

Overview of Family Business Relevant Issues

Country Fiche Macedonia

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This study has been elaborated with reasonable care. The authors and the project co-ordinator do not, however, accept responsibility for printing errors and/or other imperfections and potential (consequential) damage resulting thereof.

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1 Introduction

Recently the whole concept of family business became a hot topic in the public and policy discussions in Macedonia. This development corresponds with the transformation of the Macedonian Privatization Agency into Agency for Promotion of Entrepreneurship of the Republic of Macedonia (APERM), which started with activities in May 2004. APERM is a state owned institution, established to realize the *Program on measures and activities for promotion of entrepreneurship and creation of competitiveness of the small business in Macedonia* and other programs adopted and followed by the Macedonian Government, concerning entrepreneurship and small business. APERM is the major player on national level for the implementation and coordination of national and international support to the SME Sector. The discussions are going in direction that the development of family business is very important for Macedonian economy, which will open the possibility for faster economic growth and employment. However, the scale and the scope of activities are still insufficient for creating more favourable conditions.

Family business in the Republic of Macedonia is not legally defined. It is badly organized. Consequently, there is a weak differentiation between family and non-family business. This can be mainly explained by the fact that this issue has not been seriously treated in the past. However, the current state of affairs will be dramatically changed because of the increased awareness of the public as well as the policy makers about the family businesses' economic (overall growth potential of the country) and social importance (self-employment, elevating poverty, etc.).

2 Understanding of “family businesses” in the national context

It should be pointed out that in Macedonia, both among the policy and the academic community, a consensus about what can be considered as a family business does not exist. Family members involved in a certain type of business activity within a legal entity can be considered as the most common (widespread) definition for family business in Macedonia. There is a need to identify precisely which and how many family members should work together in order certain economic activity to be considered as a family business. However, this has been another area of speculation because the term ‘several family members’ cannot be defined. Alternatively, a family business can also be a legal entity, which has been directly owned or controlled (with at least 51%) by a single family no matter which size in terms of turnover or employees this entity is. The purpose of those definitions is not only the classification of legal entities in terms of regulation but also about the possibility to create strong companies with long tradition.

According to existing Macedonian practices a single – person enterprise¹ can be considered as family business only if the area of activity of the enterprise is in the fields of agriculture, wholesale and retail trade, providing services of hotels and restaurants, catering², and similar sectors of the economy. Despite this, another important precondition is that this person should have the main supporting role regarding the financial assets of the family.

In Macedonia sole proprietors³ can also be considered as family business but only when most of the family members are employed in the company. Finally, the companies owned by single individual and employing more than one person can be considered as a family business if most of the family members are employed in the company and have senior management positions. The legal framework of the country does not have a law that defines the term family business.

The family businesses in Macedonia are usually associated with small and medium sized enterprises. Although in international practice there are many examples where the big enterprises are family businesses, this cannot be considered a reality in the Macedonian economy.

¹ Company owned and managed by a single individual, without other employees.

² This is most probably related to the type and nature of the businesses in these sectors, e.g. the possibility of involving family members in the operating activities without officially employing them.

³ Company owned by single individual but the company is being managed by professionals and employees more than one person.

Small businesses in compliance with the Law on the Agency for Promotion of Entrepreneurship of the Republic of Macedonia are:

1. Enterprises that:

- Have less than 50 employees
- Make annual turnover not exceeding 1.5 million Euros in local currency or a total balance not exceeding 1.1 million Euros in local currency
- Are independent in their work
- Are at least 51% privately owned

2. Individual entrepreneurs

3. Craftsmen, and

4. Other services providers

3 Importance of family businesses for the national economy

The family business has huge importance for the national economy because it contributes to the reduction of the rate of unemployment, the increase in GDP (gross domestic product), and brings additional financial means for the family members involved in the activities. The family business also creates a tradition for the future generations and over time opens the possibility to build a strong brand, which can be recognized on the domestic as well as on the foreign markets, by protecting its traditional heritage and following the technical and technological developments over time.

It can be safely assumed that currently, in Macedonia, most of the family businesses are small and medium sized enterprises although any precise information regarding this issue is unavailable. Although in international practice there are many examples where the big enterprises are family businesses, this cannot be considered a reality in the Macedonian economy. Yet, the concentration in certain industries as well as the size of the family businesses is changing mainly due to economic factors as well as social factors including the average salary, labour supply etc. For example in the retail sector, companies such as Tineks, Hedi's or Kam-market have grown to dominate the market. The family company Bujoto develops fast within the furniture making business. The biggest electronic media (televisions) in Macedonia are Sitel, Kanal 5, and A-1. In the wine sector, the following companies: Ezimit, Popova Kula, Popov winery and others are also rapidly growing. To some extent Tikvesh winery can also be considered as a family business (the question is whether we consider the nuclear or the extended family members as owners). In that respect, the size development goes in the direction of larger family businesses.

4 Characteristics of family businesses

The current situation in the Republic of Macedonia regarding the SMEs can be best illustrated through the number of registered companies. Namely, according to the Central Registry more than 95% of all legal entities in Macedonia are registered as companies with limited liability. In line with the world trends, family business start-ups almost always are organized as small enterprises or sole proprietors. Consequently, it can be safely assumed that the majority of all legal entities in Macedonia are what can be considered as family businesses. Family businesses are rarely stakeholder companies. If they are quoted on the market, the family owns a great majority of shares. This is the difference compared to non-family businesses as family owned business like to keep the control of the stakes in their own hands. For that reason companies that are attractive to be invested in are rarely family owned companies. Non-family businesses have many shareholders and are easier to buy at the stock exchange. The relationship within family members is much stronger and resilient to take over bids.

Typically the family businesses in Macedonia are active in the trade sector, small neighbourhood shops prevalent in many Macedonian cities, towns and villages. Agricultural work is also traditionally done by family members in one business. Many clothing producing firms are also started and later on managed as family businesses. Restaurants, especially in smaller towns and villages, are also often a family business affair. It is expected that in the near future other services and sectors will witness a rise of the family business model including for example tourism, consulting services, fashion and design, as well as software development and other services in the IT sector in general.

The main characteristics of the national family business differ from each other in many economy branches. For example, in the **energy sector** as one of the economy branches, one should consider as a family business the construction and management of one or more micro and pico mini hydro power plant – HPP (with a capacity smaller than 500 KW). This mini hydro power plant provides incomes in the family, depending on the hydrology and the installed power, enough for the family existence and development. At the expense of that, the family should maintain the HPP in a good working condition in order to produce more, but also to maintain the water flow that can lead to inconveniences which should be dealt with later. Further on, the family should make restitution for the small HPP's environment with contents such as fishponds; hotels, restaurants, motels, rural tourism, sport, hunting, horse riding etc; economic activities (wood and lather processing etc.).

The greatest possibilities for the development of family business can be found in **tourism**, especially in the rural areas. In certain regions that have natural wonders or specific traditions, for example villages in which the pottery tradition still exists, can rent rooms or apartments.

The family would typically offer domestically produced products with good quality (milk, eggs, agriculture products, honey, walnuts, domestic chicken meat), so that every member of the family would be engaged in the creation of this high quality tourist offer. This family business enables the development of another family business compatible to it, for example offering the guests some of the produced pottery products, homemade handicrafts with motifs from the appropriate region like souvenirs, providing walking tours in the nearby forests, mountains or lakes, which create possibility for family business like live stock breeding including the part with the domestic food mentioned

above. Here, we have to also mention that depending on the demand there are also possibilities for offering different cultural entertainment events from traditional dances and singing to village games.

Another very important characteristic of family business in Macedonia is their short life cycle. Going in and out of business is very common feature for this segment of the economy. In the non-family business the worker's interest is different from the family business with regard to the working time, the engagement, the will to finish the work tasks, the quality and the covering of eventually absent workers. In the family business all previously stated activities are being performed with big harmony that provides higher quality and own inapprehensible specific characteristic.

At the moment, we do not have any precise information, detailed studies, related to the existence of different types of family businesses. It is clear that they do exist in the following sectors: hunting, fishing, honey production, trade & craft, tourism, energy production, catering industry, culture, or some combination of these activities.

The advantages of the family business, as mentioned above, are: motivation of the family members for hard work and earnings and the implementation of appropriate economy activity that they perform. The harmony of the performed activities, boosting each other, regardless of the work time, is replacement for justifiable absences and similar. Everything mentioned here is a disadvantage of the non-family business, like the undefined work time, and every additional job task presents a problem in the quality of its implementation, as well as from economic point of view. The non-familiar business can be less inventive and creative because there is a relation manager-worker, and in the family business this relation is abandoned and everybody are performing the job tasks that suit them most and for which they can contribute most.

Regarding the economy of the non-family business, even if the owner does not earn enough money, he must pay the workers, while at the family business this can be borne more flexible, taking into account the family economy to spend as much as they earn.

However, it should be pointed out that family businesses have many weaknesses, which makes them unsustainable in the long-run. The most important reasons for their lack of sustainability are the following: poor management⁴, problems with access to finance for further development and inadequate cost control.

⁴ Because of complex interpersonal relationship that exists between the company personnel (private and professional), lack of discipline, etc.

5 Institutional actors and their strategies, policies and initiatives

In Macedonia in the period 2000 - 2001 there were more than 30 projects, along with additional number of sub-projects and separate activities in SME development identified, which have been financially supported by various donors.⁵ Part of the projects belong to the financial services group, such as credits, investment, grants etc., and part of them belong to the group of training, technical assistance, campaigns, consulting services etc.

Macedonian Enterprise Development Foundation

The Swiss Agency for Development and Cooperation assessed the concept paper submitted by the Consortium of MEDF as lead partner and Inter-cooperation as the best concept for the new Entrepreneurship Stimulation Programme in Macedonia (ESP). ESP is expected to support portfolio of projects that remove bottlenecks in doing business in Macedonia and result in increased employment and income. ESP will be a three-year programme with a total budget of 3 million CHF provided by SDC.

Business Start-up Centre

The University St. Cyril and Methodius Business Start-up Centre was established in 2006 as a result of project financed by the Austrian Development Agency. The name of the project is "Skopje University Business Start-Up Centre: Through Networking to Successful Companies. The first phase of this project includes establishing a Business Start-up Centre in Skopje, providing entrepreneurial and small business management training to target groups, assisting students and recent graduates to start their own small and medium enterprises and increasing the employability of students and recent graduates. The second phase will include training, implementing a Micro Credit structure for financing start-ups, strengthening regional economic cooperation, etc.

PROGRAMME for the Development of Entrepreneurship, Competitiveness and Innovation of the Small and Medium Enterprises (2007 – 2010)

The SME Development Programme is based on the general perception of the role of Government of the Republic of Macedonia in the creation of a favourable business climate, and within this framework to prepare a policy for support of entrepreneurship and the development of SMEs. The programme identifies the measures and instruments for the implementation of the main goals and development priorities in this area, which are necessary for the economic development of the country as well as faster European Union (EU) accession. On a national level the program will be implemented through the Department for Entrepreneurship and Competitiveness, Ministry of Economy, the APPRM, the National Entrepreneurship and Competitiveness Council (NECC), and other ministries.

⁵ The credit lines are financially supported by different donors, such as: USAID, PHARE, EBRD, IFC, IFAD, and Royal Netherlands Government, Government of Italy, Government of Macedonia, KfW, DEG, SOROS etc.

	Explanation
institutional features	
name of the actor	Македонска Развојвојна Фондација за Претпријатија Macedonian Enterprise Development Foundation
nature of the actor	<input type="checkbox"/> government <input type="checkbox"/> employers' organisation <input checked="" type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input checked="" type="checkbox"/> others, namely: Foundation
address	Nikola Parapunov bb, P.O.Box 55, 1060 Skopje, Repblic of Macedonia
telephone	+389 (0)2 3065 381
web-page	www.mrfp.org.mk
content based features	
name of the strategy/initiative/regulation	Програма за Поттикнување на Претприемништвото во Македонија English Entrepreneurship Stimulation Programme in Macedonia
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar <input type="checkbox"/> education/training measures <input type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments <input checked="" type="checkbox"/> financial support <input type="checkbox"/> marketing <input type="checkbox"/> networking <input type="checkbox"/> others, namely:
objective	Entrepreneurship Stimulation Programme in Macedonia (ESP) is expected to support portfolio of projects that remove bottlenecks in doing business in Macedonia and result in increased employment and income
initiation	During the second half of 2008
contents/description of the initiative/measure	Main line of activities: Extending 3 types of loans (through financial intermediaries such as NLB Tutunska Bank, IK Bank and Saving house – Moznosti) for farmers and SMEs. So far, the Macedonian Enterprise Development Foundation (MEDF) has given loans to 3664 clients in total amount of 16.6 million EUR. Despite this, MEDF is also providing non-financial services such as: study visits, trainings, networking, publications, analysis, studies, etc.

	Explanation
user based features	
eligibility criteria/target group	Farmers and SMEs
source of funding	<input type="checkbox"/> EU-funds <input type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees X others, namely: SDA – Swiss Agency for Development and Cooperation
performance based features	
evolution	To improve access to finance for the farmers, self-employed, and entrepreneurs

	Explanation
institutional features	
name of the actor	Центар за Развој на Нови Бизнис Business Start-up Centre
nature of the actor	<input type="checkbox"/> government <input type="checkbox"/> employers' organisation X support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	Faculty of Mechanical Engineering - New building, 3rd floor Karpos 2 b.b. 1000 Skopje, Republic of Macedonia
contact person	Prof. D-r Radmil Polenakovik
telephone	+389 (0)2 3099 481, +389 (0)2 3099 482
web-page	www.bsc.ukim.edu.mk
e-mail	ukim-bsc@mf.edu.mk
content based features	
name of the strategy/initiative/regulation	Skopje University Business Start-Up Centre: Through Networking to Successful Companies

	Explanation
content based features	
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar X education/training measures <input type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments <input type="checkbox"/> financial support <input type="checkbox"/> marketing <input type="checkbox"/> networking <input type="checkbox"/> others, namely:
objective	Providing entrepreneurial and small business management training to target groups, assisting students and recent graduates to start their own small and medium enterprises and increasing the employability of students and recent graduates. The second phase will include training, implementing a Micro Credit structure for financing start-ups, strengthening regional economic cooperation, etc.
initiation	2006
contents/description of the initiative/measure	The Business Start-up Center is providing help in the process of creation of enterprises and self-employment. In addition, it provides trainings in many different areas which are relevant for the family businesses (Finance, Legal issues, Accounting, Marketing research and analysis, Business skills, Management skills, Strategy, etc.)
user based features	
eligibility criteria/target group	Students and recent graduates
source of funding	<input type="checkbox"/> EU-funds <input type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees X others, namely: Austrian Development Agency
performance based features	
evolution	Companies created by the Business Start-up Center: AGV Design Studio ПРЕЗЕHT Eureka Link EUROPE Style ICL Group Online English Adjust

	Explanation
institutional features	
name of the actor	Министерство за Економија Ministry of Economy
nature of the actor	<input checked="" type="checkbox"/> government <input type="checkbox"/> employers' organisation <input type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	Jurij Gagarin 15, 1000 Skopje, Republic of Macedonia
telephone	+389 (0)2 3093 408, +389 (0)2 3093 413
web-page	www.economy.gov.mk
e-mail	cabinet@economy.gov.mk
content based features	
name of the strategy/initiative/regulation	Програма за Развој на Мали и Средни Претпријатија SME Development Programme
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input checked="" type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar <input checked="" type="checkbox"/> education/training measures <input checked="" type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments <input checked="" type="checkbox"/> financial support <input type="checkbox"/> marketing <input type="checkbox"/> networking <input type="checkbox"/> others, namely:
objective	The objective of the SME strategy and programme is to support the small and medium-sized enterprise sector, through creating a new and strengthening the existing institutional infrastructure, improving the legal environment and providing non-financial and financial services
initiation	2002 (ongoing)
contents/description of the initiative/measure	The SME Development Programme is based on the general perception of the role of Government of the Republic of Macedonia in the creation of a favourable business climate, and within this framework to prepare a policy for support of entrepreneurship and the development of SMEs. The programme identifies the measures and instruments for the implementation of the main goals and development priorities in this area, which are necessary for the economic development of the country.

	Explanation
user based features	
source of funding	<input type="checkbox"/> EU-funds <input checked="" type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees <input type="checkbox"/> others, namely:
performance based features	
evolution	<p>Many measures and activities for promotion of entrepreneurship and creation of competitiveness of the small business in Macedonia and other programs adopted and followed by the Macedonian Government have been carried out under this Ministry. The development of family business has been regarded as very important issue for Macedonian economy which will open the possibility for faster economic growth and increase in employment even in the short-run.</p>

6 Future issues

A significant difference exists between family businesses between industries. For example, the family business is not the same in the area of agriculture, wholesale and retail, hotels and restaurants compared with other sectors of the economy where the enterprises are racing towards adopting new products and services that are better and of higher quality. In this process of growth (in terms of size and consequently the number of products and services offered) which is primarily financed through debt and equity they are gradually losing the distinctive characteristics of the family business.

Public policy in Macedonia regarding the family business will be directed towards stronger promotion of this segment of the economy which will bring further development, fostering the country's economic growth, and consequently, this will result in the reduction of the level of unemployment⁶, opening the possibility for presenting our national 'treasure' (culture, heritage, tradition) etc. In addition, we believe that the scale and the scope of the active measures followed by the Macedonian Government for supporting this segment of the economy, such as access to cheap financing will be increased in the future.

⁶ The biggest structural, economic and social problem of Macedonia in the first 15 years of its independence was huge unemployment that was constantly increasing with the transition of Macedonian economy from planned to market based, and with the restructuring of the ownership of companies from public to privately owned. Having in mind that the unemployed constitute almost 33% of the active population, Macedonia has highest unemployment rate compared with all other European countries.

7 Bibliography

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Kralev T. and I. Čabrovik, Management of the Entrepreneurial Business, Center for International Management, 2003