

IMPACT OF THE BUSINESS CLIMATE ON TOURIST INDUSTRY ENTITIES IN THE REGION OF OHRID¹

Lidija Simonceska

University St. Kliment Ohridski, Bitola, Faculty of Tourism and Hospitality,
Ohrid, lsimonce@yahoo.com

Toni Cvetanoski

Enterprise Support Agency – ESA Ohrid
tonicv@t.mk

ABSTRACT

Small and medium-sized enterprises constitute a significant part of the business community in the Republic of Macedonia. They account for more than 99% of the total number of active business entities in the country. Of these, 6.5% are active in the sector of Accommodation and Food Service Provision.

There are numerous advantages on the part of small businesses, such as their flexibility, adaptability to the business environment, that have considerable impact on employment, Gross Domestic Product (GDP) formation, and so on.

The World Bank defines business climate as a set of specific factors that influence the opportunities and incentives of business entities for productive investment, job creation and expansion of businesses.

Small and medium-sized enterprises are also important for the tourist industry of the Republic of Macedonia. Taking into consideration that the business climate has a serious impact on the operations of small and medium-sized enterprises in the tourist industry, this paper will investigate a set of factors that affect the course of business activities at the small and medium-sized enterprises in general, as well as those belonging to the tourist industry in the region of Ohrid.

KEY WORDS: business climate, tourist industry, small and medium-sized enterprises

¹Review paper

INTRODUCTION

According to the State Statistical Office data in 2017 and pertinent to the National Classification of Businesses (NKD Rev.2), the total number of active business entities in the Republic of Macedonia amounts to 71,419 entities.²

In terms of staff employed by the active business entities, the situation is as follows:

- 79.3% of the business entities employ 1-9 staff
- 11% of the business entities are without staff, or employ unspecified number of staff (no data on employees)
- 4.5% employ 10-19 staff
- 2.9% employ 20-49 staff
- 1.9% employ 50-249 staff
- 0.3% employ more than 250 staff

The data presented indicate that 99.7% of the active business entities belong to the category of small and medium-sized enterprises.

According to the State Statistical Office data, 6.4% or 4,559 active business entities belong to the sector of Accommodation and Food Service Provision. Compared with the data from 2016, the number of active business entities in this sector has decreased by 0.1% or 68 enterprises.

Small and medium-sized enterprises face numerous obstacles in their day-to-day operations, varying from the institutional aspect, to legal aspect, regulatory aspect, etc.

In addition, the operations of small and medium-sized enterprises are significantly affected by the stability of the environment in which they carry out their business activities, which can be related to macroeconomic aspects, political stability, etc.

The conclusion that can be derived from above is that the state should provide conditions and environment for the small and medium-sized enterprises to be

²Republic of Macedonia State Statistical Office, Macedonia in Numbers, 2018, p. 60, Skopje, 2018

able to develop under stable circumstances for development. The state can do so through its ministries, state agencies, funds, etc.

There are certain measures and activities that are implemented in support of small and medium-sized enterprises in the Republic of Macedonia.

At the national level, they are mainly implemented through the Ministry of Economy and the Ministry of Labor and Social Policy, while other more important institutions involved in the implementation are:

-Agency for Promotion of Entrepreneurship of the Republic of Macedonia, which is the implementing agent for certain programs, such as the self-employment and own business start-up program and the subsidized use of consultancy services program

-Innovation and Technological Development Fund, whose principal mission is to provide incentives and support to innovative activity at the micro, small and medium-sized enterprises, for ensuring speedy technological development, based on knowledge transfer, development centered research and innovations that will support creation of new jobs and economic growth and development, improving at the same time the business environment for the development of companies competitive capacities.³

Innovation and Technological Development Fund realizes its goals through co-financed grants for newly founded start-up and spin-off companies, and co-financed grants and conditional loans for loan commercialization.

-The Macedonian Bank for Development Promotion, whose main task is to promote export through crediting and other forms of support; to provide support to the development of small and medium-sized companies through the approval of investment loans, etc.⁴

At the local level, there exists a network of business entities in support of entrepreneurship. However, the network is still not adequately strong, which presents a considerable constraint for the opportunities of small and medium-sized enterprises, in terms of their access to various information on business assistance and funding, consulting assistance in dealing

³ <http://www.fitr.mk/portfolio-item/мисија-и-цели/>

⁴ <http://www.mbdp.com.mk/index.php/mk/za-mbpr>

with specific operational problems, business contacts, applying for different projects, information on sources of funding, etc.

Operating at the local level is a network that supports small and medium-sized enterprises. It consists of three ESA Agencies in Ohrid, Tetovo and Gostivar (established as a project of the British Government) and five Regional Centers for Support of Entrepreneurship in Skopje, Kumanovo, Veles, Strumica and Bitola (established by the European Union). On the other hand, the government provides certain tax incentives for small and medium-sized enterprises. For example, with tax incentives, small and medium-sized enterprises that generate:

- total income of up to 3,000,000 (three million) denars – the enterprises are exempt from paying total income annual tax,
- income from 3.000.001 to 6.000.000 denars – the enterprises have the opportunity to make a choice between paying a total income annual tax of 1%, calculated for the amount of total income, or 10% tax for the amount of their profit and expenditures unapproved for taxation purposes,
- income exceeding 6.000.001 denars – enterprises pay 10% tax for the amount of their profit and expenditures not approved for taxation purposes.

BUSINESS CLIMATE AND TOURIST INDUSTRY ENTITIES IN THE REGION OF OHRID

The business climate is an important factor for the operation of business entities. The World Bank defines the business climate as a set of specific factors that influence the opportunities and incentives of business entities for productive investment, job creation and expansion of businesses.

The World Bank prepares its report on business climate - “Doing Business” – examining 10 criteria, and analyzing regulations related to businesses, cross-border trading, tax payment, insolvency resolution, etc.

The Republic of Macedonia’s ranking in “Doing Business” report has been high in recent years.

Particular emphasis is placed on the progress in the sphere of regulatory reforms concerning:

- running business,
- business registration,
- obtaining a loan,
- cadastre digitalization,

- investor protection, etc.

However, "Doing Business" explores the regulatory reforms, rather than the implementation of such reforms in practice and the non-selective application of the regulations in real-life business running. In this respect, efforts should be made to improve the business environment and thereby enable a more stimulating business ambience for the operations of small and medium-sized enterprises in general, and those who perform their business activities in the field of tourism, as well.

The situation in this area was the subject of a survey conducted with the intention of establishing the business climate in the region of Ohrid. The purpose of this research was to interview the businesspeople in the Municipality of Ohrid in order to obtain information about the situation in the business environment in which the small and medium-sized enterprises operate. The interviewees in the Municipality of Ohrid included managers or, at the tourist entities where the owners carry out managerial activities, owner-managers.

The interview included questions that could provide information on the following:

- type of business of the enterprise
- number of employees and forecast of future employment at the enterprise
- sales and predicted sales in the future
- the structure and qualifications of employees
- government services, government relations and government bodies
- municipal services and the local administration conduct
- the impact of the Republic of Macedonia's future EU membership, etc.

The survey involved 47 businesses belonging to the sphere of small and medium-sized enterprises, 28 of which came from the sector of Accommodation and Food Service Provision.

The analysis of the responses received from the managerial staff provided important conclusions concerning the business climate in general for all business entities, as well as the specific challenges of the small and medium-sized enterprises in the field of tourism and hospitality.

The findings established by this research are as follows:

- the service sector and the processing industry are strongly represented in the economy of the Municipality of Ohrid
- the employment in the companies surveyed shows a trend of growth, with a predicted growth in the future as well
- the companies have positive forecasts regarding sales growth in the upcoming period
- the majority of enterprises evaluate their employees' qualifications as excellent and good
- 50% of the enterprises plan on or consider expanding their business
- the enterprises believe that the general economic situation and the state regulations have the greatest negative effects on their current and future development
- if the Republic of Macedonia becomes an EU member, the enterprises consider that a stable business management climate, higher level of protection of economic competitiveness, and easier implementation of laws are the positive factors for them; whereas higher labor costs, investments related to the adaptation to the new conditions, and strong competition are indicated as negative factors
- the services provided by the local self-government are assessed as good and average, with the exception of the support for small and medium-sized enterprises
- maintenance and development of the road infrastructure are assessed as insufficient (from the choice of: excellent, good, average, insufficient, without opinion)
- small and medium-sized enterprises note the unequal application of regulations, high fines, high penalties, selective application of the legislation towards certain business entities.

Based on the research conducted in the region of Ohrid, recommendations regarding the improvement of the business climate are as follows:

- facilitated access to funds
- supply of skilled labor according to the labor market needs
- improved public administration
- improved road infrastructure
- frequent legislation changes to be avoided
- transparency of public procurement processes

- reforms in the educational process, with special emphasis on the needs of the labor market
- tackling corruption, which is indicated as a major problem in the Republic of Macedonia in all reports dealing with research and assessment of the business climate.

CONCLUSION

The representation of small and medium-sized enterprises in the economy of the Republic of Macedonia is 99.7% of the total number of enterprises. The situation with their representation is similar in the Ohrid region, with almost 100% of the enterprises in the sector of Accommodation and Food Service Provision being small and medium-sized enterprises. In view of these facts, it would be important to create a favorable business environment, required for them to operate properly.

The research conducted presents the impact of the business environment in the region of Ohrid on small and medium-sized enterprises in general, and on small and medium-sized enterprises in the field of tourism and hospitality in particular. Therefore, the stakeholders in the Republic of Macedonia that have an impact on the business climate should constantly undertake measures and activities for its improvement.

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Attachment:

Questionnaire

1. After 1990, was your company established as a business?
2. What is the ownership structure at Your company?
3. What kind of business do you pursue?
4. In which regions do you sell?
5. Do you have the following in the Municipality of Ohrid:
 - important raw material suppliers
 - important semi-finished product suppliers
 - research and development
 - cluster of similar businesses
 - major consumers
6. Do you make use of internet at your company? How?
7. Number of employees?
8. Average amount of net monthly salary?
9. How would you evaluate your employee qualifications:
 - excellent; - good; - medium; - low
10. What professions are deficient?
11. Do you own or rent the facility?
12. Do you have a plan for expansion in Ohrid?
13. Do you have a plan for expansion elsewhere in Macedonia?
14. Do you have plans to relocate your business from Ohrid?
If yes, where?
15. Level of satisfaction with the governmental services and relations?
16. What are the positive and what are the negative factors that will affect your business if Macedonia becomes EU member?
17. What is your opinion about your municipality's services?
18. Which service would you like to improve, and how would you improve it?
19. What services should the local self-government provide to improve the business climate in Ohrid?
20. What is your overall impression about Ohrid as a place to run business?