republic of Northern Macedonia for the classification of enterprises with the definitions of the European Union (EU) countries with the sole purpose of there is clear legislation for defining business sizes. On the basis of the "Law on Business Organizations" of 2004, a definition similar to the existing definition of the European Union on the classification of enterprises (businesses) was conceived, including:

- 1) Micro enterprises - from 1 to 9 employees, annual turnover <50.000,00 €, over 80% of the gross income to be realized only by one client,
- 2) Small enterprises - from 10 to 50 employees, annual turnover ≤ 2 million €, balance sheet ≤ 2 million €,
- 3) Medium - from 51 to 249 employees, annual turnover ≤ 10 million €, balance sheet ≤ 11 million €,
- 4) Large - over 250 employees, all other entities that do not belong to the above classifications.

The European Commission has formulated a specific phrase - "Small and medium sized enterprises" and in 1996 defined them as "Organizations that employ less than 250 people" and meet certain criteria most characteristic.

4.2. General Structure of Small and Medium Enterprises in the Republic of Northern Macedonia

The number of SMEs in each economy, in relation to the total number of enterprises, exceeds 95%. SMEs are, as we have pointed out, the engine of national economies. They are

the most important resource for jobs that create entrepreneurial spirit and innovation and are essential for fostering competition for change, then they change in terms of their functionality, time and economic activity. level. (Table 2)

Table 2. Total number of enterprises by years in the Republic of Northern Macedonia.

Year	1-9-	9-49	50-249	250+
2008	52910	3351	1177	189
2012	61053	4732	1280	201
2018	64546	5255	1382	236

This shows the number of businesses registered in 2008, 2012 and 2018 [11] where the business of all structures is growing with a coefficient of about 10%, so from this we say that they are the engine of the economy, create innovations are essential for promoting competition and change.

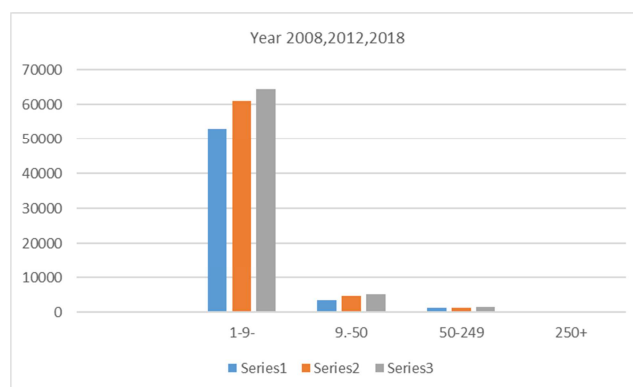


Figure 1. Structure of enterprises by years.

In terms of sector breakdown, SMEs are mainly focused on retail trade transport, warehousing and distribution, food products, beverages and tobacco as well as hotels and restaurants. level. (Table 3)

Table 3. *New enterprises created according to the legal form 2018.*

Legal form	Total	%
Total	6 307	100.0
Sole trader and natural person, independent exerciser of the activity	1 362	21.6
Limited Liability Company and Joint Stock Company	4 409	69.9
Other legal forms	536	8.5

Source: Elaborated and analyzed by statistical methods.

In 2018, the number of newly established enterprises in the Republic of Northern Macedonia is 6,307, while the number of closed enterprises is 4,885. According to the legal form, most of the newly established enterprises (4,409) and liquidated (3,601) are limited liability companies and joint stock companies.

4.3. Manner of Financing SMEs

The availability of finance has been highlighted as a key factor in the development, growth and success of SMEs (OU & Haynes, (2006) [10, 16]. The financing methods used by SMEs vary from initial internal sources, such as owner-manager personal savings and retained earnings. Formal external sources represented by financial intermediaries such as banks, financial institutions and securities markets.

I. Financing through the equity of the enterprise itself

Due to the moral hazard and problems with asymmetric information that are usually more severe during the initial stages of SME development, in-house financing, which is best represented by the personal savings of the owner-manager, is an important source. of financing for SMEs in the early stages (start-up).

II. Debt financing

It is well known that capital structure decisions, in SMEs as in large firms, relate to the use of capital or debt or both. However, Berger dhe Udell (1998) [2] believe that in the case of SMEs, this is partly incorrect because asymmetric information is heavier for SMEs.

III. Bank financing for SMEs

A wider range of existing literature has documented that banks are the main providers of external capital for the SME sector in developed and developing countries Vera & Onji, (2010) [15, 17].

IV. Government assistance and initiatives

In developed and developing countries, governments have acknowledged that the SME sector faces limited access to external financing, which may negatively affect its crucial role in achieving national development objectives. Therefore, many such government initiatives and programs have been implemented to ensure SMEs have easier access to finance, such as credit guarantees, various subsidy programs, etc. In the Republic of Northern Macedonia there are various sources of financing for new businesses, some of which

require more commitment and some others can be more easily achieved.

- 1) Loans from investors,
- 2) Investments by angel investors,
- 3) Loans from friends or family,
- 4) Grants for small businesses,
- 5) Personal loans,
- 6) Loans for small businesses, such as:

But even though these resources exist, the funding problem is still very common among small and medium enterprises. The reasons for this are due, on the one hand, to the insufficient development of macro-financial institutions (banks and non-banks and to the financial market in general), and on the other hand, to insufficient information for the beneficiaries of satisfactory sources of financing. One of the most common sources of financing for SMEs in the Republic of Northern Macedonia is credit.

5. Conclusion

Micro, small and medium enterprises, in short SMEs, are in fact generators of the economy and employment. For this reason, many of them have benefited from state incentives and support, in exchange for job creation. But investment in them has not always returned and the expectations of the public and governments have not always been met. Micro-enterprises and small enterprises are in power all over the world, where they are established in large numbers, this is also noticed in Northern Macedonia, where they show that micro-enterprises are in greater numbers. This fact shows that governments provide subsidies to help and promote micro enterprises. Self-employment programs have started in Macedonia, where a certain amount of money is given for establishment.

6. Recommendation

- 1) As small and medium business is vital for the economic development of the country, so relying on them is a process that requires constant attention from all actors related to the economy and business. Consequently, the Government of Kosovo should pay attention to the design of policies that are oriented and promote the development of SMEs. It still needs to make efforts to create a more favorable business climate, for the development of business in general and SMEs in particular.
- 2) Investing in the training and education of entrepreneurs and employees is an unavoidable need. In order to have a healthy society, we must have educated entrepreneurs and qualified workers, only then can we be prepared to place our products in the international market with high success.
- 3) Enterprise management should be entrusted to professional managers educated inside the country but also abroad, through the management of businesses with professional people businesses would be able to largely eliminate the problems they face.

- 4) To set Innovation as a national and local priority, the Education System to pay special attention to the field of technological innovations and to invest more in Research and Development.
- 5) To finance programs that have in essence the promotion, education, support of innovation since school youth and through various organizations and companies,
- 6) To deepen the cooperation between Universities and Private and public Companies in Research and Development, towards the promotion of technological innovations.
- 7) Enterprises with larger financial and capital capacities should provide internships for young people with high results in studies and precisely the provision of internships should be counted as an asset of the future of their enterprise.

Abbreviations

(SMEs) Small and medium enterprises
 (GDP) Gross domestic product
 (EU) European Union
 (ECM) European Common Market.
 (RNM) Republic of Northern Macedonia

References

- [1] Binks, M. & Coyne, J. (1983). *The Birth of Enterprise*, Hobart Paper 98. London: Institute of Economic Affairs.
- [2] Berger, A. N. and Udell, G. F. (1998) *The Economics of Small Business Finance: The Roles of Private Equity and Debt Markets in the Financial Growth Cycle*. Journal of Banking and Finance.
- [3] Drucker P. F.(1985) *Innovation and Entrepreneurship*, Harper and Row Publishers, New York,
- [4] European Commission, (2005) *The Neë SME definition, User Guide and Model Declaration*,
- [5] Tongue, 2001, Part 1.
- [6] HM Treasury (2008). Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/243389/7408.pdf
- [7] Michael P. Nicholas Wilson, (1996) *Working Capital and Financial Management Practices in the Small Firm Sector*.
- [8] Madsing, D. (1997). *NCC presentation on the information technology initiative*, Manchester Metropolitan University, 1999.
- [9] Official Gazette of the Republic of Macedonia "number 123/2012.
- [10] Ou, C., & Haynes, G. W. (2006). *Acquisition of Additional Equity Capital by Small Firms – Findings from the National Survey of Small Business Finances*. Small Business Economics, 27 (2), 157-168. <http://dx.doi.org/10.1007/s11187-006-0009-8>
- [11] Robert A. Blackburn David Smallbone (2008) *Researching Small Firms and Entrepreneurship in the U.K.: Developments and Distinctiveness*.
- [12] Rrahimi N. (2008)“ *Small Business Management* ” Tetovo.
- [13] State Statistical Office Republic of North Macedonia.
- [14] Storey, D. J. (1994). *Understanding the small business sector*. London: International Thomson Business Press.
- [15] Günter Verheugen, Member of the European Commission, Responsible for Enterprise and Industry Brussels, 19th February 2009.
- [16] The Advantages of SMEs, <http://www.unicycle4kids.org/business-tips/the-advantagesof-smes.php> (accessed 20.01.2015)
- [17] Vera, D. and Onji, K. (2010) *Changes in the Banking System and Small Business Lending*. Small Business Economics, 34, 293-308. <https://doi.org/10.1007/s11187-008-9119->