
A QUALITATIVE ANALYSIS OF SUSTAINABILITY BARRIERS OF SMALL AND MEDIUM ENTERPRISES

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Abstract: This paper presents the barriers for growth and development of small and medium enterprises in the Republic of North Macedonia. The internal, external, institutional and financial barriers faced by managers/owners of small and medium enterprises are analyzed. Barriers from the market and competitive environment are analyzed in the sector in which the company carries out economic activity; the degree of competition and strategic behavior of competing enterprises; range of growth support networks and alliances. The financial environment was analyzed by assessing the capability of the local financial system; methods of financing the business; availability and cost of capital and finance. Internal organizational barriers are explored by analyzing internal resources and capacities; growth barriers related to the whole problem of human resource management and conditions for employment and dismissal of workers; lack of qualified managers; absence of business skills. Social barriers were analyzed through the following aspects: social capital, trust and networking between entrepreneurs; degree of support or lack of local actors and agencies. Institutional barriers were analyzed by assessing the legislative framework; degree of corruption and bribery.

For the needs of the research topic and the subject of the analysis in the paper, the data were collected by applying a qualitative research strategy and using an in-depth, semi-structured interview, purposefully created. A deliberate sample was designed, where the main criteria for identification and selection of potential respondents were: managers or owners in/of micro, small and medium enterprises, from different industries, operating within the Republic of North Macedonia. The analysis of the data is thematic and narrative, to illustrate the views and opinions / examples expressed by the respondents, quotes from the received answers are presented. The obtained results give us an in-depth overview of the barriers faced by small and medium enterprises in the external and internal business environment and they can be used as indicators for future development and risk forecasting. The conclusions provide an overview of the priority needs for improving the business climate in enterprises and the country that will enable the sustainability of small and medium enterprises that are an important factor for social development.

Keywords: small and medium enterprises - SMEs, business environment, sustainability, qualitative analysis

1. INTRODUCTION

Through the term social development we want to denote the social changes that take place in order to improve the living conditions in a country. Economic development is not the only indicator of social development, but it is certainly one of the most important ones. Therefore, the development of the national economy is a serious challenge for economic policy makers in the country. Our country, as a small developing economy, is still characterized by unfavourable macroeconomic conditions, unsatisfactory level of productivity, low competitiveness, weak institutions and slow growth of the Small and Medium enterprise (SME) sector. Encouraging economic development presupposes the adoption of policies and measures in building an institution-based Small and Medium Business Enterprises support system and a stimulating business environment that are important factors in the sustainability and growth of enterprises.

Thereby, taking into account the barriers for growth and development of small and medium enterprises in the Republic of North Macedonia, we want to mark them as an important indicator of the potential impacts on economic development. The internal, external, institutional and financial barriers faced by such enterprises provide an overview of the situation in the economic segment of social development. Internal (endogenous) barriers largely

refer to all processes and functions of human resource management in the organization (HR planning; recruitment; selection; training and development; performance management; reward/merit systems; labour relations), as well as other aspects closely related to the management/leadership and the organization as a system (leadership/managerial skills, brand development, organizational rules and policies; organizational communication, investment policy, profitability, organizational technology; organizational structure) (Boxall, 1996; Guest, 1989; Hendry and Pettigrew, 1992; Kamoche, 1994; Schuler, 1992). External barriers refer to financial, market, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that may significantly harm an organization in the future (Kotler & Keller, 2012; David, 2011; Porter, 2008; Aguilar, 1967). These barriers are largely beyond the control of an individual organization — hence the word external. When defining social barriers, the dimensions of trust, joint action, membership in associations and network structures, and civic norms are emphasized (Danis, et al., 2010; Doh, S. and Acs, 2009; Fukuyama, 2000). Bartlett and Rus (2001) start from the assumption that there are three levels of study of the role of social capital and social barriers: the first level, interpersonal relationships and cooperation between business partners; the second, higher level, the relations within the business community as a whole, membership in business associations and the third, the highest level, the relations between the economic actors and the state. Institutional barriers are policies, procedures, or situations that can systematically disadvantage Small and Medium Businesses (Rune, 2011; Nyarku & Oduro, 2017; ITA, 2020; World Bank Group, 2020). They can be both formal and informal.

2. MATERIALS AND METHODS

According to the scientific goal, the research is exploratory and descriptive, that is, it seeks to first identify the cases that are subject to analysis and then describe their characteristics and properties in accordance with the formulated research goals, following the deductive method. The research strategy is qualitative, where as a research technique for data collection in-depth, semi-structured interview is used, purposefully created for the needs of the researched topic. Content analysis of relevant national/official documentation, analysis of secondary data / research reports, as well as literature review were conducted for the study. A purposeful sample was designed for the research, with the main criteria for identification and selection of potential respondents being the following: a) managers or owners in/of micro, small and medium enterprises, b) of various industries, c) which function within the Republic of North Macedonia.

The data were collected through a created semi-structured interview, as a research technique, which in Word format and electronically was distributed to members of the target population (according to the conditions caused by the Covid 19 pandemic, which make face-to-face interview difficult). The interview guide was directly sent (to a personal e-mail address) to 20 (twenty) selected potential respondents, in the period from October 20th to November 15th, 2020. A version of the research instrument, translated into English, was forwarded to the officials of the German and American Chambers of Commerce in the country, with a request to share it with the members/organizations of their bases. Within the set deadline, a total of N = 11 validly completed interviews were returned. The analysis of the data is thematic and narrative, to illustrate the views and opinions/examples expressed by the respondents, quotes from the received answers are presented.

3. RESULTS

The results from our research gave us answers for the barriers in the following areas of Small and Medium Enterprises development: a) Barriers to the Market, Competition and Financial environment of Small and Medium Businesses, b) Internal barriers for the development of Small and Medium Businesses, c) Social barriers for Growth and Development of Small and Medium Businesses, d) Institutional barriers that Small and Medium Businesses face. The identified barriers to the Market, Competition and Financial environment of Small and Medium Businesses in the Republic of North Macedonia are explained below in the text.

Barriers in relation to the size of the market, low purchasing power of citizens, state support for market development. The Macedonian market is small both in terms of population and the purchasing power of the population, which results in lower prices and lower earnings. The benefits of the State Institutions for Market Development are assessed as low and insufficient.

Example: “Macedonia is a small market, consumers/ citizens have low purchasing power, which results in low earnings (margin) for quality goods, due to the formation of more affordable prices and procurement of smaller quantities of goods, while costs (for import/ transport, company tax) etc.) are high /the same.

Barriers related to infrastructure connectivity, condition and cost of transport. The companies report that the situation with the infrastructure and transport in the country can be seen as insufficient to their needs and too expensive in relation to prices.

Example: “The road from Gradsko to Bitola is about 100 km, from Bitola to Kafasan the road is in a desperate state. This is because we export over 50% of the production, and a good part of it to the neighbouring countries, and for such roads a higher price of transport is paid.” (from a statement of a respondent).

Barriers in relation to indefiniteness and opposition to certain laws and regulations and requirements that slow down the development of business in certain sectors.

Example: “The sector in which I work faces restrictions in the procurement of raw materials from abroad. EU countries, without tariffs and other duties, import raw materials they need for work from other EU countries, and when we need them, we have to pay a lot of duties, so we are forced to buy from Macedonia, which means sometimes to pay more, even for poorer quality of raw material.”

Barriers to poor and unfair competition between businesses. In the business environment in Macedonia there is low rivalry between competitors which makes them lethargic and comfortable. This situation is mostly seen in the low level of innovation and introduction of new technologies. Additionally, the unfair competition fuels up dishonesty, fraud and mistrust. Underdeveloped competition slows down the development of the country, which is reflected in the lack of related industries and support industries to provide the basis on which an industry can stand.

Example: “Unfair competition, a practice to bypass or break some standards, only to get a product at a lower price.”

Insufficient readiness to enter foreign markets and place products/services abroad. It is certain that there is an awareness among the respondents that they are lagging behind the competition abroad and that they should work on their own technical and technological improvement and knowledge improvement.

Example: “There are markets, but we are not competitive with foreign countries, with more developed economies. They are cheaper, more efficient, they have less administration.”

Example: “Regarding the competition, my motto is that whoever is afraid of competition should not run a company. However, we can oppose the competition only by continuous investment in equipment and staff, which requires at least 60 to 70% of the profit to go to investment.”

Weak local financial system. Most of the private sector is left to finance itself and assesses the support of state institutions as insufficient, non-transparent, very complicated and with an unclear outcome. They mainly receive financial support from commercial banks. Due to the high interest rates and strict procedures, the speed of approval, especially small and micro businesses, they decide to use informal sources of financing: equity, loans from relatives and friends.

Example: “It is difficult to get loans. I always have one loan, but again I borrow from friends to maintain the business. Quick credit lines are needed, without so many checks and waiting. Sometimes the speed of payment is crucial for me to get a solid price. As a long-time customer of the bank, I should have some benefits.”

Dysfunction and lack of unions, associations, institutions, support networks and business growth. It should be noted that Companies often rely on alliances and partnerships with other companies in order to create added value for customers and become more competitive.

Example: “Greater activity of the unions of chambers of commerce is needed in terms of presentation of domestic capacities abroad and finding new markets for placement. Also, there is a need for more active involvement of the chambers in the adoption of laws and regulations that would support the growth of companies, and not for the laws to restrict and complicate the operation of companies.”

Our research has identified the following internal barriers for the development of Small and Medium Business in North Macedonia:

Lack of internal resources and limited capacity of the enterprise. The biggest internal barrier is the lack of human resources, lack of qualified and/or competent employees, employees who do not have work experience, which is associated with the low supply of adequate labour in the current labour market, as well as the continuous outflow of professional and highly educated staff abroad. However, as an added value of the research, it is realized that there is not enough supply for low-skilled profiles of workers (ex. especially needed in trade, agriculture), they are said to have either gone abroad or are not interested in working, untrained, non-performing and unprofessional.

Example: “The shortage of qualified staff is the biggest barrier faced by the private sector in recent years, especially among craftsmen. It contributes to a very slow or no growth of companies in the private sector, specifically in our case. Those barriers would be overcome only through education, educational programmes and reorientation in the education system of a deficient staff.”

Good conditions for employment and dismissal of workers. Regarding the conditions for employment and dismissal of employees, most of the respondents stated positively, that the current legal framework is appropriate and easily applicable.

Example: “I do not remember better laws (conditions) for employment and dismissal of workers in my working life.”

Example: “The conditions for employment and dismissal of workers are duly enforced by law, and they, if mutually respected, are functional.”

Lack of qualified managers. Almost all respondents are aware of the lack of qualified managers, as well as that they do not personally possess the necessary managerial skills, but opinions are divided: most of them do not trust that another 'outsider' could fully and honestly commit himself. In the interest of business; some believe that this can be overcome by recognizing the managerial potential within the organization and (further) education/ raining; and some find hiring a professional manager too expensive.

Example: “It is difficult to find a person of trust, to work well without doing some 'scam' or other nonsense. I can count the people I was satisfied with and who were my managers on one hand.”

Lack of business skills in the field of marketing and business development. Half of the respondents confirm the lack of business skills in the field of marketing and business development, some of them said that they are aware of this shortcoming, but try, within their capabilities, abilities and knowledge. The rest believe that this barrier can be overcome through the opportunities offered by non-formal and informal learning.

Example: “I find fault with myself that I did not establish the business on solid grounds, as if I was patching it up all the time and not developing it. I have never been educated about business and I have not attended that kind of training, nor have I received any attractive offer “.

The barriers concerning the social aspect need it for Growth and Development of Small and Medium Businesses, the research has findings in the following areas:

Poor trust among Small and Medium Businesses. This is the result of unpleasant business experiences and low trust in society in general. This situation has a negative reflection on the ability for business cooperation and networking, but at the same time is a strong barrier that creates uncertainty in the business’s operations and creates unfair competition in the market.

Example: “There have been attempts for co-operation, but they have often failed - with some exceptions, relationships can rarely be based on mutual trust. “

Example: “I know everyone in this business, I can single out people who are honest and with good intentions with difficulty. There are many dishonest people who think they can get rich overnight. “

Insufficient support from local actors and agencies. Regarding the degree of support or lack of local actors and agencies, respondents believe that there is a lack of information, assistance and support from local development agencies and other similar types of organizations. Such organizations are expected to be more engaged.

Example: “The Chamber of Commerce should consult more with the private sector and separate from each government. State institutions should be used more for private sector education. “

The analysis of Institutional barriers that Small and Medium Businesses face, outlines the following aspects:

Burdensome bureaucratic procedures and non-functional bureaucracy. This refers to the bureaucratic procedures such as the issuance of permits, various trade restrictions most often related to customs, public procurement, etc. as they can be directly linked to corruption. Very often dysfunctional regulatory solutions are created, only to facilitate or enable a certain corrupt practice. Although, to some extent, the dysfunctional bureaucracy can be related to the low capacity of the public administration, the lack of interest on the part of public policy makers to introduce changes, the insufficient influence of the chambers of commerce and etc.

Example: “It is not a problem to regulate the Laws, they are good, the problem is that no one follows them and everything works as you will agree with someone, you will get a relationship, you will "arrange" somewhere. It will be easier and cheaper for me if everything works according to how it is legally prescribed in Macedonia. We do not have to constantly change the Laws, let's start following the existing ones, and then change what does not work “.

High degree of corruption practices. All findings confirmed that corruption is widespread in our country, especially in the judiciary, and compliance with agreements remains low. There is a need to reform the judiciary system.

Example: “Corruption is the biggest problem in our country. The reason is non-compliance with the law and privileges of those close to the government. I have had a shop in the centre of the city for 25 years and every time the government changes there are revenge methods from each government against those who were not with them. Unfair competition hurts the most. Shops are opened in the city centre and they work illegally, they do not have a cash register, they have undeclared workers, they do not pay taxes and nothing to anyone because they are someone’s people or they pay bribes to someone. And we all see and know that and again nothing happens.”

4. CONCLUSIONS

In order not to get stuck in a low-income country, it is necessary for Macedonian businesses to orient themselves towards international markets. Additionally, the government should promote market development, which would consist of improving the situation with infrastructure and transport, changing laws and regulations that would facilitate an easier business (import, payment guarantee and etc.), assistance especially financial one with grants and

low interest and grace periods for development of new products, technologies, knowledge and development in general. And for all of this to work out, there is a clear need to continuously improve the political stability, accountability, the rule of law and the reduction of corruption.

It is necessary to build stronger regional and local institutions and agencies and for them to gain a greater role in encouraging local economic development. Unlike national institutions and organizations, regional and local institutions, agencies and associations can be more effective ways of support and networking, because local structures are readily available.

A good quality legislative framework, along with a low level of corruption, is a prerequisite for the growth of Small and Medium Businesses. What can be concluded is that a rapid and decisive response is needed from all three pillars of power in the country in order to create a positive business environment. The government should be transparent, hold accountable public servants who are identified as bad administrators, and strive to limit the powers now held by certain higher levels of public servants, with a particular focus on those who award public procurement, issue licenses, and etc. The creation of an independent and efficient judiciary can be considered one of the pillars of a favourable business climate, which would be characterized by a stable and equitable access to justice for Small and Medium Businesses. It will enable them to execute the contracts in a timely manner and to exercise their rights.

On the other hand, our country needs to undertake measures to create a more predictable legal and regulatory environment, improve the regulation of labour relations, quality and especially the integrity of inspection bodies, contract execution and other areas very important to the overall business environment. The importance of the fight against corruption and giving special attention to the problem of the so-called grey economy (“informal”), which creates unfair competition and has a particularly negative impact on Small and Medium Businesses, is great.

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