

## FACTORS CONCERNING THE ECONOMIC GROWTH:

### HR DEVELOPMENT IN INSTITUTIONS THAT SUPPORT ENTREPRENEURSHIP

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**Abstract:** *Entrepreneurship is one of the driving forces for achieving high results within an economy. Starting from the development component as its basic feature, entrepreneurship is a key cause of economic growth and employment bearer. When we talk about entrepreneurship, a particularly interesting question is the one about its status in transitional economies, where due to the breakdown of large industrial facilities and the rapidly actualization of the sector of small and medium enterprises led to the emergence of a “spontaneous entrepreneurship”. This type of entrepreneurship has its features that don’t look like a mature enough entrepreneurial activity that relies more on intuition than on scientifically tested and proven actions and as such it continues to have its impact on the future development of the overall economy in these societies. This is why this issue deserves special attention.*

*One of the main obstacles, regarding the development of entrepreneurial climate, is the condition of the human resource factor (HR factor), which is part of the numerous administrative - bureaucracy factors and obstacles. Large number of failures are identified and determined in the policies for human resource development, starting from the primary selection of employees in already existing and working organizations and institutions, which reflects further working life of institutions. It also affects the process of creating entrepreneurial climate. For that purpose, we are stressing out the need of improvement in the area of the entrepreneurial supportive policies, engaging the entrepreneurial development, starting from the institutions which already are established and their main field of work is supporting the entrepreneurial development.*

*The whole approach regarding the improvement of the human resources is divided in two phases. The first one has its main focus on the employee selection process. The second phase is human resource development policies, within institutional frameworks. These two phases have a tight connection and are supported with accurate data which derives from our research, where the main focus is put on the current condition with the human resources factor in both, state and public organizations (state organizations which have a leading role in entrepreneurial development and private organizations as a carrier of the entrepreneurial development functioning) in the country. For that purpose, we point out the need and credentials for organizational restructuring with concentration on institutions that support entrepreneurial development.*

**Keywords:** *Entrepreneurship, entrepreneurial development, entrepreneurial climate, economic growth, human resource factor.*

## **1. Introduction**

Contemporary trends of the global economy, the turbulent environment and the pressure as a consequence of the trend of globalization dictate suitable modes of operation of enterprises and national economy. This atmosphere, on one hand opens new unusual opportunities for progress, but it also represents a kind of a threat for the economic subjects that have problems adjusting. As an imperative of modern living, entrepreneurial behavior occurs at all levels of action: individuals, companies and entire countries. Starting from the development component as its basic feature, entrepreneurship is a key cause of economic growth and a bearer of employment opportunities. It is not surprising that the development of an entrepreneurial climate is an issue that occupies a central place in the Lisbon agenda set by the European Commission as part of the European Union policies for achieving high results in terms of economy. However, when talking about entrepreneurship we must keep in mind that there is a difference in the treatment of this question depending on whether it is a developed, undeveloped country or a country in transition. The economic system in developed countries is fully mature and established, but the situation in the countries in transition is quite different. Indeed, the second have a situation when the economic system along with society in general are in a transitional period that has yet to form a new mode of functioning of enterprises, new institutions are being established, the whole way of thinking and acting as individuals is being changed and etc. Such is the case with the Republic of Macedonia, as a case study, where the transition is submitted with the mass privatization process and with the change in the ownership structure in industrial giants. This resulted with a great economic and social insecurity among the population. Increased unemployment caused the appearance of a so-called “spontaneous entrepreneurship” through massive formation of small and medium enterprises. Companies were established without a previous analysis of the environment, without a plan and strategy. Founders didn't have a prior entrepreneurial knowledge so they acted intuitively, and as a result enterprises were faced with a high degree of failure. In this situation it is obvious that the key question is the situation of human resources, the level of knowledge and skill at their disposal, and the readiness to respond to new conditions.

## **2. Development of entrepreneurship and consequences of transition process**

Common for transition economies that are affected by a process of mass formation of small and medium enterprises is facing the problem of the unpreparedness of the social system for accepting and supporting this process. Usually problems arise around the unsatisfactory state of infrastructure, difficult access to finance, unfavorable tax policies, but special attention deserves the weakness of institutions and administrative and bureaucratic obstacles that appear as major inhibitors to the process of entrepreneurship. Those are the maladjusted legal regulations and long procedures that hamper the process, for example: the problem concerning the application of contractual rights, the ineffectiveness of the legal system, corruption, procedures for registration of enterprises, especially the complex procedures on closing them. Just as an example we specify

the Republic of Macedonia on this issue, the analysis shows that despite the surpass transition process there are still unsurpassed interferences. The report of IFC-Doing business in 2010 shows that in the group of eight countries (Japan, Slovakia, Montenegro, Hungary, Bulgaria, Croatia, Macedonia and Czech Republic), Republic of Macedonia with 115 index is in the penultimate place because of the complexity of the procedure for the closure of enterprises, only the Czech Republic falls behind.

However, what this paper highlights is precisely the question of the adequacy of staff, a value that is missing in the overall process of development of entrepreneurship and economy. Speaking of staff we must point out that this problem is present in both cases: staff as owners/managers and employees within organizations/enterprises. With the first ones the lack of proper business education is evident. Very often it is present the opinion that with the completion of the regular school learning, upgrading and personal development ends as well. Such incomplete personnel don't have the capacity to handle the challenges of the contemporary environment. Most of the instruments and opportunities that are provided by the institutions remain unused because of doubts caused by a lack of knowledge. Also the mass appearance of inseparability of the ownership functions from the management function. Usually the owner who has a general versus a specialized knowledge is the one who performs multiple functions: organizer, salesman, financial manager etc. and as a consequence of this serious difficulties arise in the conduct of enterprises in terms of lack of adequate planning, effective marketing, rapid and unplanned expansion and etc. On the other hand the problem of inadequate staff is the basic reason a good part of the estimated reforms to fail. This phenomenon is present because of the fact that the appropriate methods and techniques for selection of required personnel are rarely practiced. The selection and promotion of staff in organizations and expectations and abilities of staff need to correspond with the conditions of work and requirements which are imposed by the tasks. Studies on the field have shown that in the process of selection of staff and making the ultimate decision for employment are being avoided and still as an unsurpassed obstacle is the appearance of personal interests.

### **3. Analysis of institutions whose main field of work is supporting entrepreneurial activities in East Macedonia**

Since the process of decentralization has been intensified (July 2005) local authorities were concerned with mobilizing local resources and reinforcing the economy (as a responsibility of the local government). Previous experiences show that in order to animate the entrepreneurial ideas and initiatives, the main key factor is the role of the local government their organization, hr factor, the will to face and deal with administrative bureaucratic procedures and obstacles as well as dedication on realization of local plans for development and entrepreneurial activities. Around 20 years ago, local governments were taken away the authorization of the economic functions connected to the local economy development. The level of centralization of the

finances in early transition years was relatively low (less than 2% of the net budget incomes were intended for the local governments. With the new territorial separation and fiscal decentralization there has been improvement of the condition, but what is considered to be a problem is the capacity for transformation of most of the municipalities in the Republic of Macedonia, especially East Macedonia. The local government in the East region doesn't have local ministry of economy that seriously affects entrepreneurial development, especially considering the fact that this local ministry of economy can follow the process of providing information for entrepreneurial analysis as well as reinforcing entrepreneurial initiatives and simplify the process of application. Other municipalities that include a local ministry of economy, are facing other problems, especially undeveloped HR strategies and low capacity of qualified workforce in the field of entrepreneurship and development of the local economy. The measures that have been undertaken from the local authorities in the central area of East Macedonia have resulted with few institutions (Table 1): The business incubator, Local Economy Development (LED) office and East Plan regional development Center.

Table 1: Summary of institutions that support entrepreneurial activities in the East Region of Macedonia.

<b>Name of the institution</b>	<b>Business incubator</b>	<b>Local Economy Development LED office</b>	<b>East plan regional development Center</b>
<b>Number of employees</b>	4	5 regional centers, 8 local offices (1 office 13 employees)	/
<b>Type of service</b>	technical, managerial, law and economy consultancy services, administrative services, possibility of using shared equipment and offers workspace for less price then the available commercial workspace	Developing and leading local economy policies, distributing information to small and medium enterprises (SME), organization of promotional activities, fairs etc.(for SME), creating and promoting programs for SME support, institutional support and active collaboration in a manner of developing local network for institutions that support SME and other consultancy activities related to SME.	Building up the capacity of networks in local and rural communities, business sector, stimulation the local and regional development, promoting and reinforcing the principles of public-private partnership etc.
<b>Self financing</b>	Since 2000	/	/
<b>Weaknesses</b>	Lack of qualified staff to provide services such as preparation of business plans, innovative ideas and new set of measures for motivating young entrepreneurs	Lack of qualified staff capable of conducting trainings to raise awareness of entrepreneurship, strategic approach and long term plan for development of SME sector	/

The main issue regarding the functionality of these formations is considered to be the usage of capacities and the nonexistence of long term action plans. It should be noted that the German Society for Technical Collaboration GTZ has been working in Macedonia since 1993. It works on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) in the areas of sustainable economic development and water. It's priority areas of work in Macedonia is economic reform and development of the market system and promotion of democracy and civil society. Particular emphasis is placed on cooperation beyond national boundaries, promoting an understanding between the various ethnic groups and strengthening decentralized structures. Cluster development initiatives are an important new direction in economic policy, building on earlier efforts in macroeconomic stabilization, privatization, market opening, and reducing the costs of doing business. Clusters also exist on the territory of Macedonia, especially the cluster for textile development, since the East Region of Macedonia especially the central area is considered as the center of textile industry in Macedonia.

In order to acquire information about the main obstacles for starting and developing business in the East region of Macedonia, with a special concentration on the central area, questionnaire was attained regarding 100 respondents and conducted in the central region of East Macedonia (the municipality of Shtip, 2010). Figure 1 shows that obtaining finances for opening a business is stated as the main obstacle for starting up a business. Figure 2 emphasizes the obstacles for constraining a business development, where working capital is stated as the main constraint.

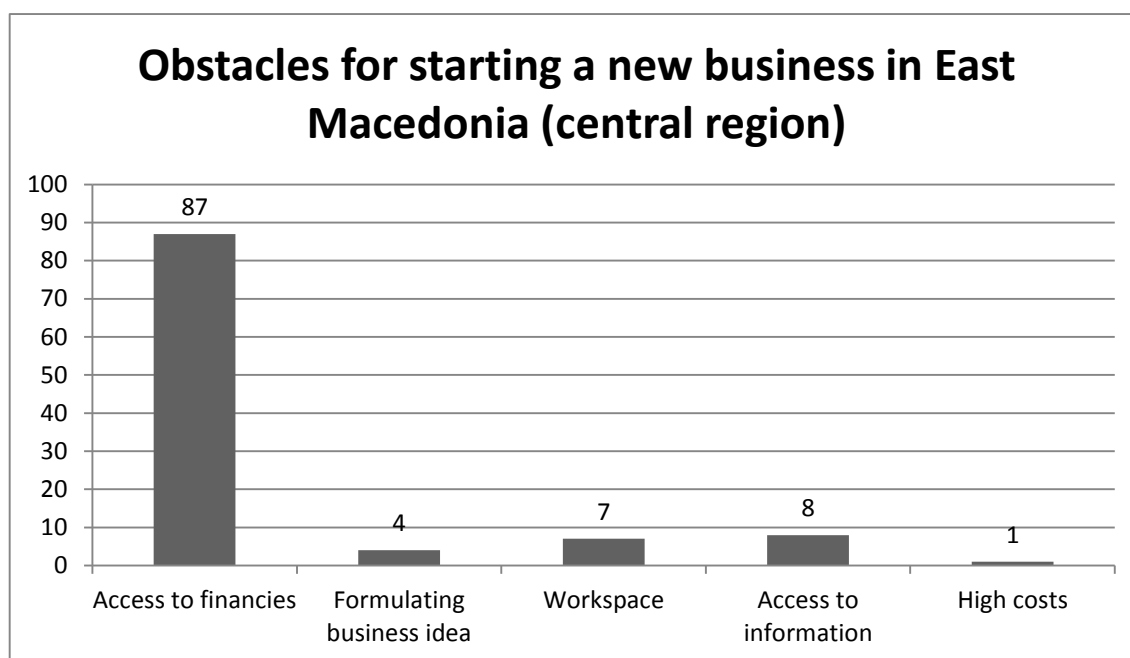


Figure 1: Obstacles for starting a new business in East Macedonia (central region)

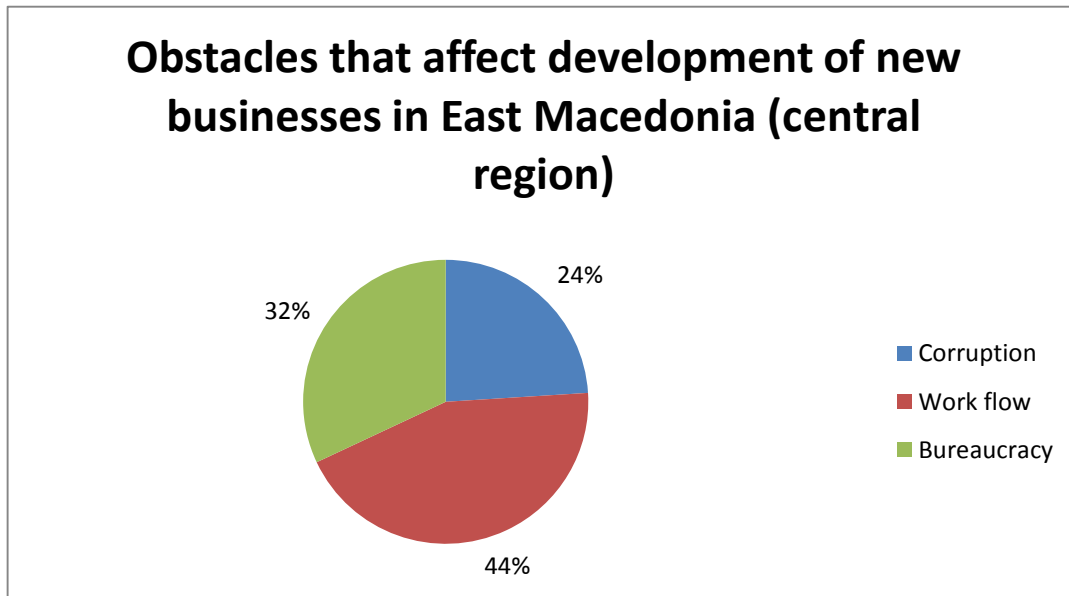


Figure 2: Obstacles that affect development of new businesses in East Macedonia (central region)

Access to information and formulating a business idea as stated previously are the main obstacles for starting up a business in the East region of Macedonia which can be eliminated by reinforcing the idea of creating a selection process for further employments. This will have an impact on the bureaucracy factors which are considered to be an obstacle for business development in the region. Both constraints can be included as a part of an HR strategy program for further development of institutions which support entrepreneurial ideas and activities.

#### **4. Current situation with the HR factor in state and private organizations in East Macedonia**

As previously mentioned, the inseparability of the ownership functions from the management functions determine the lack of adequate staff in organizations. The fast growing number of spontaneous entrepreneurs and short life organizations seems to be a trend that unfortunately has a significant effect on economic growth. One of the biggest operational challenges in establishing an organization is considered to be finding, hiring and retaining qualified workers.

## What Is the biggest operational challenge in managing a company?\*



Figure 4: What is the biggest operational challenge in managing a company?

The situation in Republic of Macedonia with the HR factor can be previewed from our research made in 39 state and private organizations (219 employees) where 46% of the organizations are public organizations (100 employees out of 219). Most of the employees are part of public organizations that count 51-250 employees (36%). Only 4 employees come from public organizations that count less than 10 employees. Among the factors that were examined in the research, the most contributive information arises from the questions which apply directly to selecting and retaining qualified workers in organizations, work motivation, defining work specifications as well as directions for better organizational climate and better employee performance. Causes which decrease work performance initiate lack of motivation towards achieving organizational goals and as such need to be examined carefully and concretely. They are the ones that can be used for further indicators for completing a work evaluation process. If we consider human's need for achieving personal goals and combine them with achieving organizational goals in order to provide existence, employees are constantly seeking for higher salary, better working conditions, etc. Vroom rejects the idea that people have fixed set of needs and is trying to take in consideration human's variability and complexity. Retaining employees is a part of a motivational system that needs to be implemented into the organization. This system provides working conditions and employees are motivated to stay on their current job positions and be productive. Every human being has their own personal goals and their motivation for work arises when they are facing different expectations which are connected with these goals. So far as a most used selection method are the personal interview and the resume (CV), but very often they are performed incompetently, improvised and the results obtained from them are not used as the basic for making the final decision. Therefore, state organizations are facing a serious issue of lack of work motivation caused by problems that occur at work, where employees that are not qualified and have lack of experience in the specified field are dealing with high level of

stress at work because they can't complete the specifically given tasks. On the other hand, private organizations have a different approach to the process of selection, since their funds are limited and nongovernmental, the selection process is stricter, usually the job specifications are given in the work application and candidates are facing series of tests in order to be chosen for the specific job position. If we compare both state and private organization with specific concentration on motivation towards achieving organizational goals, we can make a conclusion that the motivational level is not the highest but it is satisfactory and requires further work especially in creating strategy for increasing work motivation.

Motivation towards achieving organizational goals in state organizations vs. private organizations.

- a) Not motivated at all – (13% for state organizations vs. 10% for private organizations);
- b) Not motivated – (15% for state organizations vs. 16% for private organizations);
- c) Motivated enough – (62% for state organizations vs. 57% for private organizations);
- d) Completely motivated – (10% for state organizations vs. 17% for private organizations).

Precisely defined job specifications are closely connected to work quality. When one organization is facing low quality of job specifications and work expectations, the level of employee motivation decreases because employees are facing an issue of working without knowing what the employer is expecting from them. The situation in the Republic of Macedonia concerning the existence of programs for retaining employees in public organizations is on a satisfactory level (56% of the employees answered that their organizations have a program for retaining and encouraging qualified workers to stay on the current job positions, even 6% have been offered a higher hierarchy job position). Employees also consider their work activities well defined (60% of the employees answered that their job specification is on a high level - position 3 out of 4 where 4 is the highest grade). Another challenge that entrepreneurs are facing now is dynamic business environment. In this competitive business environment, customers need requirements, technology, government rules and regulation, product life cycle, financial market, economy and politics. As entrepreneurs are the most important variables in the business, institutions for entrepreneurial support should understand them and react to fulfill what they expect constantly. Entrepreneurs are becoming more demanding and are constantly seeking for answers and support from the government and institutions that support entrepreneurship. Despite entrepreneurs which have to be able to adapt to the changes, also institutions that support entrepreneurship should prepare for this issue. Many of these institutions have been established in the past 10 years, there was a fast growing number of training bodies, consultancy institutions, commercials about institutions that support entrepreneurship etc. East Macedonia, comparing to the other territory, has a lack of functioning institutions for entrepreneurial support. Entrepreneurs have to be warned about the obstacles and factors that might jeopardize their growth. Institutions need to take measures concerning job restructuring and setting goals according to their institution's needs as part of motivational work strategies.

## 5. Conclusion

The Republic of Macedonia principally seeks to develop the entrepreneurship and to adjust the flow of the contemporary economics. Many political measures have been undertaken to facilitate the development of small and medium enterprises, numerous strategies and programs have been brought for the development of entrepreneurship and SME sector, institutions have been established precisely to support this sector and so on. However, a good part of the results of the reform do not correspond with the expected, and established institutions (agencies, centers and offices for local development, etc.) stagnate on the initial level, instead of stimulating the environment, the development of entrepreneurship and SME sector. This situation is precisely because of the inadequate staff that does not possess the required capacity. Current government policies in the Republic of Macedonia considering the condition of the human resources predicts reforms so-called a new model for HR managing in the area of public administration. This model predicts 4 levels of career (level A, level B, level C and level D) and retains professional development and work assessment. The promotion is done so that the employee is evaluated every year. Usually the condition for promotion requires 3 years of work, but early promotion can be done after 2 years of work. If the grades were positive in the last two years, the employee can be promoted in the next level. The promotion is followed by higher salary for every level of career: level A (5%); level B (10%); level C (15%) and level D (20%).

In the moment this model is used only for promotion of public administration employees, but considering the fact it has on work motivation, our recommendation is to be used in other organizations, institutions and companies. Because institutions for entrepreneurial support include minimum number of employees, this model will have restricted use especially considering the vertical rotation of employee on hierarchy level, which in this case is impossible. As our research conducted in the center of the East region of the Republic of Macedonia, in the future these institutions need to improve their employee selection processes. This involves usage of stricter methods for employee selection that will guarantee a needed working capacity.

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