

**PERSPECTIVES ON FAMILY BUSINESSES  
DEVELOPMENT AND CLUSTERS IN REPUBLIC OF  
MACEDONIA<sup>1</sup>**

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**Abstract**

Clusters as an organizational form of cooperation in the Republic of Macedonia started their activities in 2002 with the USAID Macedonian Competitive Activities project, which supported the establishment of the first five clusters: sheep cheese and lamb cluster; tourism cluster; wine cluster; IT cluster and textile cluster. By mid-2016, around 30 clusters have been institutionalized in different areas, with the core characteristic of developing the concept of clusters in Macedonia being the "top-down" approach. Which points to the fact that the initiative for the formation of clusters in Macedonia comes either from the government or from foreign organizations.

More of companies which a part of the clusters are Family business. In this way, the clusters will contribute, the family business to develop and grow under their protection as part of a corporation, which is confirmed by the results of the research.

The interest of each national economy is an increase the number of companies. Most often, they are family companies, which is the case in our country. The family businesses, as businesses, are very difficult to break into the market as a result of existed competition..

One of the roles of clusters in the development of national economies is the initiatives they give to start up new companies for the needs of the cluster, which means new jobs. At the same time, clusters strive to retain professional staff and improve their knowledge. This applies to staff who have good

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<sup>1</sup> professional paper

management skills and qualifications for the needs of family businesses. This is understood as a key element in keeping family businesses in the cluster, as well as in contributing to successful cluster development.

**Key words:** clusters, family businesses, innovation, competition.

## INTRODUCTION

The existence of the cluster as a form of organization of businesses is known a long time ago in different economies, as geographical concentration of businesses, but without significant impact on national economies. In fact, the existence of crafts of a geographical area that cooperated in certain areas as part of the laws of nature, is a fact which shows that this form of organization existed across centuries in many regions. This means that the clusters have long been an integral part of national economies, but with significantly limited role. In the economic literature, the term *cluster* becomes prominent in the 90s years of last century with the publication of the book "Competitive advantage of the nation" by Michael Porter, professor of Harvard University. From the Porter analysis<sup>2</sup> of the competitiveness of companies can be concluded that the leading companies do not operate in isolation from other businesses, they operate as part of a wider group of complementary companies. Such a group of related companies are called clusters. So, the concept of cluster association is not new. Some authors started to think for a cluster in the early twentieth century, when arising and corporation which main aims were to increase company productivity. After that, on the cluster began to be seen as an opportunity to introduce innovative thinking for a company or business, and opportunity for the region development. This consideration recently is expanded the national and multinational level.

In the Republic of Macedonia, the role of cluster association of companies and their contribution to the economic prosperity of the country has been emphasized in recent years. The fact that 30 clusters<sup>3</sup> operate in the Republic of Macedonia enough speak about the support of the Government of the Republic of Macedonia. Such support is backed up with the adopted programs for the support of the cluster association.

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<sup>2</sup> Porter, M. E., (1998), „*On Competition*“, Boston, Harvard Business School Press

<sup>3</sup> State Statistical Office "Macedonia in Numbers", Skopje, 2016

## **THE CLUSTERS AND THEIR CONTRIBUTION OF THE MACEDONIAN ECONOMY DEVELOPMENT**

The clusters have a major impact on the development of national economies, especially in the EU countries. This conclusion is supported by the fact that in the formation of clusters in some EU Member States, national institutions also participate through developed clustering programs. Such a policy to support the formation of clusters has been implemented through agencies under the supervision of certain ministries. Thus, in the Netherlands<sup>4</sup>, a national policy for the formation of clusters has been developed, while regional initiatives that emerge in the direction of cluster development are usually implemented as separate programs.

Perspectives for the development of family businesses and clusters in Republic of Macedonia were processed on the basis of the theoretical and secondary research of the available materials on this subject, as well as the empirical research conducted on a sample of 103 companies in the Republic of Macedonia.

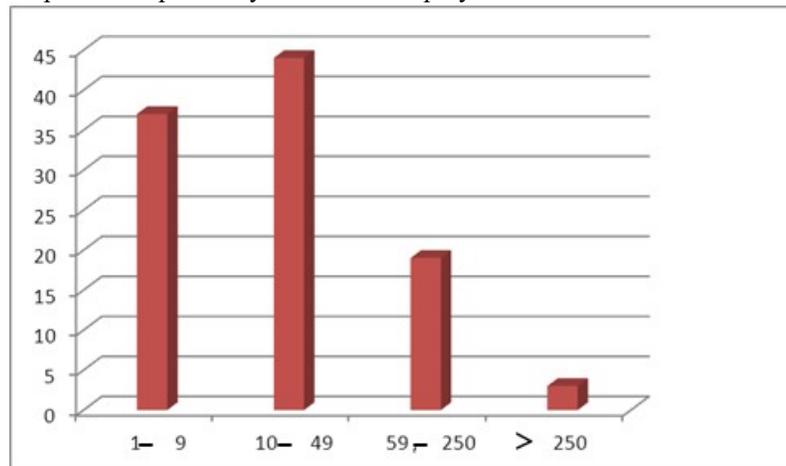
The sample of the survey covered companies from different activities, with the majority of the companies being from the tourism and hotel industry, trade, processing industry, as well as information and communications.

Regarding the size of the companies (Graph 1), most of the interviewed companies belong to the group of small companies employing 10-49 employees (44 companies), followed by micro companies up to 10 employees (37 companies), medium-sized companies of 50 up to 250 employees (19 companies) and 3 large companies employing over 250 employees.

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<sup>4</sup> European commission, Innovation Clusters in Europe: A statistical analysis and overview of current policy support

Graph 1. Companies by number of employees



Source: Own analysis based on data from empirical research

The survey on empirical research, was compiled so that it could explore the situation of family businesses and their thinking about the existence of certain knowledge about clustering as well as the experiences of those family businesses that are part of the cluster. That is why our goal was to include family-owned companies. Concrete research has been done on 103 family businesses. Of these, 23 surveyed companies were part of a cluster, 69 non-clustered companies, and 11 companies did not comment on this issue.

The growth in the number of clusters contributed to their popularity among firms (Table 1), that is, increased awareness of the existence and basic functions of clusters. In this regard, the results from research show that over 60% of respondents are familiar with the importance and role of clusters. However, the fact is that almost 1/3 of the respondents have no knowledge of this term suggests that there is room for further education of business entities about the opportunities offered by the clusters. This is confirmed by survey results which shown as that about 30% of respondents did not answer the question of whether they want to be part of the cluster.

On the other hand, it is interesting that only those who answered the question interested in being part of the cluster were only about 35% of the respondents. This leads to the conclusion that, despite the knowledge of the majority of the respondents with the notion of cluster, the willingness to become part of the cluster is much smaller, which may be due to the lack of a clearly defined

strategy for the significance and role of clusters in the development of the national economy and the benefits of family businesses as part of a cluster.

This situation is quite different from the countries in Western Europe where, according to studies, there is great interest in companies being part of a cluster<sup>5</sup>.

Table 1: The Family Business and Clusters

	Yes	No	I don't no	No answer
1. Are you familiar with the term cluster?	65	37	1	/
2. Would you like to be part of a cluster?	34	34	4	31
3. Have you initiated a cluster creation activity?	13	61	/	29
4. Have you received an invitation to be part of a cluster?	5	70	/	28

Source: Own analysis based on data from empirical research

Characteristic for the Republic of Macedonia is that cluster association is mainly done by an initiative of external factors (usually within programs of foreign donors). In other side, initiative from the companies to clustering themselves within an industry are almost nonexistent. From the existing clusters, which have the limited funds and budget of programs, only a limited number of firms receive invitations to participate in clusters. This is confirmed with the answers of about 68% of the respondents in the empirical research that they did not receive an invitation to join a cluster

### **COMPETITIVENESS OF FAMILY BUSINESSES - RESULTS OF RESEARCH**

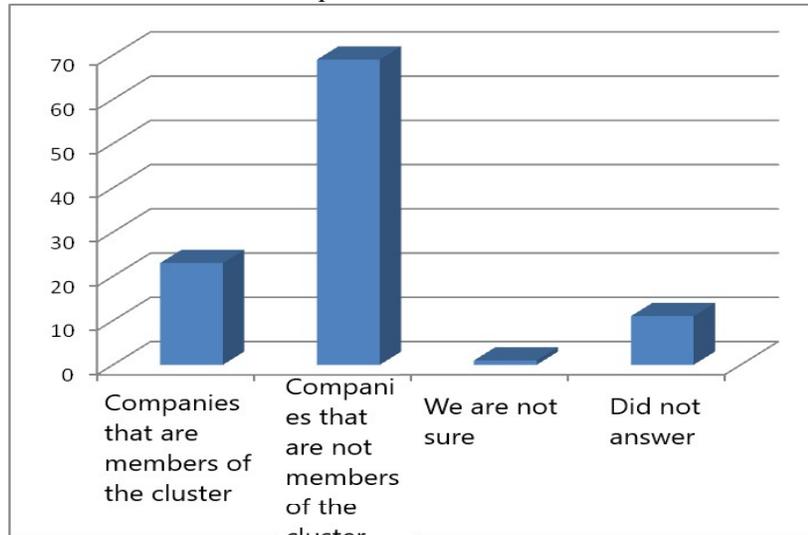
We have said that we see clusters as a concept of a separate geographical area of a group of interconnected businesses with others such as raw material suppliers, service providers, businesses of related industries, universities, trade

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<sup>5</sup> <http://www.clusterobservatory.eu/index.html>

associations, chambers of commerce, various agencies, where all this takes place within a field of action. In the Republic of Macedonia in 2012 there were 15 clusters, for that number to reach 30 in 2016, so we can say that the clustering in the Republic of Macedonia is nascent and that the initiatives for cluster formation so far are mostly from top to bottom, ie the initiative to form a cluster caused by government institutions. Perhaps therefore, in the processed sample of the survey, about 22% of the surveyed companies stated that they are part of the cluster (Graph 2).

Chart No. 2. Number of companies that are members of the cluster



Source: Own analysis based on data from empirical research

Although a small proportion of the interviewed companies reported that they operate within clusters, all 23 companies which are a part of the cluster, are being family businesses, which is a positive indicator of the significance of the results of this research. That is, the responses provided by the respondents make it possible to draw a parallel of their thinking with the theoretical and world-wide practical knowledge that is considered valid in this sphere.

According to Michael Porter, who is also regarded as the creator of clustering in the modern economy, companies linked by the similarity of activities have a greater competitive advantage over companies that are

unrelated companies. In fact, through its "National Competitiveness Diagram"<sup>6</sup>, it points to the synergistic effect of most of the SMEs, including family businesses, on the development of competition in the economy.

Namely, generally accepted knowledge from Porter's research and other theorists are that family businesses as part of a cluster will improve their competitiveness on the market by increasing productivity. Clustering companies improve their productivity, thereby affecting the creation of added value through:

- Access to the wider markets in the surrounding and in the world,
- The complementarity of the companies within the cluster facilitates the functioning of the cluster,
- Access to scientific and research centers,
- Continuous competition between cluster companies also increases the productivity of family businesses.

The empirical research (Table 2), which contains referring to 22% of the companies that are part of the cluster, confirmed that 63.3% of the surveyed Macedonian family companies that are affiliated in clusters, that the consider clusters to provide companies with easier access to the wider markets in the environment and in the world compared to the individual actions of the companies.

Table 2: What family businesses expect when joining a cluster

	I completely agree	I agree	Neutral opinion	I do not agree	I completely disagree
1. Will the cluster link provide access to the wider markets?	21	29	9	5	/
2. Does the complementarity of cluster companies facilitate non-response?	13	17	6	11	/
3. Do cluster companies have more access to research centers?		18	7	1	/

<sup>6</sup> Michael E. Porter, "Competition" Harvard Business School, 1998

	12				
4. Will membership become more competitive in the cluster?	17	26	18	2	1

Source: Own analysis based on data from empirical research

Also, 70% of respondents who answered this question have agreed on 56.9% in terms of thinking that the complementarity of family businesses in the cluster will contribute to facilitating its functioning. Regarding this question, 8.9% of the respondents disagreed with this conclusion, and 15.2% had a neutral opinion, which indicates the importance of connecting related businesses to the cluster, which once again confirms the conclusion that clusters are interconnected related companies one geographical area.

In defining the clusters, that besides the companies, the cluster includes scientific research centers and higher education institutions. Scientific research centers and higher education institutions have made a significant contribution to the operation and development of clusters, which is confirmed by 38% of the companies covered by this survey. This is a relatively low percentage with respect to the widely accepted perception of the important role of scientific cluster centers for clusters, which can be related to the situation in the scientific and research sphere in the Republic of Macedonia which, due to the very limited financial support from the state, does not produce results significant for the business sector. However, only 1.3% of the respondents disagree on this issue, ie the majority are neutral, which speaks of the need for greater connectivity between the private sector and science.

According to the tertiary research, the positive influence of clusters on the development of competitiveness and the improvement of the productivity of companies in the cluster can be concluded. This conclusion from the teoretic research, also overlaps with the opinion on the issue of the surveyed companies done within the framework of the empirical research of this paper. This is confirmed by the results of empirical research on this issue where 45% of the respondents agree with this conclusion compared to 3.5% who consider that the clusters will not significantly affect the improvement of the competitiveness of companies in their operations. Such a positive attitude towards this issue is due to the high percentage of knowledge of the meanings of the respondents with the notion of clusters.

Theoretical research concludes that family businesses as a cluster member increase the capacity of innovation, because companies within the cluster have a greater opportunity to perceive the need for introducing innovations, to perceive the needs of consumers and accordingly and act quickly on the ground. Family businesses<sup>7</sup>, as a cluster member, fulfill their vision of introducing innovations despite big competitive pressures. They often use expert advice from experts in any cluster member company, if necessary, exchange and use technology of companies in the cluster, etc. They are flexible and able to act quickly according to needs. Cluster participants can capitalize on cluster services in view of remaining competitive in emerging industries or successfully entering new global value chains. Cluster services focusing on cross sector issues can be of even more importance, since innovations mainly happen at the borderline of those industrial sectors<sup>8</sup>.

Clusters are important instruments for the promotion of innovation. They are “industry eco-systems”<sup>9</sup> providing a favorable business environment for experimenting with new business solutions.

Table 3: Benefits of the cluster

	I completely agree	I agree	Neutral opinion	I do not agree	I completely disagree
1. Are cluster companies working to continuously improve the quality of their products?	12	19	4	/	/

<sup>7</sup>[https://www.researchgate.net/publication/272645663\\_Review\\_of\\_Family\\_Business\\_Definitions\\_Cluster\\_Approach\\_and\\_Implications\\_of\\_Heterogeneous\\_Application\\_for\\_Family\\_Business\\_Research](https://www.researchgate.net/publication/272645663_Review_of_Family_Business_Definitions_Cluster_Approach_and_Implications_of_Heterogeneous_Application_for_Family_Business_Research)

<sup>8</sup> European Cluster Observatory “Cluster Collaboration and Business Support Tools to Facilitate Intrepreneurship, Crosssectoral Collaboration and Growth” , Bruxel, September, 2014, p 1

<sup>9</sup> European Cluster Observatory “Cluster Collaboration and Business Support Tools to Facilitate Intrepreneurship, Crosssectoral Collaboration and Growth” , Bruxel, September, 2014, p 2

2. Are there clear stages for introducing new and innovative products?	10	18	6	/	/
3. Are companies in the cluster more productive?	11	28	19	6	/

Source: Own analysis based on data from empirical research

One of the criteria for success of companies is their innovation and the introduction of new products or services. The answer to this question is directly related to the interest of companies to cooperate with the environment, that is, with the business sector and scientific research centers. The joint work will facilitate the process of creating new innovative solutions that are in the interest of facilitating the company's operation or launching new products-services on the market that will contribute to the company gaining a business advantage over competitors.

According to the obtained results from the empirical research related to the issue of introducing new and innovative products, the companies that want to be part of the cluster, ie 34 companies, according to which 82.4% agree with this conclusion, while 17.6% of the respondents disagree with the statement that clusters have a significant contribution to the introduction of new products/services in the company. The results obtained in the processing of data show that clustered companies continuously work to improve the quality of their products/services by monitoring market needs and undertaking corrective measures. According to the opinion of the survey results obtained show that everyone agrees with the conclusion that membership in the cluster contributes to the improvement of the quality of the products / services, ie 88.3% agree and 11.3% have an indefinite opinion.

One of the reasons for companies to be part of a cluster is to improve their productivity, which will be enabled by reducing costs in their operations and by attracting as many consumers as possible by improving their products / services. From the results obtained, 60% think that the companies in the cluster are more productive and 40% have a neutral attitude. What is in favor of this conclusion is the example with the establishment of the EDEN<sup>10</sup> Tourism Cluster in the South-west planning region. The purpose of the establishment of this cluster is to unite all those tourism-related factors in order to improve the services of the end users and to promote the Ohrid-Struga region as a desired tourist destination.

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<sup>10</sup> See more at: <http://eden.mk>

Foreign experience shows that clusters encourage the formation of new companies, including family-owned companies. In this way, the clusters expand and grow, further increasing their preference. The companies that are formed at the cluster level are established for the needs of its functioning and often deal with providing the necessary means for work, consulting, training of employees, bringing new investors and promoting products on the markets

Table 4: The contribution of clusters

	I completely agree	I agree	Neutral opinion	I do not agree	I completely disagree
1. Will the clusters contribute to the formation of new companies?	17	17	28	2	/
2. Will clusters contribute to the creation of new jobs?	12	22	29	1	/
3. Will the cluster linking encourage the development of the company?	9	36	15	4	/

Source: Own analysis based on data from empirical research

According to survey data related to the impact of clusters in the creation of new companies, it can be concluded that 17 (or 21.5%) respondents fully agree, 17 (or 21.5%) agree, 28 (or 35.4%) have a neutral attitude and 2 (or 2.5%) disagree with this conclusion. The obtained results indicate the positive attitude of the respondents towards clustering as an opportunity for opening new jobs. With this conclusion, 12 (or 15.2%) respondents fully agree, 22 (or 27.8%) agree, 29 (or 36.7%) have a neutral attitude and 1 (or 1.3%) are not agrees with this statement.

According to the question 3 of empirical research and the opinion of the respondents related to this issue, 9 (or 11.4%) of the respondents fully agree with the conclusion that membership in the cluster will contribute to the development of the company, 36 (or 46.5%) agree with the given conclusion, 15 (or 19%) have a neutral opinion and only 4 (or 5.1%) disagree with the conclusion that cluster membership will contribute to the company's faster development.

## CONCLUSION

The family businesses are a major driver of economic growth and the development of a national economy hence their networking in clusters will provide additional input in their operations. Considering the fact that the percentage of representation of family businesses from the total number of companies in the European countries and in the Republic of Macedonia is very high, and they accumulate a significant percentage of the working population, it can be emphasized how important their effective functioning is. Additionally, the addition of the fact that their additional values (for example, flexibility and relatively fast adaptation to market needs, customer closeness, decision making efficiency and direct communication with management - the employees) additionally emphasize the importance of this type of businesses that are an important factor for the development of national economies. Hence, it can be concluded that the role and importance of family businesses as an important category in the socio-economic development, which with their long tradition (the oldest form of organization) are represented throughout the world.

If we add to this the findings of the analysis, which show that clusters are increasingly considered an important instrument for stimulating innovation, competition and economic growth, an important element for the development of the country's national economy, which further strengthens the need for networking family businesses in a cluster. Establishing clusters in the economy allows small companies (who in the rugged world of competition are struggling with all their might to survive on the market, under constant pressure from the competition and the influence of larger companies) to secure a secure future as well as a continuous process the production and export opportunities of foreign markets.

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