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**PROMOTING SMALL BUSINESS AND  
ENTREPRENEURSHIP IN MACEDONIA: POLICIES,  
PERCEPTIONS AND EXPECTATIONS AT  
MUNICIPAL LEVEL<sup>1</sup>**

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**ABSTRACT**

Municipal support to entrepreneurship is increasingly seen as useful approach to the need for addressing the issues of the unemployment. Moreover, it is considered as a practical tool for dealing with the other development challenges on the local level of government. In this paper, we present a selection of initiatives aimed to foster the activities of local authorities in promotion of the entrepreneurship in the urban areas of Republic of Macedonia. The paper is based on the results of the survey of 156 potential and existing small business owners who all took part in related training in entrepreneurship organized within their respective urban units. Finally, considering the results of the analysis of the answers we indicate on several potential areas of improvement of the overall policy for promotion of the entrepreneurship and for easier access to suitable finance of the population in the country at all levels of the government.

**Key words:** entrepreneurship, local economic development, government policies, training for entrepreneurship,

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<sup>1</sup> original scientific paper

## INTRODUCTION

Joseph Schumpeter defined entrepreneurship as “the assumption of risk and responsibility in designing and implementing a business strategy or starting a business” (Schumpeter 1911). For practitioners, entrepreneurship has generally been viewed as the process of creating new wealth. The entrepreneurial process centres on the discovery, creation, and profitable exploitation of markets for goods and services. Therefore, for the purposes of the analysis in this study, entrepreneurship is defined as activities of an individual or a group aimed at initiating economic activities in the formal sector, under a legal form of business (Klapper et al., 2008).

The concept of entrepreneurship development is relatively new. It was introduced in 2006 in the OECD-Eurostat Entrepreneurship Indicators Program and defined as a mind-set and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organisation“(Rukuižienė,2016). During the last decade, the research studies usually were covering the entrepreneurship development in the frame of the European Social Model, as a self-employment or social capital, by application in the social networks (Rukuižienė,2016). The entrepreneurial development indicators can be measured upon the affecting factors: (1) regulatory framework; (2) market conditions; (3) access to finance; (4) creation and diffusion of knowledge; (5) entrepreneurial capabilities and (6) entrepreneurship culture (Ahmad and Seymour, 2008). In EU countries is used a Global Entrepreneurship Development Index, known as GEDI, and is presented in the annual entrepreneurship development reports by Global Entrepreneurship Monitor (GEM) methodics. GEM is a reliable tool to compare entrepreneurship globally and to provide new strategies in entrepreneurship development (Rukuižienė, 2016).

The first and the most necessary step in measuring the entrepreneurial activity, performance and aspirations is defining what the entrepreneurship and an entrepreneur are, for which there is startlingly little consensus in the related literature (Sorensen and Chang, 2006). While the problem of defining the words “entrepreneur” and “entrepreneurship” and establishing the boundaries of the field of entrepreneurship has not yet been solved (Bruyat, 2000), the question raised more than 20 years ago, still remains relevant: “Is the field of entrepreneurship growing, or just getting bigger?” (Sexton,1988). For this research, it is important to choose which definition suits better our society and level of economic development since the definitions and the differences are mostly due to the period of time when they were created, the

level of the economic development and the type of the government. Republic of Macedonia is at its final stage of the transition towards what is generally understood as a free market economy. The concept of the transitional economy is used for countries that previously had a socialist political and economic system and now are trying to move towards a free market economy. In a more general definition, transitional economy denotes the entire process of revision of the former socialist or mixed economies towards the market driven, happening in the era of globalization and under the conditions of open world economy (Klisarovska, 2011). Transitional countries are trying to decrease the involvement of their governments in their economies, giving the power of the regulation to the free market. This brings us at the very beginning of the understanding of the entrepreneurship in terms that anyone who wants to work for himself is considered as entrepreneur (Yavuz, 2005).

Furthermore, the small and medium sized enterprise sector represents an important actor in the complex process of developing a modern and dynamic economy. The arguments in favour of this fact are based on the substantial contribution of this sector to the economic development and the job creation. This sector is characterized also with ability to adopt quickly to the structural changes in the global economy. Thus, the entrepreneurship is important in all stages of a country development (Holcombe, 1998). According to the Global Competitiveness Report (2015), there are three stages of the economic development of a country: factor-driven stage, efficiency driven stage and innovation-driven stage. They are present in all economies and stages of development thought with different emphasis and prevalence of each and thus the entrepreneurial climate has different emphasis, too. For these reasons, having the different combinations and prevalence of different phases of economic development in different countries, experts agree that one model or approach to entrepreneurship cannot be valid. Furthermore, the small and medium sized businesses are considered main actors for industrial growth, source of considerable innovative activity and contributors to the competitiveness' growth. The small and medium enterprises can act as catalysts for change, helping economies to restructure quickly in response to changing economic, social and market conditions. This is why, it is important to support small and medium enterprises in order to help the whole economy to regain its strength and to return to sustainable growth (Naude, 2010).

However, a host of problems make it difficult for potential and existing small and medium enterprises to exploit the existing opportunities. In fact, it is recognized in the economic literature that these economy actors are generally confronted with the lack of financing (Sorensen, 2006). The ability

of the small and medium enterprises to access finance is important for facilitating new business start-ups, funding business investment; ensuring businesses reach their growth potential. The lack of finance can constrain cash flow and affect businesses' survival prospects. Comparing with the large firms, the small and medium firms are particularly vulnerable because: they have weaker financial structures or lower capitalisation; their activities are less diversified; they have lower or no credit rating; they are heavily dependent on credit; they have fewer options for financing especially on financial markets. In many cases, micro and small enterprises operate even from temporary, substandard or even illegal sites because there are not adequate, appropriately service areas in their community from where they can operate.

Over the past two decades, the European Commission (EC) has aimed to develop a comprehensive range of financial policies and instruments to support small and medium enterprises with the most appropriate sources and types of financing, at each stage of their life. For the EC an effective innovation policy requires a combination of three crucial dimensions: needs for reform, investments and transformation. The future of EU beyond the crisis (i.e. 2008) depends on its capacity to transform the structure of the economy towards a more knowledge-intensive and innovative industries and services (EC, 2013a). The Europe 2020 Strategy relies to a large extent, on the efforts made at the country level to which European instruments can only contribute. Therefore, the overall progress of the EU in its innovativeness is closely linked to the performance of member states in mobilizing and reforming their research and innovation systems, in investing in knowledge and in making the needed structural changes.

According to OECD (2013), entrepreneurship is firstly a local issue. It creates jobs, generates and improves private and public incomes and therefore contributes to the local development. Ideally, policy design and delivery should be based on participation of a wide range of stakeholders and should be tailored to the local needs and circumstances. The local authorities therefore, have, not only a crucial role to play in supporting their small and medium enterprises and entrepreneurs, but also a clear responsibility towards them. While the EU can provide tools and incentives for the implementation of an efficient entrepreneurial policy, it is on the regional and local level where the countries can really establish right conditions for entrepreneurs and where the small and medium enterprises will flourish.

## **NATIONAL VERSUS LOCAL POLICY FRAMEWORKS- INSIGHTS ON REPUBLIC OF MACEDONIA**

According to Eurostat, in 2013, the small and medium enterprise sector is central to the economy of the Republic of Macedonia too, since it accounted for app. 99% of all businesses and provided over 76% of the overall employment in the country. The small and medium enterprises generated nearly 67% of the new value added. However, their productivity was 80% below the EU average. Therefore, the small and medium enterprise sector in the country is rightly recognised as a main driving force of overall economic activity and because of its size and flexibility, it represents the most dynamic, same time vulnerable segment in the economic structure of the country. The Government of Macedonia developed National Strategy for Business Development, in which the emphasis is on the small and medium enterprises, taking into account that they are the most frequent business entities in the country. In addition, the government has supported lending to small and medium enterprises with different programmes, provided by the Macedonian Bank for Development and Export Promotion. These efforts led the business environment in Macedonia to be improved substantially over the past few years, ranking the country high on the World Bank's Doing Business Survey, particularly with regard to the tax administration, company registration and simplifying regulations. Finally, the free market, the freedom of the entrepreneurial activity and the private property rights are fundamental values outlined in the Constitution of the Republic of Macedonia. However, despite these welcomed improvements, still there are many impediments and constraints to the promotion of the small and medium enterprises and to the nurturing of the entrepreneurship. Primarily, the extent to which the "access to finance" problem limits the establishment of new businesses and restricts the growth of existing has yet to be explored. The share of the small and medium enterprises in the total private sector lending is estimated at only 35%, or three times less than its portion of the all registered businesses. Under this circumstances small companies rely on internal funds and retained earnings which are not sufficient to support their fast growth.

Business support services are another area that requires attention, as many small enterprises lack important skills in business planning and financial management. This skills gap lessens their growth potential and restricts their ability to access finance through normal banking channels. Training courses to help start-ups and growing enterprises are occasionally offered by various national and international providers and it is suggested that online training should be explored as a possible innovative option.

Another serious impediment is the lack of entrepreneurial motivation, skills and experience. Graduates from higher learning institutions who could join the sector of the small and medium businesses and who can make it much more vibrant and successful lack entrepreneurial mind-set and are not psychologically prepared. The schools that train their students in skills and attitudes needed to run independent business are still in their nascent phase, or the entrepreneurship is “teched” as a theory rather than to be fostered and practiced.

The local administration support for the development of the small and medium enterprises and the entrepreneurship was also intensified and received attention of the policy makers during the few previous decades. From the beginning of the administrative decentralization, the municipalities acknowledged that the local economic initiative should be regularly promoted since it can significantly impact the development of their administrative units, improving the employment and reversing the migration towards the larger cities. Support to the development of small and medium-sized enterprises and the entrepreneurship on the local level is one of the key competencies of the local authorities related to their local economic development. According to the Implementation Programme for Decentralization and Local Self Government Development of the Republic of Macedonia 2011-2014, the key challenges in the next three years will be the democratic governance at the local level and integrated and sustainable development of the local self-government units. These elements are of a particular importance for creating a local ambient conducive for business, attracting external investments and attainment of the planned growth rate.

Main actors at the local level are the economic development departments and the regional offices of the national business development associations and chambers of commerce. All these players offer a variety of services such as obtainment of company-related information and consulting, advices regarding the public support programmes for establishing new business ventures. Some of them act as intermediaries between the local administration and the local investors and provide the small and medium enterprises with certain advantages aimed to reducing of their operating costs or subsidies for joint appearances at fairs, for legal services, for management and financial consulting etc. However, there are many doubts about the actual quality of this local support. The institutions and the associations in support of the small and medium enterprises at the local level are still weak and the intervention is often inappropriately tailored, fragmented or uncoordinated. Moreover, similarly like in the other countries as European Commission, no matter how the local municipalities push for small and medium enterprises development, most things are not in their

hands and depend on the initiatives still coming from the national level (Green Paper on Entrepreneurship).

According to the GEM Report (Entrepreneurship in Macedonia, 2013) while there has been an increase in the promotion of entrepreneurial opportunities in recent years, it has not resulted in an increase in the number of start-ups. The GEM Report argued that this is mainly due to the general preference in the Macedonian society for working in the public sector or in some larger company. Respondents in Macedonia in 37.2% of cases think that there are good opportunities for starting new business, 29.1% plan starting their own business in the next 3 years, and 69.5% consider entrepreneurship a good career choice. However, since GEM Report makes distinction between necessity-driven and opportunity-driven entrepreneurship, most of the entrepreneurs in Macedonia (60,98%), were necessity driven, with only 22.95% who said that they were motivated by the perceived business opportunities.

In general, according to the GEM Report every third respondent believes that there are good opportunities to start a business in the next 6 months and more than half of the respondents consider that they have the required knowledge to run own business. In general, there is positive attitude regarding the entrepreneurship as career option, people consider that the entrepreneurs enjoy a high status in the society and that there is considerable media interest for the entrepreneurship. Most of the entrepreneurs are men between 25 to 34 years of age with higher level of education and income. According to the GEM Report, biggest enablers of entrepreneurship in Macedonia are the government and its policies and programmes, then the cheap labour, easiness of business registration, low taxation and the proximity to the EU. The main constraints are the lack of innovative financing, lack of research and development institutions and of lack of linkages between the research and the business, underdeveloped networks with countries in the region and the lack of venture funds.

In a reflection to the previous insights and constraints, the Government through its Competitiveness Strategy and Action Plan 2016-2020, identifies several steps for resolving the outstanding challenges in the institutional and operational environment for small and medium sized businesses. The Strategy calls for enhanced small and medium enterprises support services and strengthened consultation mechanisms with the private sector. The Government should allocate budget for its timely implementation, something that was often missing under the previous policy measures.

Since the current institutional framework is under-staffed and under-budgeted the sector was neglected over the past years. Additionally, the awareness about importance of the small and medium enterprise policy

implementation is still not appropriate and the consultation mechanisms with the private sector are in a need of strengthening.

Another area of possible greater involvement of the local administrations, particularly those from urban areas and larger cities is the area of the social entrepreneurship or “the activity of private individuals and organizations taking initiative to address social challenges in their communities” (Korosec and Berman, 2006). Based on a national survey and in-depth interviews in many U.S. cities with population exceeding 50.000, they found that the municipalities could help social entrepreneurs by (1) increasing the awareness of the social problems, (2) by helping potential and active entrepreneurs to acquire resources, (3) coordinate with other organizations and (4) implement the programs. Nearly three quarters of the surveyed cities in the US provided active or moderate support and that support positively influenced the perceived effectiveness of the non-profit organizations in the respective communities, that they researched. Moreover, the lack of private initiative is frequently regarded as a hallmark of community stagnation, as well as a barrier to public sector effectiveness (Korosec and Berman, 2006). Moreover, during the last few decades countries all over the globe have sought to deliver public services through new working relationships among governments and private and nonprofit organizations. The defining characteristic of these collaborations is the voluntary combination of separate organizations into a coherent service delivery system supported by advanced IT. The rapid evolution of these technologies has created important new opportunities for governments to redesign services through collaboration stress Dawes and Préfontaine (2003). Presenting the results of a two-year mega project carried out by an international network of field researchers in the U.S., Canada and Europe they conclude that “the social entrepreneurship is becoming worldwide phenomenon that transcend cultural and national boundaries”. Having in mind that many of the initiatives in the area of the social entrepreneurship require professional expertise, this practice could be very practical in the urban areas of the big cities. In the urban areas there is often large unemployment of various profiles of young graduates who might, with help of the municipal administrations, provide suitable social services to the public based on public private partnership. The contribution of the social business and social entrepreneurial activity is becoming an important declaration in EU with focus on intensive development of social entrepreneurship and social economy, recognition of social entrepreneurship power and social capital demand ((Rukuižienė, 2016).

Universities and other institutions of higher education active in the municipalities that strive to foster the small business and the

entrepreneurship are also interesting stakeholders. The attitudes of university faculty towards the expansion of universities' missions to include assisting regional economic development and technology development by knowledge commercialization are analysed. Goldstein et al. (2013) analysed the universities in the EU and in the United States and their attitude towards their greater involvement into the improvement of the economic conditions of the communities in which they operate. They found that faculty both in the U.S. and in the EU were supportive significantly more in their universities assisting regional economic development than in various forms of knowledge commercialization. This fact can be also used in development of the municipal intervention in the area of fostering the small and medium business and the entrepreneurship in the case of the urban areas where many such institutions tend to concentrate.

Business supporting infrastructure that the local communities can establish in promotion of the small and medium enterprise and the entrepreneurship are various forms of the advice giving agencies. A network of such institutions can be established with financial and non-financial contribution of the local government and / or with previously mentioned forms of public private partnership as part of the social entrepreneurship initiatives. Most common forms of such support are the business advisory services and incubators. Business advisory services provided various business related services usually on subsidized prices to active small business entrepreneurs and start-ups. The actual spectrum of services involves business planning (from idea generation to access to finance), skills acquisition, trade matchmaking and similar. While some authors argue about the actual effect of the business advisory services offered as publicly funded initiatives for fostering the entrepreneurial activity in their local communities, Cumming and Fischer (2012) performed a survey of 228 early-stage firms. Approximately half of the surveyed companies (101) used business advisory services focused on helping secure nascent rounds of financing and on start of generating revenues found that the business advisory services do have positive effect on the sales growth, innovation, finance and network alliances of the surveyed companies.

Training in business skills is part of the common service and product offering of virtually all business development centres. Moreover, this is area in which, as we previously mentioned, even universities are interested to enter. Berkeley-Haas School from the U.S. had successfully piloted a program to train Brazilian entrepreneurs to bring new ideas and technologies to market. It is the latest push by elite US schools into emerging markets, which are fostering start-up movements, but which often lack credible training programs. The goal of this particular training is participants to learn

how to use Lean LaunchPad framework developed by Silicon Valley entrepreneur and Berkeley-Haas lecturer Steve Blank. The platform is designed to help start-ups and other entrepreneurs in business planning allowing them to quickly create, test, and iterate on their business models. Brazil is experiencing an entrepreneurship boom, but there are few structured and scalable training programs in the country, claim at Berkeley-Haas. Brazil lacks the deep experience of start-up clusters like Silicon Valley, where multiple generations of founders become mentors to the next generation. Our objective is not to just train teams of entrepreneurs, but to train instructors and to build the capacity of institutions that will disseminate the knowledge throughout the country. Similarly, at the Stanford Graduate Business School also launched similar part-time, 10-week program aimed at entrepreneurs and taught in several worldwide locations simultaneously, including Paris, Bangalore, New York, Sao Paulo, Santiago and Beijing. At Stanford, well known by its strong entrepreneur program, declare that the demand for entrepreneurial education has grown significantly worldwide (*Business Schools help in scaling the start-ups in Emerging Markets*, FRPT-Software Snapshot, August 3, 2015).

If, and when a sample of the business development services are offered together with some form of collocation of the businesses in controlled business area or park, then we talk about business incubators. Analysing the incubators in the U.S., Stokan at al. (2015), reveal that this instrument has significant positive impact on the job creation in case of the new ventures hosted. They also found that the incubated firms receive five times as many business services (legal, financial, marketing, etc.) as their non-incubated counterparts, explaining this, *inter alia*, by the strong networking effect present in incubators.

Since the small businesses tend to systematically seek partnerships and form strategic alliances with other businesses in the area, they have strongly contributed to the emergence of business development networks - coalitions of business owners and professionals who, through a structured support system, help each other to generate business. Business development networks proliferate mostly in Anglo-Saxon economies, attracting large numbers of small business owners and forming a distinct community of practice with a distinct rhetoric (Blazkova, 2011). The local municipality admirations can foster business networks of their respective small and medium enterprises by introducing them into the very common practice of establishing sister cities relationship, joint associations, clusters, trade promotion agencies and joint chambers of commerce with the sister cities.

Finally there is the issue of access to finance. The small and medium enterprises access to funding issue is not new, it has been a problem for long time, but it has further exacerbated nowadays, as result of the financial crisis and the economic downturn in some European countries. Their main competitive advantages that reside in innovation, flexibility and dynamism cannot be exploited without regular access to appropriate funding. Although the small and medium sized businesses are often the major promoters of change, when it comes to access for financing, there is still much to be done, especially for the most innovative small enterprises (Nitesku, 2016). The municipalities can contribute by offering free space to banks that are otherwise not sufficiently interested to be present into the given areas, especially when it comes to underdeveloped and rural areas, with promotion and even with organizing financial trade fairs, ideas fairs, meeting business angels, and similar investing promotion activities.

## **OBJECTIVES AND METHODOLOGY OF THE SURVEY**

The focus of the survey was on the perceptions and on the attitudes of the participants towards the entrepreneurship in general and towards the opportunities of starting a business, skills set and sources of finance, needed. The survey provides some answers on the constraints that the potential and the existing entrepreneurs in Macedonia face when starting and performing their businesses. The objective was to help the local municipalities to overcome some of them.

Judgmental sampling is used and the survey was performed between February and May 2015 in the municipalities in and around Skopje, the national capital. Invited to participate were 126 attendees on the training organized within their municipalities. Only 90 submitted their responds to the survey, giving a response rate of 71.4%. The gender structure is 46% males and 54% females. The average age was 39 years. A high 63% of the participants had university degree including 26% with graduate degree.

## **RESULTS OF THE SURVEY**

The survey shows that more than half of the participants (54%) considered that the business environment in their municipality is generally negative and 70% believe that the risk of doing business in the Republic of Macedonia is too high. Contrary to this, a high 70% of the participants reported that they have ready business idea. However, they all answered that they are not familiar with the non-financial support to start ups or the lending

options available. On the question how they would prefer to finance their business, participants had higher preference to use own funds and lending from financial institutions and neglect lending from family and friends, which, according to the GEM Report is a global trend. However, half of the participants have not heard about the micro credit line of the Macedonian Bank for Development available almost in every commercial bank in the country. Regarding the conditions for lending from the banks, participants generally found them not favorable, but still prefer them to the other alternative sources of finance. They are entirely unfamiliar with business angels. However, when the concept was explained to them, they answer that would like to present their ideas to such persons.

Over 50% of the respondents identified the difficult access to capital as obvious obstacle. In general, survey participants found the financial sources poor and limited. Two barriers that affect the access to finance mentioned most frequently are the lack of commercial credit for start-ups and the high interest rates. The small and medium business entities in the country usually provide necessary financial resources from their own sources (71.8%) while 40.6% have used loans. According to the survey, 66% of the respondents reported that they would consider starting a business if the lending terms were more favourable. Our survey also shows that collateral requirements, loan terms and size are also seen as important constraints to start ups.

Regarding the non-financial constraints, the lack of quality training programs in entrepreneurship skills is the most frequently listed. Moreover, only 35% of the participants found the training organized by the local government useful for the prospective entrepreneurs. The majority of the participants cited the knowledge about business management, the knowledge about business regulations and project management as weak areas in which they would like to get more training. The general conclusion is that the participants find the training only partially effective in addressing their needs and in influencing their decision towards starting own business venture in near term.

## **CONCLUSIONS AND RECOMMENDATIONS**

The growth of the small and medium enterprise and the entrepreneurship is critical for economies like that of the Republic of Macedonia. With traditional job opportunities scarce, the entrepreneurship serves as attractive career option and strong support to the national economic growth. Entrepreneurship is also area of focus of number of EU programs. Improving the environment for potential and existing entrepreneurs is thus crucial task for the government at all levels of power because a number of

important constraints in terms of the business environment, the scarcity of financing of small business, the lack of entrepreneurial culture of population and lack of adequate business skills of the managers.

The survey of the participants of the training organized by one municipal local government unit in urban area of Skopje shows that participants while are not short with business ideas have considerable reserves in terms of their assessment about the real prospects of success with a start-up venture. The intervention of the municipality is typical useful but in order to be entirely successful it should be a part of much wider intervention strategy based on involvement of all stakeholders, namely the state, at all levels, the business support agencies and industrial parks and incubators and the banking system. In other word, the main argument we make with this paper is that the strengthening the entrepreneurship and the small and medium enterprise is a cross-policy and inter-ministerial issue. Moreover, the effectiveness of state support depends also upon the integration and coordination of the policies and measures on national, regional and local level. The state with its economic and administrative policies should be strongly oriented towards increasing support of the development of micro, small and medium enterprises and towards creating conditions for municipalities to act in same direction. The municipalities can play maybe the key role in addressing the constraints that small businesses face in everyday operations, and this article we believe provides a practical starting point from which the future entrepreneurship promotion support will be designed in case of Republic of Macedonia. This local authorities and communities should be particularly involved into identification of details of the policy measures mix and in pulling together all the appropriate activities at all levels of government. To some extent, the findings in this paper also show that the local government units and the municipalities are able to provide active support to all other measures of all other stakeholders into the process, helping the effectiveness and the efficiency of their efforts. In these terms, it can provide the Macedonian leadership in the municipalities a useful guidance for future programming of their initiatives for support of the entrepreneurship in their communities.

What the municipalities cannot do is to increase the sources of financing like credit lines or special instruments like guarantee schemes etc. for start-ups, or solving the problem with high collateral. However, they can do a lot in many other areas of support to small and medium enterprises like promotion of local business advisory services, training and free locations and facilities for various business incubators. Namely, it has received a significant amount of attention in Macedonia in recent years

Expanding the entrepreneurship by fostering the incubator model is widely recognized intervention most appropriately implemented at local level of government. Incubators offer a wide range of free or subsidized business development services, office space, shared administrative resources, connections to sources of finance, training and coaching thus addressing nearly all of the constraints faced by the start-ups and small business entrepreneurs.

The study was done using a limited sample size and limited to one region of the country. The future research should involve wider geographical spread of the sample and introduction of rural and remote areas of the country since there is great possibility the problems and constraints that potential and active small and medium sized enterprises and their leaders to significantly differ from those that affect their counterparts in urban areas of the country.

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