

# DEVELOPING MACEDONIA'S ENTREPRENEURIAL CAPACITY: THE MISSING LINKS

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## Abstract

*Although considered a major driving force of all developed economies, entrepreneurship has only recently started gaining momentum among Macedonian authorities designing policies aimed at accelerating the completion of the transitional cycle. Thus, the purpose of this article is to evaluate the status of Macedonia's entrepreneurial potential in relation to its regional, sectoral and global peers for the year 2008. Using a cross-sectional study of the data available through GEM's Adult Population Survey, the determining factors of total entrepreneurial activity are identified. In addition, a number of issues intrinsic to the Macedonian economy, such as historical legacies, the role of female entrepreneurs and financing difficulties are also discussed, revealing the peculiar nature of the developmental path of Macedonian entrepreneurship.*

Keywords: *entrepreneurship, cross-sectional study, transitional economies*

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## INTRODUCTION

The role of the entrepreneur has always been an intriguing one. Traditionally, apart from being seen as “responsible for all exchange and circulation in the economy” (Cantillon, 1959), the entrepreneur has also been regarded as having “good judgment as principle quality” (Say, 1821), and who, at the same time, fulfills two of the most vital functions in the economy, by being both an *innovator* (Schumpeter, 1949) and a *risk-taker* (Knight, 1921). Modern times, however, have seen the definition of entrepreneur evolve into a blend of “lucrative opportunities and enterprising individuals” (Shane & Venkatamaran, 2000), thus reflecting the changing and all-encompassing nature of the concept. Yet, a universal definition has proven to be a rather elusive goal as experts in the field have failed to settle on the distinctive traits of the entrepreneur. For the purposes of this paper however, entrepreneurs shall be defined as “business owners who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets” (OECD, 2011).

This paper provides an overview of the recent theoretical and empirical research on entrepreneurship in all its forms. Specifically, it examines all the different categories of entrepreneurial activity, as well as its evolution and development in the Republic of Macedonia. Moreover, it employs the terms developed by the Global Entrepreneurship Monitor in order to classify the economies in one of three categories: factor-, efficiency-, and innovation-driven. Due to the lack of regularly collected data, this paper focuses on cross-sectional studies conducted at one specific time points, such as 2008 and 2010, when Macedonia participated in the surveys. These years are especially interesting as they provide an insight as to how Macedonian entrepreneurship has evolved after the eruption of the Global Financial Crisis as they pinpoint the missing links that would allow an improved development of the local entrepreneurial capacity. The data suggests that the missing links are both of a psychological and of structural nature, but given the scant data, a cautious interpretation of the relationships is advised as any results would prove inconclusive within such a short time horizon.

Meanwhile, it is important to distinguish between entrepreneurial opportunities and entrepreneurial capacity; as Bygrave & Zacharakis caution, “what drives entrepreneurial activity is that people perceive opportunities and have the skills and motivation to exploit them” (2008).

The paper is structured as follows. In order to motivate the analysis, Section 2 presents a background on the development of entrepreneurship in Macedonia with its peculiarities a result of different sociopolitical systems. Section 3 presents the results of the GEM Adult Population Survey conducted in 2008, comparing the state of entrepreneurship in Macedonia with the region and the world. Section 4 presents the results of the same survey conducted two years later, again comparing the state of entrepreneurship in Macedonia regionally and internationally. Section 5 examines the impact of the Global Financial Crisis on entrepreneurship in the Republic of Macedonia. Section 6 concludes the paper, by identifying the missing links to developing the Macedonian entrepreneurial capacity.

## EVOLUTION OF ENTREPRENEURSHIP IN THE REPUBLIC OF MACEDONIA

The rather profound, if irregular, development of entrepreneurship on the territory of the Republic of Macedonia makes it a fascinating subject for researchers alike. Having spent approximately five centuries in economic hibernation under Ottoman rule, Macedonians were plunged into nascent capitalism under Serbian, Bulgarian, and later Yugoslav rule during the first half of the 20<sup>th</sup> century. The abrupt change of the economic system that followed after WWII fast-forwarded the local populace – some of which was still attached to the feudal mindset – directly into centrally planned government. The sociopolitical construct of self-management, specific to enterprises in the Former Yugoslavia, ensured that each employee carried one vote in his or her firm, thus becoming a direct participant in the decision-making process. Taking part during the second half of the 20<sup>th</sup> century, self-management disintegrated with the breakup of Yugoslavia. During this time, the Yugoslav economy was populated by large, sprawling socially-owned enterprises employing thousands of workers, as well as by numerous small private proprietorships. The middle way, however, was non-existent, as small and medium enterprises employing 20 to 80 people were virtually absent in Macedonia, leading Fiti et al. to declare this a phenomenon of a “socialist black gap” (1999). The Law on Transformation of Enterprises with Social Capital from 1993 brought the country one step closer to a free market system, but left a number of lingering issues in the fragile economy of the newly-formed Republic of Macedonia. The development of entrepreneurship became a priority of the successive democratically elected governments, but it wasn’t until the comprehensive Global Entrepreneurship Monitor (GEM) sponsored study of 2009 that the public received an impartial assessment of the state of entrepreneurship in the Republic of Macedonia.

According to the Global Competitiveness Report (Global Entrepreneurship Monitor, 2008), the Republic of Macedonia is ranked among efficiency-driven economies. These are countries whose GDPs vary from USD 3,000 to USD 9,000 per capita, with the Republic of Macedonia ranking in the lower end of the group with USD 4,656 per capita for 2008. These countries’ competitiveness stems not only from low prices, but improved quality of products, strengthened institutional framework and increased productivity as well. Specifically, the Republic of Macedonia has benefited from expansionary credit and monetary policy since 2003 and has boasted a combined BDP growth rate of 4.65% during the 2003-2008 period. The other two classes of economies are factor- and innovation-driven. Factor-driven economies have less than USD 2,000 per capita, basing their comparative advantage on low prices, usually coming from abundant natural resources or cheap labor. Innovation-driven economies have per capital income upwards of USA 17,000, with a vibrant manufacturing sector developing new, value-added, innovative products and services. The following table gives the GEM ranking of countries in Macedonia’s surrounding for which data are available.

Table 1. Country Classification

<b>Country</b>	<b>Macedonia</b>	<b>Serbia</b>	<b>B&amp;H</b>	<b>Croatia</b>	<b>Greece</b>	<b>Slovenia</b>	<b>Turkey</b>
GEM 2008 Ranking	efficiency	efficiency	factor	efficiency	innovation	innovation	efficiency

It is important to note that data for Bulgaria, Albania and Montenegro are not provided by GEM for 2008. Therefore these countries have been excluded from the list.

### MACEDONIAN ENTREPRENEURS AND THEIR PEERS DURING 2008

Given the lack of available data that would allow a precise time series analysis of the evolution of the entrepreneurial spirit in Macedonia, the only telling assessment which remains is that of comparative analysis with regional and international peers. Table 1 shows the average scores of surveyed variables in the above mentioned countries during 2008 have been contrasted with the scores attained for the Republic of Macedonia in the same year. As illustrated in Figure 1, Macedonia leads the region in most parameters, but falls significantly short in the bracket *teayyido*, which GEM defines as “percentage of those involved in TEA who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income”, where the regional average is 46%, as opposed to Macedonia’s 13%. In addition, the variable *teayynw* is also one for concern, as Macedonia falls short in original products and services as well, with 27% of local entrepreneurs indicating that their product or service is new to at least some customers, as opposed to 42% of the entrepreneurs in the region. This does not necessarily signal a lack of creativity or originality; it may also point to apprehension about introducing new products to the market and its reaction to the novelty.

Table 2. The state of entrepreneurship 2008 - Macedonia, its region, and the world (GEM)

Indicators	MK %	Region %	World %	Indicators	MK %	Region %	World %
Babybuyy	7.7	3	4.5	Suboanyy	7.2	5	6.1
Busangyy	5.7	4	4.7	Suskilyy	62	58	49.6
Estbbuyy	11	8	7.6	TEAyyint	33	23	18.9
Frfailop	33	31	34.7	TEAyyjg5	32	26	26.2
Futsupno	39	18	17.3	TEAyynw	27	42	43.2
Knoentyy	51	46	42.5	TEAyy	14.5	8	10.4
Nbgoodyy	80	72	66.5	TEAyyfem	8.6	5	8
Nbmediyy	66	62	76.9	TEAyyido	13	46	49
Nbstatyy	72	70	70.9	TEAyyymal	20.3	10	12.8
Oportyy	47	42	38.1	TEAyynec_p	47	31	24.2

When compared to the rest of the world, the situation differs slightly. As in the previous example, the average scores of the surveyed variables for the participating countries in the world during 2008 have been contrasted with the scores attained for the Republic of Macedonia in the same year.

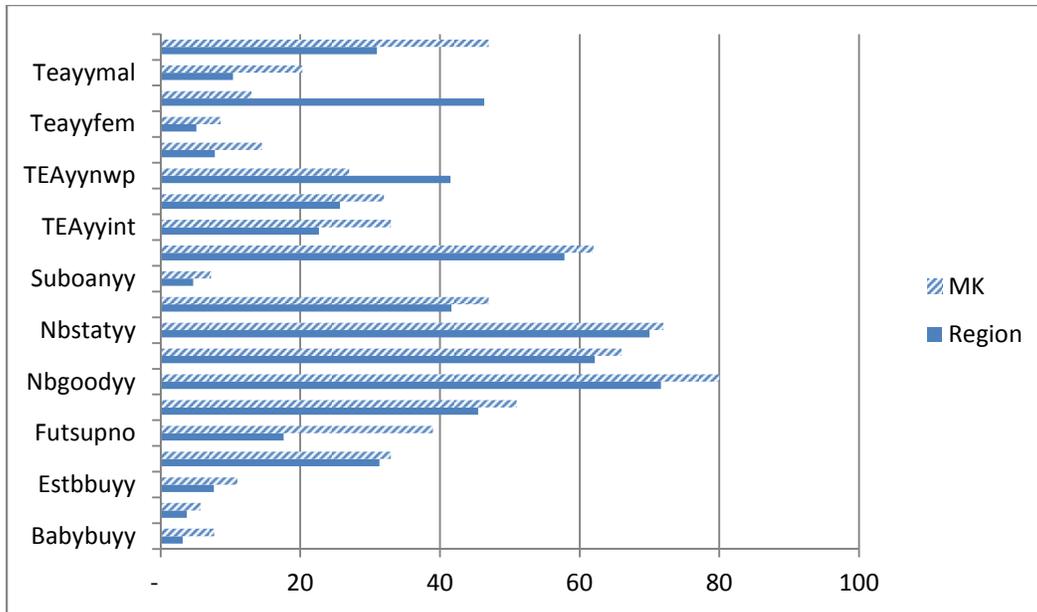


Figure 1. The state of entrepreneurship in Macedonia and its surrounding region, 2008 (GEM)

As illustrated in Figure 2, the percentage of Macedonian entrepreneurs that experiences fear of failure that would prevent them from setting up a business, *frfailop*, is 33%, somewhat less than the world average of 34.7%. Another category where a significant difference appears is the percentage of 18-64 population who agree with the statement that successful entrepreneurs receive favorable media coverage, *nbmediyy*, with only 66% of the respondents agreeing, as opposed to 76.9% in the world. Again, the variable *teayynw* stands out as only 27% of Macedonian entrepreneurs indicate that their product or service is new to at least some customers, unlike 43.2% internationally.

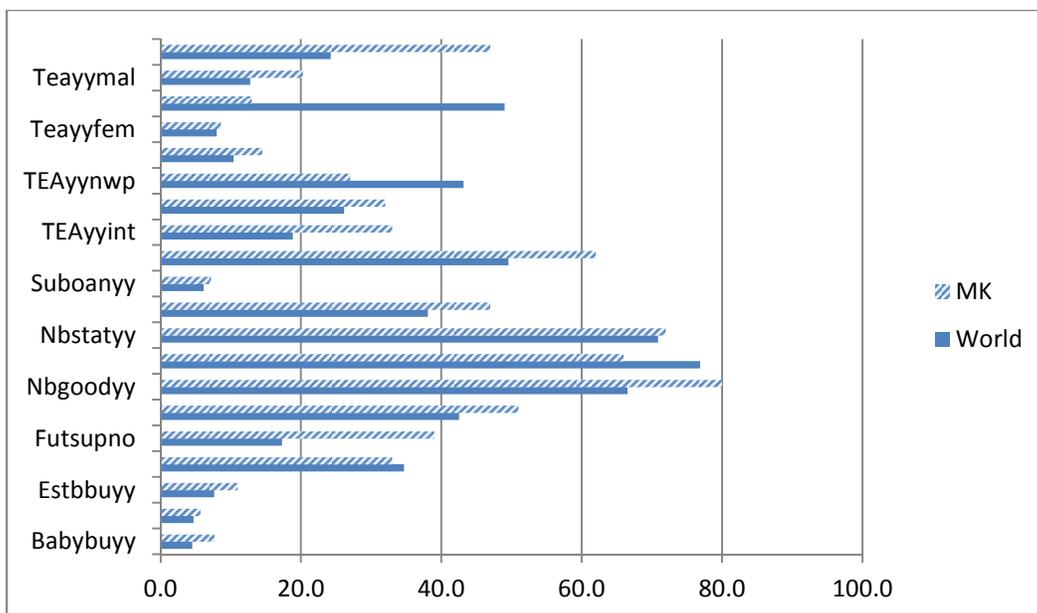


Figure 2. The state of entrepreneurship in Macedonia and the world, 2008 (GEM)

## MACEDONIAN ENTREPRENEURS AND THEIR PEERS DURING 2010

With the advent of the Global Financial Crisis, the entrepreneurial sector was one of the first to suffer both locally and globally. When comparing entrepreneurial indicators within the region, one must not forget to mention that no GEM surveys were conducted in Serbia during 2010, but that one was nonetheless conducted in Montenegro. For the purposes of this paper, Macedonia's region for 2010 will therefore include Montenegro, but will still be missing Serbia, Albania and Bulgaria.

Table 3. The state of entrepreneurship 2010 - Macedonia, its region, and the world (GEM)

Indicators	MK %	Region %	World %	Indicators	MK %	Region %	World %
Babybuyy	3.6	3.4	5.9	Suboanyy	4.4	4.6	6.5
Busangyy	12.1	5	6.6	Suskilyy	60	58.2	54.9
Estbbuyy	7.6	8	8.5	TEAyyint	23	21	14
Frfailop	31	32	31.7	TEAyyjg5	35	23.4	22.9
Futsupno	26.7	16.2	21.8	TEAyynw	39	36.8	39.5
Knoentyy	41	45.6	44	TEAyy	8	7.8	11.9
Nbgoodyy	71	69	68.3	TEAyyfem	3.9	4.9	9.9
Nbmediyy	56	52.2	60.6	TEAyyido	23	42.8	46.1
Nbstatyy	66	66.8	72.6	TEAyyymal	11.9	10.8	13.9
Oportyy	34	29.3	43.7	TEAyynec_p	59	32.7	27

As shown in Table 3 and as illustrated in Figure 3, the consequences arising from a two-year economic slowdown offer a number of surprises, depending on the category. There appears to be a significant increase in *busangyy*, the portion of the population who have personally provided funds for a new business, started by someone else, in the past three years, with Macedonian business angels making up 12.1% of the population, as opposed to 5% in the region. There is also an increase in *futsupno*, the percentage of 18-64 population who intend to start a business within three years, with 26.7% future entrepreneurs in Macedonia, compared to 16.2% regionally. Another significant positive gap appears in the category *teaynec\_p*, that is, the fraction of population involved in entrepreneurship due to a lack of other options for work, with 59% in Macedonia and only 32.7% in the region. As expected, there emerges a large fall in *teayyido*, the percentage of entrepreneurs who claim to be driven by opportunity as opposed to finding no other option for work; and who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income. In the region, 42.8% fall within this category, as opposed to only 23% in Macedonia.

When compared to the rest of the world, as in Figure 4, the state of entrepreneurship in the Republic of Macedonia in 2010 should sound alarm bells. Only 34% of the local population sees good opportunities to start a firm in the area where they live, *oportyy*, in contrast with 43.7% in the world. The overall percentage of the 18-64 population who are either a nascent entrepreneur or owner-manager of new business, *teayy*, is only 8%, unlike 11.9% in the world.

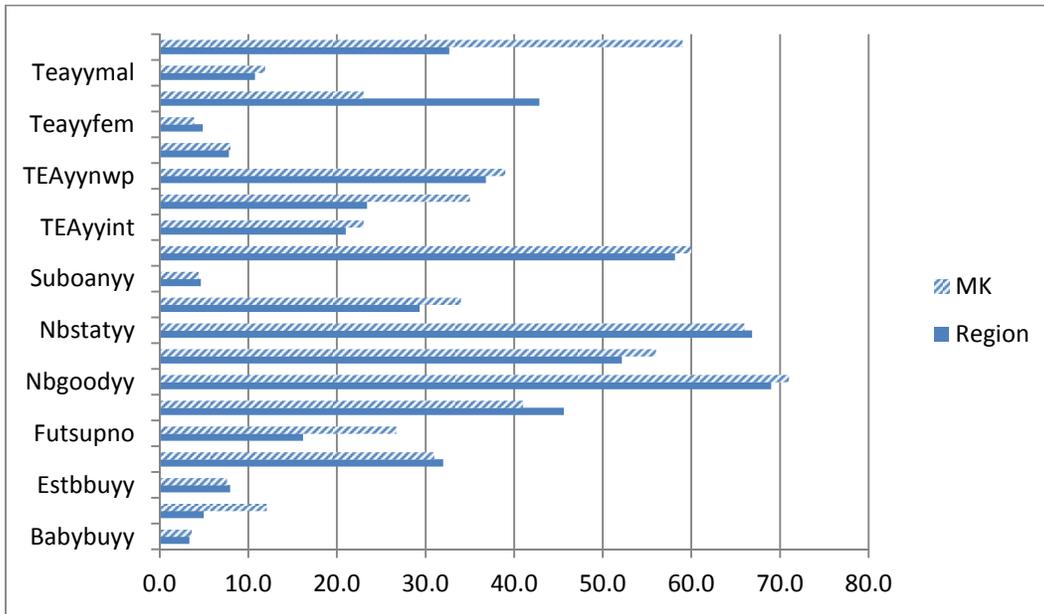


Figure 3. The state of entrepreneurship in Macedonia and its surrounding region, 2010 (GEM)

The female population is especially vulnerable, as only 3.9% of the female 18-64 population is either a nascent entrepreneur or owner-manager of new business, as opposed to 9.9% in the world. Finally, there is a chasm between those entrepreneurs internationally who claim that they are driven by opportunity as opposed to not having any other option to work, *teayyido*, who stand at a staggering 46.1%, and a meager 23% of the population in Macedonia.

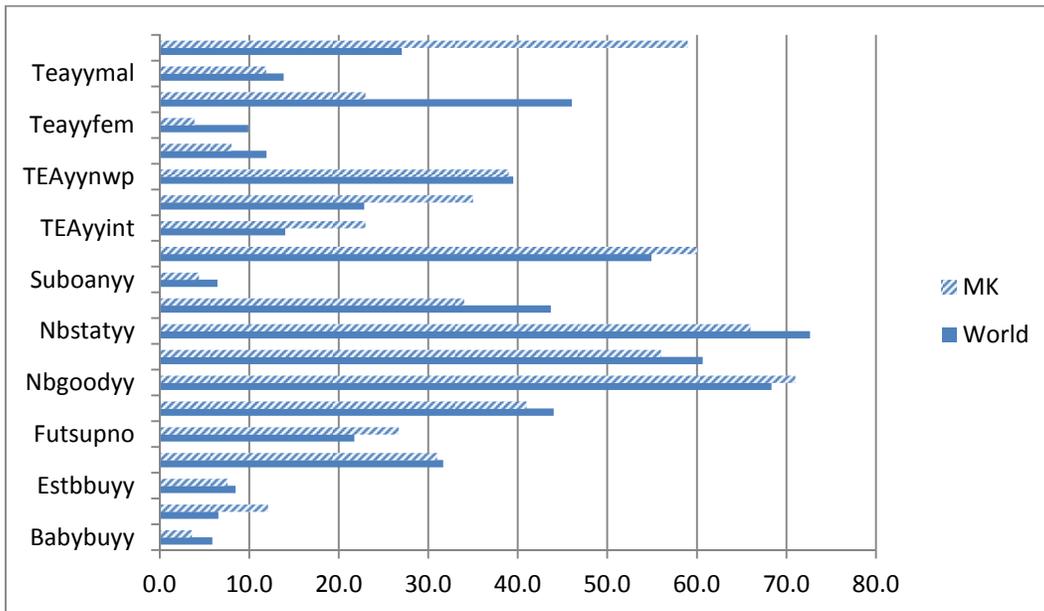


Figure 4. The state of entrepreneurship in Macedonia and the world, 2010 (GEM)

## THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON ENTREPRENEURSHIP IN MACEDONIA

As with most other financial and economic parameters, the development of entrepreneurship in the Republic of Macedonia had taken a severe hit with the outbreak of the Global Financial Crisis. Its impact became most acutely felt in 2009 when GDP fell sharply to -0.9%, dragging down with it all other indicators of economic activity as well. Unfortunately, given that no data were collected by GEM prior to 2008 in Macedonia, the only way to measure the impact of the crisis, however inaccurately, is to perform comparative analysis with the data collected for 2010.

The results are worrisome – as can be seen in Table 4 and Figure 5, a staggering 15 out of 20 indicators have dipped into negative territory. *Teayyfem*, the percentage of female 18-64 population who are either a nascent entrepreneur or owner-manager of a new business has fallen by -54.64%, closely followed by *teayymal*, their male counterparts with -41.38%. The variable *futsupno*, showing the percentage of 18-64 population who intend to start a business within three years, has plummeted to -31.54%. The percentage of entrepreneurs who indicate that at least a quarter of their customers are international, *teayyint*, has experienced a -30.30% change. Overall, *teayy*, the percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business has decreased by -44.83%. The only bright spots can be seen in the variably *busangyy*, meaning that the percentage of 18-64 population who have personally provided funds for a new business, started by someone else, in the past three years, has skyrocketed by 112.28%. In addition, *teayynw*, the percentage of entrepreneurs who indicate that their product or service is new to at least some customers has increased to 44.44%. There has also been an increase of 76.92% in *teayyido*, the percentage of entrepreneurs who claim to be driven by opportunity, as well as a jump of 25.53% in *teayynec\_p*, the percentage of those involved in entrepreneurship because they had no other option for work.

Table 4. The impact of the Global Financial Crisis (2008-10) on entrepreneurship in Macedonia (GEM)

Indicators	2008	2010	% Change	Indicators	2008	2010	% Change
Babybuyy	7.7	3.6	-53.25	Suboanyy	7.2	4.4	-38.89
Busangyy	5.7	12.1	112.28	Suskilyy	62	60	-3.23
Estbbuyy	11	7.6	-30.91	TEAyyint	33	23	-30.30
Frfailop	33	31	-6.06	TEAyyjg5	32	35	9.38
Futsupno	39	26.7	-31.54	TEAyynw	27	39	44.44
Knoentyy	51	41	-19.61	TEAyy	14.5	8	-44.83
Nbgoodyy	80	71	-11.25	TEAyyfem	8.6	3.9	-54.65
Nbmediyy	66	56	-15.15	TEAyyido	13	23	76.92
Nbstatyy	72	66	-8.33	TEAyyymal	20.3	11.9	-41.38
Oportyy	47	34	-27.66	TEAyyynec_p	47	59	25.53

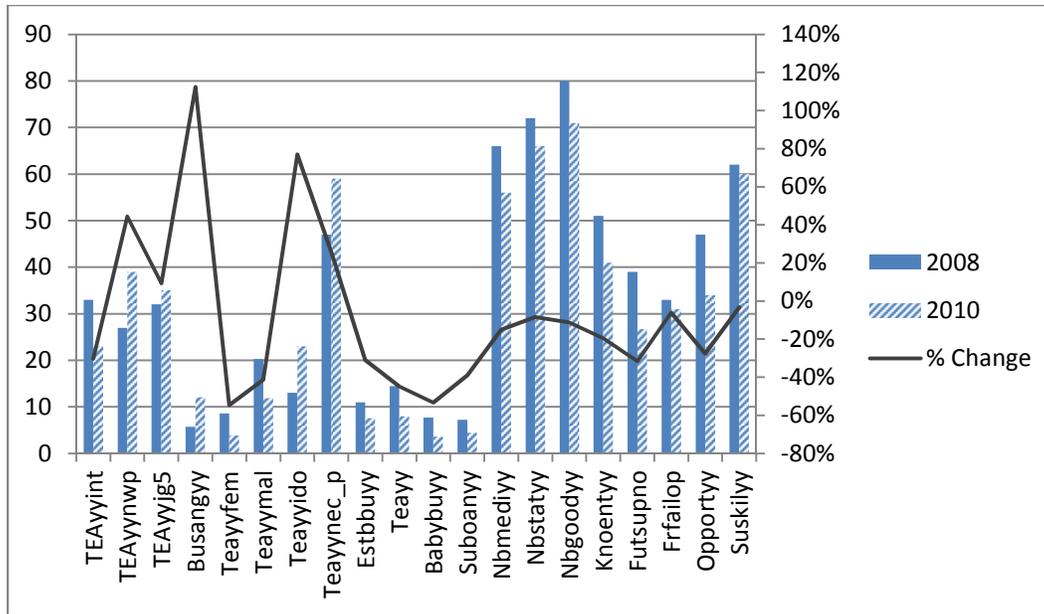


Figure 5. The impact of the Global Financial Crisis on entrepreneurship in Macedonia

A caveat is in place, however. Considering the fact that GEM has conducted its survey only twice, both times during this particular crisis period, the results may be inconclusive or may provide evidence of spurious relationships which may, or may not exist, during normal times.

In order to clarify the use of the assorted shortened forms of the variables used throughout the analysis, a GEM-sponsored legend will be included in the Appendix to this paper.

### CONCLUSION: THE MISSING LINKS

The reasons behind the lagging numbers in the development of the entrepreneurial sector in the Republic of Macedonia, when compared to the region and to the world are twofold. One could distinguish between fundamental (or structural) and psychological (or behavioral) reasons that hinder the advancement of entrepreneurial activity. Taken broadly, even the GEM survey is divided along the fundamental/psychological line. On the one side there are the activity-based indicators which delineate the underlying fundamental intricacies of entrepreneurship. On the other side there are the aspirations-, attitudes-, and perceptions-based indicators which depict the psychological forces at play in the entrepreneurial mindset.

Financing, for one, appears to be among the major fundamental missing links in the development of entrepreneurial capacity in the Republic of Macedonia. Although 12.1% of the population constitutes the informal investors rate, the local economy remains predominantly bank-fueled. It is necessary to further raise the awareness about the benefits of venture capital, both in the form of equity and know-how. Structurally, it is of paramount importance for the government to facilitate access to venture capital funds and to provide a supportive fiscal policy, while private initiative could be used to form business angel networks, in line with Ramadani's recommendation (2011).

An increase of 25.53% in necessity-driven entrepreneurship is not automatically a favorable development, as this may come to be seen as forceful push toward entrepreneurship for those unable to find employment or enjoy the social welfare nets any longer. Fortunately, opportunity-driven entrepreneurship is also on the rise by 76.92% indicating that entrepreneurs are driven by opportunity rather than pushed by necessity.

Female entrepreneurs, traditionally less numerous than their male counterparts, have suffered severely during the most recent downturn, slashing their participation levels by 54.65%. This is another missing link, as it is imperative for the government to bring the numbers of female entrepreneurs up to par with their male rivals. A set of policies, ranging from maternity leave incentives to improved funding opportunities for females should be devised by the government in order to create a level playing field for both genders.

Having dramatically fallen during the recent crisis, established and new business ownership rates also present the danger of weakened, if not missing links. Given that national economic growth is a function of two sets of interrelated activities – established and new businesses – a prolonged slump in both sectors may kill the growth engine altogether.

The psychological reasons, given by two different sets of questions on aspirations as well as attitudes and perceptions also show interesting results. Entrepreneurial intention has experienced a serious dip of 31.54%, suggesting disillusionment with business tendencies. Even perceived capabilities and opportunities have entered negative territory with -3.23 and -27.66%, respectively, reflecting an overall wave of pessimism. The same holds true for people who know startup entrepreneurs, whose numbers have fallen by -19.61%. Even the status of a successful entrepreneur has become marred, experiencing a -8.33 drop. The social norms of a system which has experienced a rollercoaster ride from feudalism to capitalism to socialism then back to capitalism are also a missing link, as there have been no time horizons long enough to warrant the steady emergence of successful entrepreneurs unscathed by dubious business dealings. They need to be strengthened and able to incorporate the perceptions and dispositions towards successful people who have thrived having relied on their entrepreneurial acumen only.

What all these numbers suggest is that a lot remains to be done in the behavioral realm. Psychological influences are firmly engraved in the entrepreneurial mindset and they may prove to be the engine able to kick-start the distressed economy. For until the biggest missing link – the belief in creating a successful business venture – is restored, it will be difficult to bolster the innovative, entrepreneurial part of the Macedonian economy.

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## APPENDIX: GEM INDICATORS

Described below are some of the most important variables that GEM (2008) derives from data collected as part of the Adult Population Survey (APS). This is not an exhaustive list.

### ACTIVITY

Estbbyy - Established Business Ownership Rate - Percentage of 18-64 population who are currently owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.

Teayyido - Improvement-Driven Opportunity Entrepreneurial Activity: Relative Prevalence - Percentage of those involved in TEA who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income.

Busangyy - Informal Investors Rate - Percentage of 18-64 population who have personally provided funds for a new business, started by someone else, in the past three years.

Suboanyy - Nascent Entrepreneurship Rate - Percentage of 18-64 population who are currently a nascent entrepreneur, i.e., actively involved in setting up a business they will own or co-own; this business has not paid salaries, wages, or any other payments to the owners for more than three months.

Teanec\_p - Necessity-Driven Entrepreneurial Activity: Relative Prevalence - Percentage of those involved in TEA who are involved in entrepreneurship because they had no other option for work.

Babybuyy - New Business Ownership Rate - Percentage of 18-64 population who are currently a owner-manager of a new business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months.

Teayy - Total early-stage Entrepreneurial Activity (TEA) - Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business (as defined above).

Teayymal - Total early-stage Entrepreneurial Activity for Male Working Age Population - Percentage of male 18-64 population who are either a nascent entrepreneur or owner-manager of a new business (as defined above).

Teayyfem - Total early-stage Entrepreneurial Activity for Female Working Age Population - Percentage of female 18-64 population who are either a nascent entrepreneur or owner-manager of a new business (as defined above).

## ASPIRATIONS

TEAyyjg5 - Growth Expectation early-stage Entrepreneurial Activity: Relative Prevalence - Percentage of TEA who expect to employ at least five employees five years from now.

TEAyynwp - New Product early-stage Entrepreneurial Activity - Percentage of TEA who indicate that their product or service is new to at least some customers.

TEAyyint - International Orientation early-stage Entrepreneurial Activity - Percentage of TEA who indicate that at least 25% of the customers come from other countries.

## ATTITUDES AND PERCEPTIONS

Futsupno - Entrepreneurial Intention - Percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who intend to start a business within three years.

Nbgoodyy - Entrepreneurship as Desirable Career Choice - Percentage of 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice.

Frfailop - Fear of Failure Rate - Percentage of 18-64 population with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business.

Nbstatyy - High Status Successful Entrepreneurship - Percentage of 18-64 population who agree with the statement that in their country, successful entrepreneurs receive high status.

Knoentyy - Know Startup Entrepreneur Rate - Percentage of 18-64 population who personally know someone who started a business in the past two years.

Nbmediyy - Media Attention for Entrepreneurship - Percentage of 18-64 population who agree with the statement that in their country, you will often see stories in the public media about successful new businesses.

Suskilyy - Perceived Capabilities - Percentage of 18-64 population who believe to have the required skills and knowledge to start a business.

Opportyy - Perceived Opportunities - Percentage of 18-64 who see good opportunities to start a firm in the area where they live.