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Original scientific paper

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COMPARATIVE ANALYSES OF THE INFLUENCE OF SMALL AND MEDIUM ENTERPRISES TO THE ECONOMY

Abstract

Several decades backwards small and medium enterprises have been in the focus of the attention of the world economy.

The examinations of the modern economic science and the world experiences undoubtedly confirm that there is no stable and qualitative economic development without more significant presence of the small and medium enterprises (SME) in the economic structure of each country.

Beside that they represent an important segment of the economic structure of all developed countries and they also represent one of the key factors of pre-structure in the countries which are in transition.

The subject of this paper is the influence of SME on the development of the economy together with comparative statistic display of their condition in R. Macedonia and Europe. **The aim** of this paper based on the presented and analyzed foreign experiences, which refer to the influence of SME on the economy, is to give evaluation on the place and role of SME on the economy of R. Macedonia.

At the same time in order to achieve the aim of the research, **the methods** of synthesis of systematic analyses, comparison, as well as combination of qualitative and quantitative analyses of the results have been used.

Key words: *small, medium, enterprises, growth of gross domestic product, employment*

JEL classification: O12

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Introduction

Each developed economy is inevitably influenced by small and medium enterprises, companies and their working support, general economic growth of the country which are stimulated to improve and promote their business in many ways.

Small and medium enterprises have multiple advantages. They are becoming one of the most prosperous aims of national policies for economic development in the world. This is achieved through numerous economic features, especially in the area of creation of new posts, they have great contribution in the increase of employment, i.e. contribute to the use of knowledge, skills and entrepreneurial abilities of thousands of people, but also contribute to stronger competition on the market.

The history of the small and medium enterprises is very long and their development was marked by the increase in economic growth. The largest growth SME had was at the beginning of the 1970s.

The importance of the development of SME for the development of R. Macedonia is immense, considering the long term tradition in the development of the private sector in the field of craftwork, which represents challenge for our research. The motive stems from the necessary steps which are to be taken in order to enable emerging precise national economic policy for the development of small and medium enterprises as part of the overall long-term strategy for economic development of Macedonia in the future.

1. Qualification of the characteristics of SME

In the definition of the term small company different views have appeared conditioned by the necessities and tasks of macroeconomic policy. The classification of micro, small, medium and large enterprises is made on the basis of larger number of criteria¹; employment, financial result, value of the assets, turnover etc. Difficulties in the definition and classification mostly appear due to the fact that the sole objective or statistic measure does not correspond to the aim.

¹ Shuklev, B. (2001), "*Management of small business. Skopje: Faculty of Economics*", p.57

In the definition by EU, the basic criterion is the number of employees, however, the most corresponding definition SME can be seen in comparative terms, as shown in the following table:

Table 1: Qualification of enterprises

	EU Definition of enterprises	Law on Commercial Enterprises (2004)	Accounting Law (1992), last amended in 2002
In the first year of working it is necessary to satisfy two of the following criteria			
Micro	to 10 employees	t 10 employees	
	Annual turnover ^{IA} 2 million Euros	Annual turnover < 50,000 uros	
	Value of the assets ^{IA} 2 million Euros	maximum 80% of the gross income to be earned by one client	
Small	to 50 employees	to 50 employees	to 50 employees
	Annual turnover ^{IA} 10 million Euros	Total turnover < 2 million Euros	Annual turnover < 8,000 MKD average monthly salaries per worker
	Value of the balance of state ^{IA} 10 million Euros	Value of the assets < 2 million Euros	Value of the assets < 6,000 MKD average monthly gross salaries per worker
Medium	to 250 employees	to 250 employees	to 250 employees
	Annual turnover ^{IA} 50 million Euros	Annual turnover < 10 million Euros	Annual income < 40,000 MKD average monthly salaries per worker
	Value of the balance of state ^{IA} 43 million Euros	Value of the assets < 11 million Euros	Value of the assets < 30,000 MKD average monthly salaries per worker

Source: Agency for Entrepreneurship Support of RM, report for MPS Skopje, 2004:24

The previous table represents how the European Union classifies enterprises, and what classification of enterprises is given in Macedonia's legislation. We can conclude that the classification of the companies in the Law on Commercial Companies was made pursuant to the definition used by EU and regarding the number of employees, the same classification has been adopted. But, regarding the overall turnover and values of the balance of state, that is not the case. Just several enterprises in RM can correspondingly merge within European classification. In order to solve this problem, the authorities accepted the values of EU with reduced ratios of 1/4 or 1/5 for the turnover and the balance of state.

Consequently, a small company in R. Macedonia is considered to be an economic subject which in each of the last two years has fulfilled at least two of the following three criteria:

- Average number of employees on basis of working hours up to 50
- Annual income lower than 8,000 MKD average gross salaries per worker in the RM economy
- Average value of the assets lower than 6,000 MKD average monthly gross salaries in the economy of RM

All other enterprises are considered as large.

2. Small and medium enterprises in the economy of the European Union

In order to show the importance of small and medium enterprises in the EU economy, the simplest way is to illustrate the representatives and the contribution that they make to the common milestones for economic wellbeing such as employment and the incomes.

The largest number of enterprises which have been registered on the territory of the European Union are small and medium enterprises. As much as 99,8% of the enterprises are SMEs. 92,8% of SMEs are the smallest ones, so called micro enterprises, which have up to ten employees²; 6,7% are small and 1,1% are medium enterprises. In Table 2, the number of micro SMEs in EU³ is shown. The statistic data received by Eurostat present reduction of the number of micro SMEs in

² Ožegovi , L. Pavlovi , N. (2012), "Menadžment malih i srednjih preduze a nosilac razvoja privrede", Škola biznisa, p.77

³ Eurobarometer Team of the European Commission, *Observatory of European SMEs, Flash Eurobarometer*, No. 196, Budapest: European Comission, 2007:7

2013, which is primarily due to the economic crises of 2009, whose consequences are felt even today.

Table 2: Number of small and medium enterprises (in millions) for 2000, 2008 and 2013

	2000 (U-19)	2008 (U-27)	2013 (U-27)
icro	19	19.3	18.8
Small	1.2	1.4	1.3
Medium	0.16	0.2	0.2
SME (total)	20	21	20.3
Large	0.0	0.0	0.04

Source: Eurostat, National Statistical Offices DIW DIW econ, London Economic (<http://epp.eurostat.ec.europa> checked on 2503.2014)

In 2012 in EU 27% out of 130.601.730 employees WERE employed, out of which 66,5% employed in SMEs (table 3).

Table 3: Number of employed in EU -27 for 2012

icro	Small	Medium	SME	Large	Total
37,494,458	26,704,352	22,615,906	96,814,717	43,787,013	130,601,730
28.7%	20.5%	17.3%	66.5%	33.5%	100%

Source: Eurostat, National Statistical Offices, DIW, DIW econ, London Economics (<http://epp.eurostat.ec.europa.eu> checked on 25.02.2014)

In EU industry, 2,130,000 people have been employed - 1,701,570 in micro and small enterprises, i.e. in the class from 0-9 and 10-19 employees. The number of employees in SMEs in the industry in the class from 50-250 employees is 72,000 people⁴.

Referring to the capital turnover, the majority is generated by commercial SMEs – in 2012, the average annual turnover was 2,658,000 Euros, followed by the industrial SMEs from 2,070,000 Euros. The average number of SME employees in the Union was 7,1 which is the biggest number in the industrial sector.

⁴ <http://appsso.eurostat.ec.europa.eu/nui/setupModifyTableLayout.do>

Table 4: The economic power of SME in the European Union 2012

Section	Average annual turnover (000) Euros	Average number of employees	Average annual turnover per employee in (000) Euros
Industry	2070	10	166
Commerce	2658	6	405
Real estate and consulting	1163	6	180
Total	5891	7,1	749

Source: <http://appsso.eurostat.ec.europa.eu/nui/setupModifyTableLayout.do>

From Table 4, it can be concluded that the largest number of SMEs are from the commercial sector, and they produce an average annual turnover of 2,658,000 Euros, then followed by the industrial SMEs with 2,070,000 Euros turnover in 2012. The production sector of the EU industry had a total of 2,070,500 SMEs involved out of a total of 2,130,000 companies⁵. Expressed in percentages, 97.2% of the total number of companies are SMEs.

Existence of larger number of SME is of special importance for the economy of each country from a reason that they support the innovations, support and increase, the competition, offer possibilities for new employment which represent significant factor of fortune.66% of the total number of employees in the European Union work in small and medium enterprises, presented in table 5

Table 5: Total number of employees in SMEs in EU

Year	Total number of employees (million)	
	Total	SME
2008	135,8	90,6
2012	130,6	96,8

Source:

http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-ET-11-001/EN/KS-ET-11-001-EN.PDF

⁵ <http://appsso.eurostat.ec.europa.eu/nui/setupModifyTableLayout.do>

From the table it can be seen that in 2008 in the EU there were a total of 135.8 million employees, out of whom 90.6 million employed in SMEs. 39.3 million (24%) are employed in micro enterprises, 27.9 million (20.5%) in small enterprises and 23.4 million (17.2%) in medium enterprises. Regarding 2012, beside the fact that the overall number of employees in EU significantly decreased, the number of employees in SMEs increased, so that 66.5% of the employees in EU work in SMEs. As for the 65% of the turnover of the capital, it goes to SMEs, a fact which obliges to serious analyses, discussions, observations and creation of adequate policies of long-term development support in this significant part of the economic structure.⁶

3. Small and medium enterprises in the economy of R. Macedonia

Opposite to the era of industrialization (in regard of the previous social system in Macedonia as part of the former Yugoslavia), where the most crucial question was the development of industrial activities in the era of post-industrialism (computer society), one of the most actual questions is the development of small and medium enterprises. Factors which primarily determine the development of small and medium enterprises are development of Information Technology, other technologies (telecommunications, transport means, bio-engineering and genetic engineering) as well as globalization of world economy, which implies new modern forms of business working, new knowledge application, new technology and business cooperation in the interest of supplying competitive production and services on the global market of goods and services.⁷

Strategy for development in our conditions are based on the determination for micro, small and medium enterprises to become the propulsion force of the future economic development, filling the existing vacuum created by the total collapse of large enterprises. The continuous strengthening of the SME sector after 2000 is a result of improvement of general conditions for entrepreneurship, supporting, measurements and

⁶ Potevska-Zarenzakova, M. (2000), *“The Perspectives of Small Economy”*. Skopje: Neol-Risto Ltd., p.25

⁷ Miteva, E. “Technological development of small and medium enterprises in RM through programs for cooperation with foreign partners”, page. 2

activities in the state but also on the local level of government. Special attention was dedicated to the stimulating surrounding for work and the security of financial support for the development of the SME sector and entrepreneurship.

The importance of SMEs in Macedonia is represented by the basic indicators - the enterprises from 2004, and until now, have participated with 99% of the total number of active enterprises for the current year, i.e. from 2004 to 2007 their number was 50000, and then it started to increase⁸.

Table 6: Number of small and medium enterprises in R.Macedonia

Employees	2008	2009	2010	2011	2012	2013
0-9	58,476	65,641	70,032	67,294	61,053	60,599
10-19	2,047	2,223	2,483	2,754	2,937	2,989
20-49	1,304	1,483	1,568	1,698	1,795	1,787
50-250	1,177	1,159	1,211	1,187	1,280	1,291
250+	189	201	203	185	201	209
Total	63,193	70,710	75,497	73,118	74,421	71,290

Source: www.stat.gov.mk

The largest percentage comprise enterprises which belong to the group from 0-9 employees – more than 90%. Regarding their number in the years up to 2010, there was an upward tendency, but in 2011 there appeared to be downward tendency of the number of micro enterprises, which, on the other hand, was result of decrease in the total number of enterprises.

In the next table 7, the turnover according to the number of employees is presented, as well as the added value by factor of expense according to the number of employees in SMEs (micro, small and medium), meaning all SMEs which have from 0-250 employees are divided by sections.

⁸ www.stat.gov.mk

Table 7: The economic power of SMEs in Macedonia (2012) in million MKD

Section	Turnover according to the number of employees in million MKD		Total number of employees		Added value by factor of expense according to the number of employees	
	Total	0-250	Total	0-250	Total	0-250
Industry	251,561	110,365	101,453	73,828	50,380	29,978
Commerce	389,591	333,189	93,392	81,103	45,652	41,292
Real estate and consulting	37,583	33,661	33,248	23,879	17,670	14,394
total	940,561	477,215	228,093	178,810	113,702	85,664

Source: <http://www.stat.gov.mk/pdf/2013/6.1.13.98.pdf>

From table 7 it can be noticed that from the total number of employees in three largest sections: industry, commerce and real estate with consulting (228,093; 178,810) or 78,4% are employed in SMEs. The largest percentage 86,8% of employees in SMEs work in commerce. Regarding the turnover, and according to the number of employees in 2012, the largest is the participation of enterprises in commerce, retail and whole sale, where each enterprise has employed up to 250 people. In these enterprises, 333,189 employees are working, and there is a turnover of 389,591 million MKD – regarding the added value by factor of expense it is the largest in the industry.

In table 8 the development flow of the increase in the number of SMEs from 2008 to 2012 is depicted

Table 8: Total number of employees in R. Macedonia and number of employees in SMEs

Year	Total number of employees	
	Total	SME
2008	609,215	437,475
2009	629,901	453,031
2010	659,557	494,793
2011	642,748	476,572
2012	657,849	493,260

Source: www.stat.gov.mk

It is interesting to mention that the overall number of employees in small enterprises is constantly growing with high speed compared to the increase of the overall number of employees. That is to say, in 2008 71% of the total number of employees were employed in SMEs and in 2013 that percentage was 75%. Opposite to this, the number of employees in large enterprises is decreased, which appears to be due to firing of workers from large companies. As they are unemployed, part of them get employed or found small companies and in that way the number of the small enterprises has increased. Also, the number of small enterprises has increased, so that the large enterprises suffered reconstruction and were divided into smaller units. The number of employees in the small enterprises is in continuous growth. And opposite of 2004, when it was 56, 11% of the total number of the employees today is 75%.

The Republic of Macedonia, for a longer period of time made low rates of growth of the Gross Domestic Product (GDP). After the independence in 1991 until 1995 the rates of growth were negative. In 1995, GDP was 80% of the GDP in 1990. In the period from 1996 to 2000, the growth rate of GDP was moving in positive direction within 1, 2% to 4, 5%⁹ or 2, 3% annually on average.¹⁰

The conflict in 2001 negatively influenced the growth rate – the GDP was -4, 5%.

In 2002, there was a positive growth of GDP of 0,9%, which in 2003 was 2, 3% and from 2004 to 2008 the growth rates of GDP were on the level above 4% (4,1%; 4,1%; 4,0%; 5,9%; 4,9%).

According to the indicators of GDP growth, the level of GDP from 1990 in 2007 reached the level where it can be compared to the processes in other countries in transition. The highest rate of GDP was 6,1% in 2007.

Similar tendency was happening in 2008, when there was an economic growth of 5% and the economy entered the recession with - 0,9%. The increasing of the growth rate started in 2010 with 1,8% and

⁹ Nanevski, B., Stojanova, V. and Josifovska, A. (1997), *“The Development of small and medium enterprises and the reduction of the unemployment in R.Macedonia”*, Skopje: Foundation “Frederick Ebert”, office Skopje, p. 90

¹⁰ Mishkovska-Kajevska, Lj., Kusakov, H., Petroski, A., Petkoska, T., Pendev, D., Petkovska-Mirchevska, T., Angelova, B., Stoshik, L., Ackovska, M., Adzi Mitrevska-Lazarevska, P., Petroska, N. and Pecevska, Z. (2002), *“The small enterprises in the development of the economy of Republic of Macedonia”*, Skopje: Institute of Economics, p. 59

the tendency of growth continued throughout 2011, when it reached 2,8%.

As Macedonia has low development rate, the growth rate should be a double digit or from 10% and above, so as to influence the overall economy. Surely, it is important for the increased rates to be in continuity for at least three years in order to have positive effect.¹¹

According to the previous analyses that the economic crises left mark on the economic growth and besides the fact that entrepreneurship activities in 2009 were very current, still there was decreasing of the growth rate of GDP. According to many research activities, the small and medium enterprises are more immune to the strikes of the world economic crises, it can still be felt, and taking into consideration the fact that SMEs represent 99% of the overall number of enterprises in 2013 there was still a decrease in the number of micro enterprises (0-9 employees) in R. Macedonia.

So there is a question posing: Is the entrepreneurship reason or consequence of economic growth?

Conclusion

When we talk about the influence of SMEs in the economy and the economic growth of a country, it is worth to mention the fact that they represent the engine of the economic development of a country. They increase the level and extent of using new resources in the economy with high level of flexibility and adaptability the other new market conditions They promote the private ownership and the entrepreneurship capabilities. They are the engine of the development in countries with market economy and developing countries, as well. The development of SMEs enables increase in the social product, increase of economic subjects, creation of new posts, rising of the living standard, substitution of the export and larger export competition of domestic economy.

The section of small and medium enterprises shows that the future belongs to the entrepreneurship of personal initiatives and creativity in working, therefore it is necessary to give special emphasis to the private sector so as to get corresponding place in the priority developing aims.

¹¹ http://faktor.mk/archives/34132?utm_source=daily.mk

SMEs represent the most vital part of Macedonian economy and in that section, large number of individuals have been employed, who produce the largest part of gross domestic product of the country. The balanced regional development of R. Macedonia depends a lot on the number of successful SMEs and their balanced location in all parts of the country, which on the other hand influences an eruption of the rate of unemployment on local level.

Through comparative analyses of simple statistic data from EU and R. Macedonia, the extent of domination of SMEs in EU and R. Macedonia has been presented, as well as the influence on the economy with multiple positive effects. In many European states among which is R. Macedonia the participation of SMEs was 95-99% regarding the total number of all companies. In the last several years over 60% - 70% of the overall employment belongs to that section and here over 50% of the value added tax was realized. If these data are not neglected in certain analyses, it will be very clear what is the part and the importance of SMEs in the development of the economy in R. Macedonia.

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