

The Impact of Small and Medium Sized Enterprises In The Economy

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Abstract – Small and Medium-sized Enterprises (SME) as business entities play an important role in the economy of a place. This sort of enterprises are the main generators of employment. To develop normal activity, and to be competition, SME's need to find the best ways of financing. The financing of the business of small and medium sized enterprises has had many problems in the recent years, which has been the cause of great problems with which managers have had to deal with.

The realization of this paper aims to analyze the trends in the development of businesses, as well as to identify the advantages and disadvantages of the process of small and medium-sized enterprises' business activities.

Keywords – SME, Classification, Financing, Economic Development, Advantages, Disadvantages etc.

I. INTRODUCTION

A contemporary operating environment is characterized with dynamic and structural changes with a development of modern technology, with the growth of global competition, fragmentation of market, growth of uncertainty was imposed upon the development of a dynamic sector or small and medium-sized enterprises. Up until two decades ago there was an idea that big companies would have a tendency of growth and monitoring technological advancements because they are more efficient and productive with greater offers towards global markets as opposed to SME's.

In the 90's of the previous century in Macedonia and surrounding countries there have been numerous changes in function of economic systems, many had abandoned the socialist system and had laid down the foundations of a stable democratic society. The politics in these zones have included financial markets accompanied by high norms of interest and so gradually it came to the emergence of SME's which today are of great economic significance in the Republic of Macedonia as well as in wider regions.

That's why this period would be remembered in Macedonia because of its impact on enterprises and their emergence, as carriers of many economic processes as well as generators of new workplaces.

Because in almost all places in which the system of capitalist or socialist economy dominates, the definition of Some's is not the same in all the countries by which we can freely conclude that there is not an overall limitation around the definition of SMEs.

According to economics expert **Peter Drucker** (1909-2005) in the context of enterprises, he says that SMEs are carriers of economic changes as well as holders of social welfare [8].

While D.Krcini (2008), calls SMEs as "more hopeful occurrences", because they prompt often changes, exploit

chances, create something different and force the need for innovation to be permanent [3].

Today, SMEs are almost the dominating sector and the most important in the founding aspect and their management.

In the managing aspect there are a few fundamental differences between small and medium-sized enterprises, for example small enterprises have less employees, smaller volume of work, limited consumers and they operate in local *markets*.

According to D.Krcini (2008) Advantages and Disadvantages of SMEs are these:

- They have freedom of action - (the business is personal, owner is his own CEO),
- Lower taxes – usually simpler. The profit of the business is taxed once only,
- Ease of entry and outlet out of business – registration of such business is easy,
- The success of the business is the success of the enterprise

Disadvantage

- The overload of the owner or manager of SMEs – in most cases they deal with most work,
- Unlimited responsibility – the owner of the enterprise answers for its duties,
- Difficulties in obtaining necessary capital for continuation of business.
- Different limitations – the owners of the small or medium-sized enterprises are engaged with managing the business[1]

II. SOURCE OF DATA AND METHODS OF WORK

Through this paper, we convey a general sight of the developments in small and medium-sized enterprises in Macedonia, special emphasis is given on the role, the significance and their organization by professional data used from different literature as well as from the countries Agency of Statistics, the Ministry of Economy and other relevant institutions.

III. RESULTS FROM RESEARCH AND DISCUSSIONS

3.1. Role and Organization of SME's in the Republic of Macedonia

Economic subjects as important carriers of economic activity, in Macedonia, are founded in function of rules and laws for companies [11]

According to this law, businesses are organized as:

- individual merchant,
- general partnership,

- limited partnership,
- Private Limited Company
- Joint Stock Company and
- Limited stock partnership

While classification of economic subjects according to size is compatible with the criteria of the European Union from year 2003 with what are taken in consideration these criteria, the number of employees also the annual floating capital.

Table I. Classification of SME's according to size

| No | Denomination | No.of workers | Annual Floating |
|----|-------------------|---------------|-----------------------|
| 1. | Micro-Enterprise | 1-9 | 0-2.000.000 |
| 2. | Small Enterprise | 10-49 | 2.000.000-10.000.000 |
| 3. | Medium Enterprise | 50-249 | 10.000.000-50.000.000 |

In the European Union there are more than 23 million small and medium Enterprises and they represent 99% of the overall number of registered merchant subjects. Almost 88 million people are employed in micro, small and medium enterprises, today the majority of enterprises in the Republic of Macedonia they represent 99% of the overall number of active companies therefore they are very important indicator to the social development.

According to this we can say that small and medium enterprises are available in every economic area:

- Traditional type of SME's which include specialized companies for production, commerce, and housing.
- Type of partnership of SME's which cover companies connected with the production link, provider of first materials,
- Modern type of companies which are very young and they belong to the field of informatics, communication, electronics etc....

Tabela II. Number of active business entities by number Sectors of activity of persons employed of Macedonia

| No | Sectoral activity | Year 2014 | |
|----|---|-----------|-------|
| | | 1-9 | 10-49 |
| 1 | -Agriculture, forestry and fishing | 2841 | 72 |
| 2 | -Mining and quarrying | 129 | 41 |
| 3 | -Manufacturing | 6124 | 1128 |
| 4 | -Electricity, gas, steam and air conditioning supply | 135 | 7 |
| 5 | -Water supply, sewerage, waste management and remediation activities | 214 | 48 |
| 6 | - Construction | 3803 | 469 |
| 7 | -Wholesale and retail trade; repair of motor vehicles and motorcycles | 23342 | 1201 |
| 8 | -Transportation and storage | 5500 | 268 |
| 9 | -Accommodation and food service activities | 4019 | 450 |
| 10 | -Information and communication | 1265 | 129 |
| 11 | -Financial and insurance activities | 349 | 32 |

| | | | |
|-------|--|-------|------|
| 12 | -Real estate activities | 470 | 30 |
| 13 | -Professional, scientific and technical activities | 5848 | 232 |
| 14 | -Administrative and support service activities | 1412 | 103 |
| 15 | -Public administration and defense; compulsory social security | 31 | 119 |
| 16 | -Education | 552 | 212 |
| 17 | -Human health and social work activities | 3009 | 172 |
| 18 | -Arts, entertainment and recreation | 1058 | 89 |
| 19 | -Other service activities | 4144 | 54 |
| Total | | 64245 | 4856 |

Source: H14tp://www.stat.gov.mk/Publikacii/MakBrojki2015m.pd

Tabela III. Number of active business entities by number Sectors of activity of persons employed of Macedonia

| No | Sectoral activity | Year 2014 | |
|--------|---|-----------|------|
| | | 50-249 | 250+ |
| 1 | -Agriculture, forestry and fishing | 27 | 2 |
| 2 | -Mining and quarrying | 6 | 4 |
| 3 | -Manufacturing | 363 | 60 |
| 4 | -Electricity, gas, steam and air conditioning supply | 6 | 3 |
| 5 | -Water supply, sewerage, waste management and remediation activities | 25 | 11 |
| 6 | - Construction | 72 | 5 |
| 7 | -Wholesale and retail trade; repair of motor vehicles and motorcycles | 115 | 16 |
| 8 | -Transportation and storage | 44 | 7 |
| 9 | -Accommodation and food service activities | 23 | 1 |
| 10 | -Information and communication | 24 | 7 |
| 11 | -Financial and insurance activities | 17 | 10 |
| 12 | -Real estate activities | 6 | 1 |
| 13 | -Professional, scientific and technical activities | 13 | 2 |
| 14 | -Administrative and support service activities | 27 | 12 |
| 15 | -Public administration and defense; compulsory social security | 81 | 33 |
| 16 | -Education | 295 | 5 |
| 17 | -Human health and social work activities | 121 | 20 |
| 18 | -Arts, entertainment and recreation | 32 | 6 |
| 19 | -Other service activities | 8 | 1 |
| Totali | | 1305 | 206 |

Source: H14tp://www.stat.gov.mk/Publikacii/MakBrojki2015m.pd

From the data mentioned above the biggest part of the SME's are in the commerce sector with wholesale and retail approximately 34,9% meanwhile after that order we have the developer industry with 10,9% whereas the last in

order is electrical energy, 0,2% and mineral mining with 0,3%

For the exact determination of growth or decrease of the nr. of SBE's from year to year it can be with a change by 5% or 10% and as aftermath of that we used this formula (Slovins Formula)

$$n = \frac{N}{(1 + Ne^2)}$$

Where

n – represents the changing number

N – shows the actual size

e – shows margin ex

If we have changeability like for example growth or decrease of the number of SBE's in this study it is written this way:

$$\frac{70659}{(1 + 70659 \times 0,05^2)} = 400$$

IV. CONCLUSIONS AND RACOMMENDATIONS

- ❖ Small and Medium-sized Enterprises (SME) as business entities play an important role in the economy of a place.
- ❖ Creation and supporting of innovative businesses for SME's as sources for stimulating employment, support for SME's in the priority economic sector – orientation of SME's in the sector of production.
- ❖ Lowering of legislative barriers and regulations, improvement of supportive institutions, rule of law, respecting the contract, fight against crime and corruption, improvement of infrastructure and services.
- ❖ Communal relief for the entrepreneurs (harmonization of taxes, removing the taxes for communal businesses)
- ❖ Support of SME's for recognizing and application of ISO standards and HACCP
- ❖ Creation and functionalization of free economic and industrial zones,
- ❖ Preparing the bank legislation with easing purpose and softening of the credit criteria for business development.
- ❖ Date times for returning of the loan need to be prolonged, also is needed to apply a more suitable interest norm policy, in a way that the bank loan to help in developing of the businesses and not to become obstacle of it's development.
- ❖ Stimulating and supporting the young people in developing their creative and innovative ideas in business.

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