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Small Businesses - Between the Development Intensification and Their Problems

Vera Karadjova^{a*}, Snežana Dičevska^b, Pece Nikolovski^c, Goce Menkinoski^d,
Igor Zdravkoski^e

^a*Faculty of Tourism and Hospitality, Kej Makedonija 95, Ohrid 6000, Republic of Macedonia*

^b*Faculty of Tourism and Hospitality, Kej Makedonija 95, Ohrid 6000, Republic of Macedonia*

^c*Faculty of Economics, Marksova 133, Prilep 7500, Republic of Macedonia*

^d*Faculty of Economics, Marksova 133, Prilep 7500, Republic of Macedonia*

^e*Faculty of Economics, Marksova 133, Prilep 7500, Republic of Macedonia*

^a*Email: vera.karadjova@uklo.edu.mk*

Abstract

Small businesses operate in the same environment and the same dramatic changes as well as those for the large enterprises influence on them: the great global competition, rapid technological changes, unstable environment, the need to achieve more with less input, providing funds on the financial markets under the same conditions as for the large businesses, changes in the demographic structure of the population and labor force, etc. Smaller firms are even better in their effort to cope with changes in the environment because of the velocity and flexibility provided by small dimensions. However, many entrepreneurs at the same time are business owners and managers, they do not have enough knowledge and experience to maintain and develop the business, just intuitively know the management processes (from planning to control), do not know the financial indicators and because of that they intuitively and by hazard make financial decisions, they are focused on daily activities, so that they miss long-term activities and plans for continued growth of the company. At a time of dramatic changes in all spheres of life, small businesses also must focus on the future and the changes that it brings.

* Corresponding author.

The long-term perspective of small businesses gives greater guarantee for the company survival in terms of everyday, dramatic changes and creates wide prospects and opportunities for development of the national economy as a whole.

In this direction the paper will briefly elaborate the need for small businesses stimulation, their support and assistance, taking into account their strengths and their role as one of the factors which accelerate economic development. This is coupled with the issue of weaknesses and problems facing small businesses, as well as the relevance of the importance and the position of small businesses in every economic structure. The paper is summarized with the need for support and assistance of small businesses and with the advantages of small businesses that create opportunities for development.

Keywords: small businesses; development; SMEs; entrepreneurship; funding funds.

1. Introduction – Small Businesses and Entrepreneurship as Development Factors

The moment of initiative is generally closely associated with small businesses and entrepreneurship. The subject of this paper will be just one of the possibilities for utilizing the potentials of small businesses in direction of intensifying the development and resolve some of the crucial economic issues, including the issue of increasing employment. It is about encouraging entrepreneurship, entrepreneurial ideas and development of small businesses. Such a general tendency in developed market economies and having in mind the significant changes in the constitution and functioning of the economic systems of the former socialist countries that adopted the market model of the economy are now applicable to them also. In that sense, many who dream of their own business can use for the beginning some of the world's literature on the subject (How to Run a Small Business, Entrepreneurial Life, How to Go for It and Get it, Keeping the Family Business Healthy) etc. and to use their experiences or based on them to develop their idea and strategy for development of their own business, what is an even better idea. But it must be borne in mind that in developing their own small business numerous problems, weaknesses, mistakes and failures can happen. It is very strenuous and high-risk activity. Data from many developed countries show that two of three small businesses fail within the first five years of operation. Those who survive the initial period are faced with extremely strong challenges in further operations. Moreover in transition countries where the legislation and institutions were subject of many changes in a short period of time and still are subject to daily changes. All this created a very turbulent macro and micro environment in which entrepreneurs of these countries “swim”.

In economic theory and practice cannot be determined unique criteria that would define a small business and will determine whether an enterprise is large or small. They differ not only from one country to another, but also within the same national economy from one activity to another. In this sense, quantitative and qualitative criteria can be used. Quantitative determination usually concerns:

- the average number of employees;
- realized annual income; and
- estimated capital value.

Qualitative criteria according to which the enterprises vary from small to large cover a set of indicators among which: market share, management and ownership of the capital.

Unlike quantitative criteria that are not uniform in all or several countries, qualitative criteria are unique and determined that:

- small enterprise has small market share and can not affect the total supply and the price level; its business is not dominant in the area in which it operates;
- management is independent - its owner is a manager at the same time; he/she makes all business decisions; he/she plans, organizes, directs and controls all the operations in the small enterprise;
- the capital owner is an individual or small group that finances the company's operations.

Besides the above mentioned criteria that are features of a small business in the same time, several other aspects can be listed that make this business recognized [1]:

- small businesses are innovative. They constantly create new products and services, new materials, energy, new processes and new ideas. The processes of creating innovation enables these enterprises to have a high growth rate;
- small businesses "produce" jobs;
- small business is characterized by independence. Individuals who wish to work independently can enter their own business, on its own initiative gaining autonomy and the possibility of inventiveness;
- unlike large enterprises, small usually direct their activities towards the local market;
- small businesses increase competition;
- they are flexible and easily adapt their business to the changing conditions in the environment;
- small enterprises realize a direct relationship with employees and external stakeholders;
- small business has a social, economic and entrepreneurial perspective [2]. The social perspective is an expression of freedom and autonomy enjoyed by small enterprises. Simultaneously their products and services improve the quality of life. The economic perspective indicates the power of small business to increase competition and to contribute to the economic development of the country. Entrepreneurial perspective express the need of the owner to be an entrepreneur and to seek for new opportunities and solutions. He must believe in the slogan that small business is "a place where everything starts".

Entrepreneurship in its original forms in the literature is found in the context of liberal capitalism when in the economic structure of society prevail small companies - firms and the managing process was entrepreneurial. In such conditions the ownership of capital and the entrepreneur function were incorporated in one person.

The term entrepreneur is considered that was used for the first time by the French economist Richard Cantillon (1680-1734). Adam Smith (1723-1790) significantly equate ordinary capitalist with the entrepreneur, because it was consisted that his/her activity consisted of accumulating capital, organizing the process of production (or trade), hiring of labor force etc., and all that in terms of free competition that created a risk of losing the means of production and the capital. Jean Baptiste Say (1767-1832) is the first who distinguish the difference between

capitalist (i.e. the owner of the means of production) and the entrepreneur. Say believes that the function of the entrepreneur is to combine the factors of production, and distinguishes three factors of production and three types of income: wages, profit and rent. Wages are the reward for labor, profit for the capital and rent for land ownership. Furthermore in the profit distinguishes two parts: interest - which is a reward for capital and entrepreneurial income - bonded to labor, initiative and the risk of the entrepreneur. Thus the function of the entrepreneur is divided from the capitalist function, although in the time of Say it was still not a reality. John Steward Mill (1806-1873) first introduced the term entrepreneur between the English economists. In this, Mill profit interfered with interest and thought that is a reward for risk, for management and entrepreneurship, as well as an interest on capital invested. From the few mentioned authors of the classical economic thought arises that they only indirectly treated the problem of the separation of ownership from management. Specifically classical economists start from the existence of the individual-private ownership, relatively small-scale business units – firms, sacrosanct and free private initiative and free competition. It is mainly for medium-sized enterprises that typically were managed by the owner or owners. In the case of Karl Marx (1818-1873) there was a separation of ownership from the capital function, while he distinguishes "active, acting" capitalists associated with the entrepreneurial function and the "passive, money" capitalists associated with ownership feature. In this, the income of the first is gross profit, and after an interest is paid to the money capitalists from that gross profit, remain was called entrepreneurial profit.

Especially important place in the entrepreneurship theory has Joseph Alois Schumpeter (1883-1950) who is called the "father of entrepreneurship." His major work and theory which made him known is "Theory of Economic Development" in which he considers entrepreneurship as a major development factor. Differentiating the two conditions in the economy "economic circle movement" - which corresponds to simple reproduction and condition of growth and development he called "evolution" and corresponds to expanded reproduction, he believes that the only way to move from simple reproduction to evolution are innovations. Schumpeter lists five types of innovation (introduction of new products, new production methods, new markets, new sources of raw materials, a new organization of production) and central position to the realization of these innovations have one person - the entrepreneur. The bravest, the most energetic entrepreneurs through personal creativity and courage Schumpeter considered they realized Innovations (their implementation is regularly associated with the use of loans), thus providing dynamic development. Regardless of cyclicity in development-related to inflationary issues one side and to depressive states on the other hand, innovations provide a dynamic development that pushed society forward.

In today's modern market economies considerable attention is given to the entrepreneurship and it is associated with innovation and economic development. The main elements that characterize an entrepreneur are innovation, risk taking and independence in actions. That is why no one is exclusively and always an entrepreneur and one can be: the owner of the capital, the owner of a controlling stake in the share capital, managers and heads of major corporations, individuals or collective bodies. So, it is very clear that entrepreneurship is not exclusively a feature of small enterprises. In modern conditions it is applied by the management teams of large corporations, and meet terms like: corporate entrepreneurship, entrepreneurial management, entrepreneurial society etc. It almost amounts to applying an innovation that does not have to be just in the area of technology, but it might be to change the organizational structure, changes in marketing

strategies (differentiated pricing, differentiated products or services, distribution channels, promotion and propaganda etc.) explore the possibilities of providing additional financial funds - i.e. reproduction financing and so on. In simple, all innovations can be boil down to what still Alfred Marchall (1842-1924) was considered a major imperative of entrepreneur: the application of different ways of replacing or substitution of factors of production in order to replace the expensive factors with cheaper and thus to reduce production costs.

However this paper analyzes the position of small and medium-sized businesses in the economic structure and their implications on factors that dynamics development (in the same time taking into account the problems they face in their operations). The experiences of highly developed market economies show that it cannot be provided a stable and dynamic economic development without encouraging the presence of small and medium enterprises. Meanwhile, in the former socialist countries, including the Republic of Macedonia was present phenomenon of so-called "Socialist black void" that meant total absence of small and medium enterprises in the economic structure, pooling labor and consolidation of companies at any cost often for ideological reasons, the absence of a private initiative, the dominance of the state and social property - as all together almost completely destroyed the small businesses which create significant obstacles in the development of large enterprises. Pluralism in ownership starting in 1989 in Republic of Macedonia provides full liberalization for entry of private, individual capital and private initiative in almost all activities.

2. Methodology and Research Frame

The research encompasses the usual methods applied by the economics in the first line the methods of induction and deduction, which are particularly used to investigate the weaknesses and problems with which small businesses are faced. The paper also outlines the basic forms for helping small businesses to start business (primarily in the area of financing) and small businesses advantages that have to be used as an opportunity to increased economic development. Furthermore, the paper poses a comparative analysis of the participation of small businesses in the economies based on stylized facts obtained from desk-research and available data sources (Yearly Reports and Financial Reports). The data set covers the period long period (from '80 till nowadays), with a special emphasis on the last data available. Since the quantitative analyses do not always disentangle key facts necessary for pointing out concluding remarks regarding particular issues, analyses based on qualitative approach are additionally introduced. The idea is to evaluate the position, role and effects of the small business in terms of dynamic environment and to use their strengths as an opportunity to advance the development of the economies.

3. Weaknesses and Problems of Small Businesses

Adhesion of ownership and management function is the initial factor for a number of weaknesses and problems facing small businesses. According to numerous studies in developed countries 2 of 3 small businesses in average fail within the first five years of operation. Those who survive this period are facing strong challenges in subsequent operations. One of the differences that small business differs from a large is the organization of the management. In small companies there is a close connection of the ownership and management. Depending on their organizational form and structure in them, there may be one or more owners of a small enterprise. One

owner (at the same time a manager) exists in simple organizational structure, and there are multiple owners in a small enterprise which is based on the principle of partnership or corporation. But in any case the owner (owners) of the company are at the same time managers, they manage the business and make strategic and tactical decisions.

On the other hand their not strengthened market and financial position are also a source of problems in their operations. The nature of their placement means a tough fight with the competition (especially with large and powerful companies), and on the other hand often unprofessional management is not able to conceive solid policies for market survival. The management of small businesses is a complex and responsible work, and the impossibility of its operationalization leads to numerous bankruptcies and failures of small businesses. The weaknesses of small businesses primarily manifested through the lack of professional knowledge and experience of those who manage them (and which are not managers in the classic sense of the word), lack of time to master complex tasks, the public perceive them as enterprises that still should prove themselves to gain social reputation, lack of managerial skills, absence to strategic planning (mostly used informal planning), lack of effective marketing and so on.

Weaknesses and problems of small businesses typically stem from personal and professional characteristics of their owners - managers. In order to be a successful manager, the owner must have appropriate personal characteristics and abilities. It can be specified a number of characteristics that the manager of a small business should have, but according to the management literature seven highlights may be mentioned [3]:

- Managers of small enterprises have highly developed sense of independence in decision making and external control;
- They have a strong sense of enterprise that allows them to use their ideas, abilities, ambitions, aspirations, initiatives and inventiveness;
- Managers are motivated to work not only for profit, but their motives arising from personal and family reasons;
- Entering into small business is based more on chances than on planning typically for professional managers;
- Owners can perform all management activities outside the enterprise, so highly value their own time;
- Managers of small enterprises have limited formal education, and thus have further educate themselves by reading books and visiting the appropriate courses;
- They expect quick and concrete results from invested capital and time. Take risks and expect a quick turnover of the relatively small amount of funds invested.

To be successful, despite these characteristics, managers should possess technical knowledge, conceptual ability, the ability to communicate as necessary leadership abilities also.

Taking into account the aforementioned required characteristics of the management, the weaknesses of small businesses that threaten their operations and survival can be ranked according to various criteria, but as the most dominant will mention the following:

- **Lack of professional management skills and knowledge;** Mostly roles of the company founder, owner and manager are incorporated in one person who retains the principle of unity of command. Manager-founder of the small enterprise does not want to delegate his authority and responsibility of the other employees and performs management activities by himself, without having sufficient knowledge and experience for them. Also the lack of technical capabilities that the manager need to possess to be able to start a new business, but also to maintain and develop the already begun business are weaknesses of small businesses;
- **A great effort and long working hours;** Enthusiasm connected to commenced business can last longer or shorter, but not indefinitely. New managers need to learn that the point is to be a winner in the long run. Owners of small businesses spend long hours at work. This is due to the fact that the owners want to do all things by themselves. More than 3/4 of the new owners spend more than 50 hours a week at work. It's good to be the manager to yourself and profits serve as a salary, but he/she has to work very hard. Such an effort exhausts and quickly spends capacity and reduces the effectiveness of the work that jeopardizes the business.
- **Lack of appropriate specialization;** Mostly small business owner has a good idea and a kind of specialization (or no adequate specialization for business that starts). He/she is learning ongoing, which takes a lot of time, yet is far away from the effectiveness of specialists of any kind (technology, economics, accounting, finance, law, etc.). He is currently oriented towards everyday problems and at the same time he/she is not able to hire specialists and use their knowledge or he/she finds that is needless expense. Small businesses are mostly labor-intensive as further more actualize this weakness of the small businesses;
- **Lack of capital;** One of the main problems of small businesses is lack of own capital. A lack of own capital is forcing small business owners to borrow or to streamline to external sources of financing. Borrowing requires very serious financial knowledge (banking, stock exchanges, securities, movement of prices on the financial markets, etc.), that small businesses owners usually do not have. Therefore, they often make decisions that are based on intuition, not on knowledge in finance.
- **Risk management and the necessary quantum of knowledge of its principles;** It is very common a lack of knowledge about the principles of risk management (financial risks, operational risks, credit risk, interest rate risk, currency risk, risks of the basic economic principles, etc.). It may be a potential risk of loss of invested funds (own or borrowed).
- **Lack of sufficient knowledge of investment management;** Owners of small businesses often do not have sufficient knowledge of the principles of investment management, measuring the effectiveness of the investments, period of return on investment (ROI), etc., and misallocation of earned income (for personal consumption rather than for reinvestment).
- **Difficulties in building marketing strategy;** Small businesses have insufficient knowledge of the

market and the need for the products and services the company offers. In modern consumer society a key segment for market success is creating a successful marketing strategy. In addition it requires creativity and innovation (which is not supposed to represent unattainable obstacle for small businesses), the realization of the marketing strategy is associated with financial assets which is almost always a missing link in new small businesses. Without an effective marketing strategy, small businesses remain with a weak market share, which in turn is a condition for the survival of the business.

- **Low market share;** This characteristic of small businesses directly derived from the previous, while rising market share and appropriate positioning in a competitive market is a requirement for survival.

In overcoming the above mentioned and other similar weaknesses, small businesses are directed to use professional help for professional issues pertaining to business activities.

4. Participation of Small Businesses in Economies - Conditions and Clues

The criteria for classification of enterprises in small, medium or large differ not only from country to country but in the same national economy usually by the type of activity concerned. The most commonly used criteria are: the number of employees, the amount of annual revenue, the estimated equity value etc.

European legislation defined SMEs as businesses which employ less than 250 staff and have an annual turnover of less than EUR 50 million, and/or their balance or their balance sheet total is less than EUR 43 million. They comprise three categories of enterprises, namely micro, small, and medium-sized enterprises. The size-class definition is based on the definitions used in the Structural Business Statistics (SBS) database maintained by Eurostat, and the definition is solely based on the number of people employed.

Table 1: EU definition of SMEs

	Employees	Turnover	Balance sheet total
		or	
Micro SME	< 10	< €2 million	< €2 million
Small SME	< 50	< €10 million	< €10 million
Medium – Medium –sized SME	<250	< €50 million	< €43 million

Source: Commission Recommendation of 6 May 2003 concerning the definition of micro, small, and medium-sized enterprises. (2003/361/EC), Official Journal of the European Union, L 124/36, 20 May 2003 [4]

In any case the participation of small businesses in developed market economies is an important factor of growth and development and an essential element of the overall economic structure. Just as comparative data in the context of the data that follows may be stated that in the industries of the Western European countries about 25 years ago 60-80% of the total number of enterprises belonging to the group of small and medium enterprises. Japan's small firms participated with 60-65% of total employment and nearly 50% in the creation of the GDP of

the country [5]. According to some estimates small businesses in the US have created two out of every three jobs and contribute for more than half of the total sales of goods and services. Another interesting survey indicates that about 20 million Americans earned their living as "solo professionals" working independently or providing services for other companies [6, 7]. One estimate of the creation of new jobs (in the US) shows that from 1986 to 1990 large firms created almost no new jobs, while the smallest businesses (those with fewer than 20 employees) created increasing of new jobs for 170%. Small businesses in the US, including farming represented 58% of total employment and directly or indirectly provide funds for living for more than 100 million Americans [8]. The jobs created by small businesses give the economy an economic vitality that would want to have every national economy.

SMEs in 2008 in EU27 have dominance of approximately 98% of the total number of enterprises in a country, regardless the level of its economic development. Among the SMEs, it is noticeable the share of the micro-firms (up to 10 employees), as well as the share of the small firms (between 10-50 employees). On the other hand, the share of the medium-sized enterprises (between 50-150 employees) and the big companies (over 250 employees) is by far lower. In this respect, the SMEs participate even with 99.8% of total number of enterprises active in the non-financial sector in the EU-27 countries, while the micro-firms participate with 91.8% (Eurostat, 2008). Moreover, the SMEs contribute to the job-creation within the business, particularly in the non-financial sector by creating 67% of total employment in the EU27 countries and with 58% in the creation of the value added.

The 2014/2015 annual report on European SMEs presents good news: after years of downsizing, European SMEs are expanding, and have started hiring again. The annual report on European SMEs for 2014, shows that the financial situation for small and medium enterprises is on the mend and that they have started hiring again. The turnaround comes after years of downsizing, lasting up until 2013, when European SMEs were still shedding 0.5% of their workforce. In 2014, SMEs have accounted for the lion's share of new jobs created in the non-financial business sector, with 71.4% [9].

The annual report, prepared on a yearly basis, provides a synopsis of the size, structure and importance of SMEs to the European economy and an overview of the past and forecasted performance of SMEs from 2008 to 2016 [10]. The SME revival is largely a result of improved macro-economic and business conditions. However, employment still needs to increase in order to achieve a full recovery from the crisis. While the number of SMEs in 2014 is almost 2.5% higher than in 2008, the level of SME employment is, despite the recent surge, still 1.3% below the 2008 level. Across EU countries the report shows 3 levels of development [9]:

- Austria, Belgium, Germany, France, Luxembourg, Malta, Sweden and UK have in 2014 surpassed their SME employment and value added levels of 2008.
- Estonia, Finland, Lithuania and the Netherlands have had a positive growth rate in value added, but are still below 2008 employment levels.
- Bulgaria, Czech Republic, Croatia, Cyprus, Denmark, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovenia and Spain have still not reached 2008 levels in employment and value added.

The positive developments for European SMEs are expected to gain momentum in 2015 and 2016 with an annual growth of 3.3% (2015) and 3.7% (2016) in value added. Employment should also rise by 0.8% and 0.9%, creating around 1.5 million new jobs in 2016. By then, SMEs are also expected to have overcome the crisis in terms of employment.

The SBA fact sheets present an assessment of the progress in the implementation of the Small Business Act at national level. They focus on key performance indicators and national policy developments related to the SBA's 10 policy dimensions in the 28 EU countries, Albania, the former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia, Turkey and Moldova. Later in this text are present some data for former Yugoslav Republic of Macedonia.

2014 was the first year of positive employment growth in European SMEs since the financial crisis. In 2014, 22.3 million SMEs were active in the non-financial business sector across the EU28. The non-financial business sector consists of all sectors of the economies of the EU28 or Member States, except for financial services, government services, education, health, arts and culture, agriculture, forestry, and fishing. SMEs account for 99.8% of all enterprises in this sector [11]. In 2014, SMEs in the non-financial business sector generated more than EUR 3.7 trillion of value added (58% of the sector's total value added), and employed almost 90 million people (67% of the sector's total employment).

Table 2: SMEs and large enterprises: number of enterprises, employment, and value added in the EU28 in 2014

	Micro	Small	Medium	SMEs	Large	Total
Enterprises (Number)	20,710,324	1,373,365	224,811	22,308,500	43,766	22,352,260
%	92.7%	6.1%	1.0%	99.8%	0.2%	100%
Persons Employed (Number)	39,274,088	27,452,716	23,257,412	89,984,216	44,438,724	134,422,944
%	29.2%	20.4%	17.3%	66.9%	33.1%	100%
Value Added (EUR billion)	1,358	1,169	1,188	3,715	2,710	6,425
%	21.1%	18.2%	18.5%	57.8%	42.2%	100%

Source: Eurostat, National Statistical Offices, and DIW Econ

The importance and significance of small businesses to the intensification of development (through the indicators of employment, annual turnover and value added) can be also validated using the data relating to the US economy. According to US Census Bureau data, there were 5.68 million employer firms in the United States in 2011. Firms with fewer than 500 workers accounted for 99.7 percent of those businesses, and businesses with less than 20 workers made up 89.8 percent. Add in the number of non employer firms - there were 22.7 million in 2012 – and the share of US businesses with less than 500 workers increases to 99.9 percent, and firms with less than 20 workers increases to 98 percent. Among employer C Corporations in 2011, 99.2 percent had less than 500 workers, and 86.4 percent had fewer than 20 employees [12].

Table 3: Number of SMEs, Number of people employed and value added in different countries

Key figures – 2014	Number of SMEs (% of total number of enterprises)	Number of people employed (% of total number in enterprises)	Value added (% of total value added by enterprises)
EU average	99.8	66.9	57.8
Czech Republic	99.9	69.6	55.5
Slovakia	99.9	70.7	61.2
Greece	99.9	86.9	74.8
Spain	99.9	73.3	62.8
Portugal	99.9	78.8	67
Italy	99.9	79.6	67.3
Hungary	99.8	69.8	53.6
Slovenia	99.8	72.7	63.1
Sweden	99.8	65.7	59.2
Bulgaria	99.8	76.1	62
Cyprus	99.8	82.7	72.8
France	99.8	63.9	57.9
Poland	99.8	67.8	50.5
Netherlands	99.8	66.5	63
Malta	99.8	81.6	77
Belgium	99.8	69.8	62.3
Lithuania	99.8	76.7	68.5
Latvia	99.8	78.6	68.8
Ireland	99.7	70.9	46.7
Austria	99.7	68.1	60.6
Croatia	99.7	67.4	55.2
Finland	99.7	63.7	59.6
Estonia	99.7	78	75.6
Denmark	99.7	65	61.7
United Kingdom	99.7	53.7	54
Romania	99.6	67.2	49.6
Luxembourg	99.5	67.7	67.6
Germany	99.5	62.7	53.1
FYR Macedonia	99.9	76	67

According to the SBA's Office of Advocacy: "Small firms accounted for 63 percent of the net new jobs created between 1993 and mid-2013 (or 14.3 million of the 22.9 million net new jobs). Since the end of the recession (from mid-2009 to mid-2013), small firms accounted for 60 percent of the net new jobs. Small firms in the 20-

499 employee category led job creation” [12].

The SME Performance Review is one of the main tools used by the European Commission to monitor and assess countries’ progress in implementing the Small Business Act (SBA) on a yearly basis. The review provides extensive information on the implementation of the measures from the SBA Action Plan, and on the performance of SMEs in EU Member States and 7 partner countries (Albania, the Former Yugoslav Republic of Macedonia, Iceland, Moldova, Montenegro, Serbia, and Turkey). The latest data are presented in the table below.

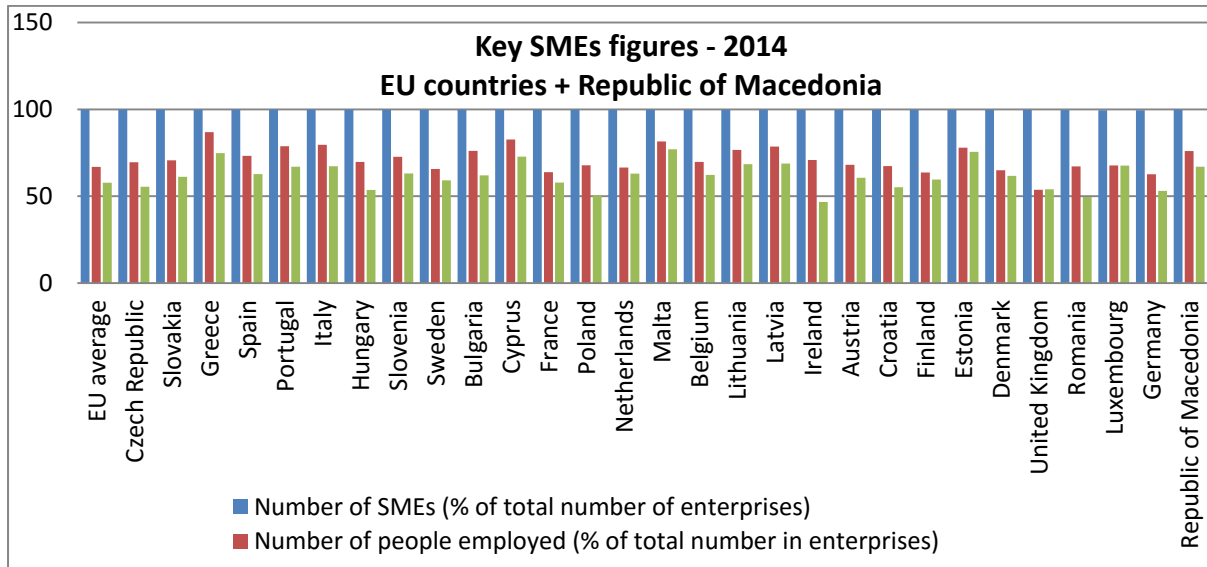


Figure 1: Key SMEs figures – 2014, EU Member States + FYR Macedonia

From the data presented is evident that the share of small (and medium) businesses in the total number of enterprises is over 99% in all countries of the euro zone. The number of employees in this category of enterprises ranging from 53.7 (United Kingdom) to 86.9 (Greece), i.e. the average for the euro area is 66.9%. In any case, the number of employees in small businesses should not be neglected in all economies (developed and less developed), which is another confirmation of the importance of sustainability of this type of businesses. Employment should also rise by 0.8% and 0.9%, creating around 1.5 million new jobs in 2016 [13]. The positive developments for EU28 SMEs are expected to gain momentum in 2015 and 2016, with annual growth of, respectively, 3.3% and 3.7% expected for EU28 SME value added, 0.8% and 0.9% for SME employment, and 0.5% and 0.7% for the number of SME enterprises [11].

SMEs in the Republic of Macedonia provide over 76% of all jobs (as compared to about 67% in average in the EU) and generate nearly 67% of value added (as compared to roughly 58% in the EU). However, their productivity is 80% below the EU average. In the period from 2008 till 2013, SME employment increased by 14%. SME value added also increased significantly, by 9%. Real GDP is expected to grow by about 7% between 2014 and 2016. Thus, further growth of SME employment and value added can be expected [10].

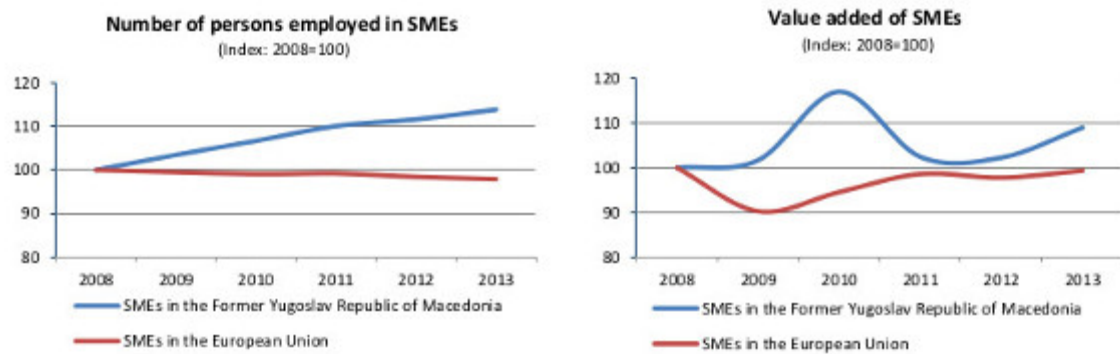


Figure 2: Employment and value added of SMEs in Macedonia [10]

The next review is a comparative overview of the small (and medium business) in the EU28 countries, partner countries, USA, Japan and the BRIC (Brazil, Russia, India and China) in the last year for which data are available.

Table 4: Overview of SMEs in EU28, partner countries, USA, Japan, and BRIC (latest year with data) [11]

	Number of SMEs		Employment of SMEs		Value Added	
	millions	% of total non financial economy	millions	% of total non financial economy	EUR billion	% of total non financial economy
EU28	22.31	99.8%	89.98	66.9%	3,715	57.8%
Iceland	0.02	99.6%	0.08	71.7%	4.0	68.2%
FYR of Macedonia	0.05	99.8%	0.26	76.6%	2.2	66.6%
Serbia*	0.28	99.8%	1.01	70.9%	7.9	54.2%
Turkey	2.43	99.8%	8.88	75.5%	86	53.9%
Albania	0.08	99.9%	0.26	81.0%	1.9	67.7%
Moldova	0.04	97.6%	0.23	58.6%	1.4	47.1%
USA*	18.82	99.8%	50.00	52.4%	3,781	44.4%
Japan	3.92	99.5%	33.24	86.6%	475	55.0%
Brazil	4.27	99.7%	23.97	64.3%	/	/
Russia**	1.84	/	11.85	/	879	/
India***	23.92	/	57.28	/	/	/
China****	0.29	82.0%	/	/	/	/

Note: ‘/’ -= data not available. Latest available year for EU28 is 2014; for Iceland, the former Yugoslav Republic of Macedonia, Albania, and China is 2013; for Serbia, Turkey, Moldova, USA, Japan, Brazil, Russia and India is 2012. * SMEs in Serbia and the USA include sole proprietors; ** Turnover is used instead of Value Added for Russia; *** Sectors B, C, H, J, M, and N do not account for all NACE rev.2 sectors for India; **** SMEs in China include enterprises with 20-300 employees. Total SME data for China is based only on the

available NACE sectors - B (Mining and quarrying), C (Manufacturing), and D (Electricity, gas, steam, and air condition supply).

Source: Eurostat, National Statistical Offices, and DIW Econ

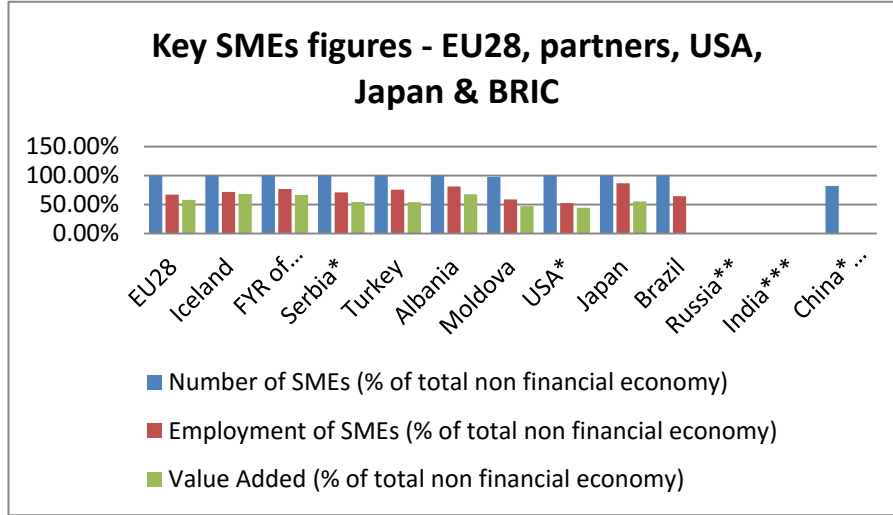


Figure 3: Key SMEs figures – 2015, EU Member Countries, partner countries, USA, Japan, and BRIC

Data presented are from the Annual report of the European SMEs in November 2015. Based on them it can be concluded that except in China where the number of SMEs as a percentage of total non-financial economy is 82.0%, in all other countries the share of small and medium enterprises is over 99%. The percentage of employed in the total non-financial economy ranges from 52.4% in the USA (which includes sole proprietors) to 86.6 in Japan.

5. Supporting Small Businesses to Start Working and the Advantages of Small Business

Following the example of developed market economies, less developed countries make attempts to support and help small businesses. Small businesses are important for any economy in any country for the opening of new jobs, recruitment of adequate capital, increasing competition, better meeting the needs of consumers and so on. As the most important advantages of small businesses can be listed: (1) flexibility of small companies, i.e. they relatively easily and quickly adjust to changes in the environment; (2) the immediacy of the small enterprises, i.e. they establish direct contacts with customers, suppliers and employees; (3) efficiency in decision-making in small businesses, having in mind the fact that they usually have only one level of management; (4) able to easily start working; (5) ease of management structure and easy and simple establishment of direct communications between the owner - manager and the staff; (6) the founders work for themselves; etc.

In the case of small businesses it comes to small companies which are supposed to contain entrepreneurial characteristics and that there is a significant convergence and even merging of the functions of ownership and manager-entrepreneur. Dynamic environment, competition and ownership of capital invested forces such owners for entrepreneurial behave, to seek new opportunities and bring new initiatives and at the same time

seeking modules for survival in the fierce competition in which also participate medium and significantly higher companies from them. In conditions of globalization of world markets small businesses and SMEs operate on the same markets with large and powerful, even with multinational companies. In such an environment small businesses would use their own advantages, and at the same time would be required forms not to eliminate, but to reduce competition through various forms and ways of handling and thus on that way some forms of connection to large companies. In this tendency small businesses occupy a significant place in the structure of the economy of all market economies and through entrepreneurship and innovation as their characteristics they are a factor for "evolution" as Schumpeter called the economic development.

In countries with lower levels of economic development attempts are made to support and help small businesses. One of the basic problems facing small businesses is the lack of funds and the need for financial assistance. Exactly in this direction is the basic support of small businesses. In a range of opportunities for financial support to small businesses, some authors pay attention to the importance of the informal financing sources, particularly in the early phases of their business development. According to [14], there were approximately 800,000 small businesses in the USA in the middle of the 80s, seeking for 25,000 US\$ for an individual start-up, or approximately 20 billion US\$ in total. In such a case out of those 800,000 newly established enterprises, 300,000 continues rapidly to develop, it provokes the need for 25,000 US\$ each, so the total amount for financing the SMEs is estimated around 27-28 billion US\$ per year. 80% of the total amount (around 22 billion US\$) derives from the informal sources of financing [14]. In this line, one may note the findings from another interesting research in which on the sample of 500 the fastest growing businesses in the USA, almost 70% refers that the start-up financing comes from the founders' savings, 20% is from relatives and friends, while only 8% is bank loans [15]. The role of the informal sources of financing of the SMEs in the developing countries where the financial markets are still undeveloped is substantial. This addresses the transition countries as Macedonia as well. Moreover, in the early stage of the transition period in Macedonia, the informal sources of financing of the SMEs (3F money) were dominant over the formal sources i.e. bank loans. That was the time when due to high interest rates, the SMEs actually did not have any access to finance [16]. Furthermore, one may note the importance of sources of equity and debt capital for SMEs. Baron and Shane [17] as well as Filipovski [15] point out the following sources of equity financing: Personal savings by the entrepreneur; Sources from family and friends; Sources from the business partners; and Risk capital.

In the frames of the European economy there are two main sources of EU funding for small business: (1) *funding for investment* through the European Investment Bank Group and (2) *funding for innovation* through the European Commission. The European Investment Bank Group is made up of the European Investment Bank (EIB) and the European Investment Fund (EIF).

There are many programmes for SMEs funding as [18]:

- COSME Programme:
 - * Guarantees to small and medium-sized enterprises for loans mainly up to EUR 150 000.
 - * Equity (growth and expansion stage).

- InnovFin Programme (Horizon 2020):
 - * Loans and guarantees to innovative businesses.
 - * Financing of research & development projects.
 - * Equity (early and start-up phase).

In the frames of this programme the SME instrument offers funding and coaching support to innovative SMEs (Phase 1: Concept & Feasibility, Phase 2: Demonstration, Market Replication and R&D, Phase 3: Commercialisation).

- Creative Europe:
 - * Loans to small and medium-sized enterprises in the cultural and creative sectors.
- Programme for Employment and Social Innovation (EaSI):
 - * Microloans up to EUR 25,000 to micro-enterprises and to vulnerable persons who wish to set up or develop a micro-company.
 - * Investments up to EUR 500,000 to social enterprises.
- European Structural and Investment Funds (ESI funds):
 - * Loans, guarantees, equity financing or business grants.

Support is provided from multi-annual programmes co-financed by the EU.

- European Investment Bank and European Investment Fund:
 - * Business loans, microfinance, guarantees and venture capital.
- Private Finance for Energy Efficiency (PF4EE):
 - * Offers funding, risk sharing and technical support to commercial banks to increase financing to Energy Efficiency investments.
- Natural Capital Financing Facility (NCF):
 - * Loans and investments in funds to support projects which promote the conservation of natural capital, including adaptation to climate change.

There are a number of EU programmes which provide funding to small businesses that support research and innovation. The four main programmes are:

- The Seventh Framework Programme (FP7):
 - * FP7 provides funding for research aimed at strengthening the scientific and technological base of industries in Europe.
- The Competitiveness and Innovation Framework Programme (CIP):
 - * This programme supports innovation activities and provides better access to finance. The SME Guarantee Facility benefits small businesses because it reduces the lender's risk and incentivises them to lend to businesses that might not normally be approved for credit. The EIF's credit insurance facility allows the Fund to take up to 50% of the credit risk on every individual loan.
- EUREKA's Eurostars Programme:
 - * This programme provides funding for small businesses that undertake research and development programmes.
- European Cooperation in Science and Technology (COST):
 - * This programme does not provide funding but allows for collaboration between European countries on nationally-funded research.

These and other similar funds emphasize the understood importance and advantages of small businesses and their role and importance in the process of development intensification.

6. Concluding Remarks

The analysis of small businesses in each case shows the necessity of their existence in any economy, regardless of the level of economic development. Also the data show a significant share of the number of employees in small businesses in the total number of employed in the economy, again regardless of whether it is developed or less developed economy. According to official data, 92.7 percent of European businesses are micro enterprises. In November 2015, Eurostat published a report on European enterprises to highlight the importance of micro and small businesses for the European economy and employment. The data was published in the context of the SME Week that took place between 16 and 22 November. In many Member States, especially in the Southern European countries, micro enterprises employ the largest share of employees. However, at the European level, large enterprises are the biggest employer, followed by micro and small businesses. The data also show a dominant participation of small businesses in the service sector of the economy.

Taking into account the foregoing findings, there is an inevitable need for support and assistance to small businesses with all available measures and instruments of economic policy. Support is particularly needed in the area of financing, taking into account the lack of funds for the realization of an idea, and difficult access of small businesses to financial markets. Financing SMEs is among the most important issues and problems they

are faced with during different phases of their life cycle. In this line, the commercial banks are by far the dominant source of financing, by participating even with 70% in the EU countries. On the other hand, the countries with developed financial system have much more diversified resource structure, unlike the transition countries and countries in development. Namely, the developed countries have a large portion of financing by the risk capital (business-angels and official venture funds), while within the debt capital the leasing and factoring have increasing importance. Completely opposite is the situation within transition countries and countries in development where the noted financing sources have modest participation. On 30 September 2015, one EU Commissioner launched the Action Plan on Building a Capital Markets Union. The five key objectives over the next three years are: (1) Provide better access to finance for start-ups and non-listed companies, (2) stimulate long term infrastructure financing, (3) promote retail and institutional investment, (4) leverage banking capacity through securitization, and (5) remove barriers to cross border investment [19]. This initiative once again confirms the thesis about the importance of financial support for existing small businesses and start-ups initiatives.

Having in mind the moment that many small businesses fail in the first few years of their existence, requires also some other forms of assistance (technical, administrative, advisory, eventually some forms of tax incentives or exemptions, eased credit terms, support for import and export etc.). Support for small and medium sized businesses can be realized also by legal consulting, financial consulting, accounting, marketing and design, design research bureau etc. Thus could be overcome some of the weaknesses and problems of small businesses and to exploit their advantages in the interest of accelerating the development of the economy as a whole.

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