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ANALYSIS OF THE INVESTMENT ACTIVITY OF SMEs IN NORTH MACEDONIA

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Abstract
Today, small and medium-sized enterprises are increasingly involved in creating new jobs, creating added value and involving the domestic economy in world trade through their internationalization. Therefore, small and medium enterprises are the key drivers of economic development. There are number of weaknesses and advantages between small and medium enterprises and large enterprises and also similarities and differences in the realization of various business activities.
Investments are important for the development of SMEs. Considering this, investment decision are one of the most rewarding business decisions. The investment decision-making process is a complex and dynamic process, which means analysis of all factors (financial, market, technical-technical, location, social), anticipation of different alternatives, perception and evaluation of the effects. The procedure for assessing the justification of investment projects is different for small and medium enterprises from large ones.
The differences arise from the opportunities for access of these companies to the sources of financing, from the opportunities and capabilities for planning by the owners of small enterprises, the short-term orientation in the operation and especially from the way of management. Due to all this, the process of investment decision-making in SMEs is usually avoided or it's reduced only to a superficial analysis of the business environment and the application of investment criteria.
Therefore, the main goal of this paper will be to assess and analyze the importance of special determinants of investment activity in small and medium enterprises in North Macedonia. At the end, in the conclusion a lot of considerations, measures and solutions for more serious treatment of investment decision-making in SMEs will be proposed.

Keywords: *SMEs, investment decision-making*

Clasificare JEL : *E22*

1. Introduction

The importance of the entrepreneurship as a particular factor in economic development inevitably imposes a need for restructuring in the dominance of business entities in the economic structure in the direction of the creation and development of the small and medium-sized businesses sector. Small and medium-sized businesses are the most favorable form for the existence of entrepreneurship. Thus, thanks to their comparative advantages such as flexibility, innovation, creativity, conditions are created for more opportunities for small and medium-sized businesses, which permanently respond to emerging conditions through increasing productivity and contribute significantly to economic development.

Since the last decades of the 20th century, small and medium-sized businesses have been experiencing an increase in their economic activity, increasingly gaining a special place in the development agendas of many countries. That this is indeed the case is evidenced by the data of over 21.6 million small and medium-sized businesses, representing 99.8% of the total number of companies in the 28 members of the European Union. They employed 88.8 million people, or 67% of total employment, and generated 3.666 billion Euros in added value, or 58% of the total value added.

In the Republic of Northern Macedonia, since its independence, particular attention has been paid to the development of the small and medium-sized businesses sector, as they are now increasingly becoming the main driving power of its development processes. Their role is mostly expressed in creating workplaces and creating added value. Thus, SMEs in 2016 accounted for 99.7% of the total number of companies, creating 75.4% of employment and 65.8% of the value added.

Investments, i.e. the investment process, are a significant segment of the continued development process of each company on which the company operates efficiently. They have a huge impact on overall economic activity and development in general. Investment is also important for long-term success, and can also provide competitive advantages for companies.

Changes in volume, structure and investment goals can have immediate impacts, but most also affect the long-term characteristics of the economy as a whole. Regardless of the size of companies, their investments or investment decision-making process are necessary to achieve the planned objectives and thus the overall development. Therefore, investment decision-making is of particular interest not only to policymakers and researchers, but also to managers and owners of companies. If companies fail to invest their products they may age, or even lose business, because competitors would offer more efficient goods and services. However, investment activity and project profitability are strongly influenced by several internal and external factors.

1. Literature review

Making valid business decisions is related to making managerial business decisions in companies. It is a management that should be viewed as an ongoing process in which the company aims to maximize business results in the form of maximum monetary effects. (Jokic et all, 2021).

In the literature there are many definitions of investments and investment decisions depending on the purpose they were assigned. Manikowski and Tarapata (2001), citing world literature, indicate two basic approaches to investments: the tangible approach—examined as the movement of goods and the financial approach—investigated as the movement of money. Actually in the 1990s, the concept of investment was expanded to include financial investments, (Ostrowska 2002) so the following aspects of the investment can be distinguished: tangible (fixed assets, machinery, and equipment), financial (acquisition of securities or shares), and intangible assets (Michalak 2007).

The effect of conducted investment activities is to achieve gains planned by an enterprise and, from the viewpoint of the investment's objective, they should contribute to an increased competitive advantage of an economic entity or prevent loss of the current market position. An enterprise can achieve gains in respect of implemented investments in economic, organizational, and social areas (Rogowski 2011). Factors determining the direction and scale of investment include having capital to finance the investment needs of the enterprise, and thus the source of investment financing (Mendes et al. 2014). For many enterprises, having sufficient capital resources for the implementation of investments is a serious problem that they have to face (Firlej 2018).

The relationship between corporate decisions and CEO's characteristics has been largely ignored in standard financial theory.Investment cash flow sensitivity relationship Malmendier and Tate

(2005a, 2005b), Lin, Huang, Jiang, Liu, and Zhang (2011), Campbell, Johonson, Rutherford, & Stanley, 2011 and Ben Mohamed et al. (2014) empirically tested the investment cash flow sensitivity under managerial optimism and found that optimism bias can increase investment cash flow sensitivity and so explains why firm doesn’t achieve optimal investment strategy and why it can’t trade at its optimal value. However, some other characteristics of CEO’s can also explain the investment cash flow sensitivity (Malmendier & Tate, 2005a).

3. Theoretical overview of the small and medium enterprises contribution to the economic development

The increased interest in the small and medium enterprises as drivers of the economic growth and the employment in the 70s and the beginning of the 80s in the 20th century is due to multiple reasons, mainly to the changes of the economic structure, the development of new markets, and the improvements of the low-cost industries. Although some theorists thought that the growth should be based on the big enterprises, however, the innovativeness and flexibility of the small and medium enterprises have proved as much better in the efforts for the costs lowering. They have enabled more efficient providing of intermediary goods, unlike the big enterprises. SMEs are characterized with flexibility, independence, spontaneity in business relationships, creativity, and they quickly and easily adapt to new conditions. They become increasingly important for the creation and development of a modern, dynamic and knowledge-based economy (Risteska et all, 2014).

Their characteristics, such as creativity, entrepreneurial spirit and innovativeness, enable growth of the economic structure flexibility, production-technological restructuring and revitalization of some sectors.

Since then, the small enterprises have been spreading into all sectors of the economic structure, not only into the contemporary sectors, as it has been predicted, but also into the traditional and primary sectors. In the beginning, they had been characterized by higher presence in the labor-intensive sectors with a small number of employees, lower capital volume, minor innovativeness and simple techniques and technologies, but later, they also extended into all sectors with higher investments, increased innovativeness and higher risk. Some researches, have shown that the small and medium enterprises more often become a key precondition for the markets functioning, because during dynamic changes, the big enterprises, despite their leading position in the market, usually decide to keep that share which is least exposed to a risk. This research confirms the theses that it is more rational to check some idea for a new combination of factors in a small than in a big enterprise. The big enterprises adjust to the market more slowly and by that, they have less influence on its development than the small enterprise has. Bases for such competitive behavior are Schumpeter's forms of competition (product, innovation, new market) and the speed of their adjustment to the market. In fact, they will not decide to realize bigger but short-term market share, and they will correct that by the risk danger at that attempt. Therefore, the changes in the demand, i.e. in the market, remain unfilled, which means that there is a free space for appearance of small and medium enterprises. This is based on the fact that the small enterprises are able to adjust their capacities in a shorter period of time, while the big ones need more time and changes in the organization. On the other hand, when the demand is decreased, the small enterprises, in an easier and simple way and with lower costs, will retreat and adjust to the production of other products through reorganization or diversification of the production programs. That is explained by Rothwell, (1989), who gives more explanations, so no matter if the small firms appear as fast developers of some product or as their extenders to new markets, their unique advantages are related to: weak bureaucracy, flat managerial structure, efficient and usually informal internal communication systems, flexibility and adaptability due to their proximity to the markets. While, their disadvantages include: shortage of technically qualified labor force, weak use of external information and expertise, difficulties with finances attracting, and with that, impossibility for the risk diversification, inappropriate management to complete the tasks over the firstly planned ones, high costs for regulations respecting.

Another research, (https://ec.europa.eu/eurostat) highlights the following most significant advantages of the small enterprises:

1. Direct determining and controlling of each individual cost;
2. Easier compliance of each production factor characteristics to the production economic performances;
3. Easier and cheaper coordination of all functions;
4. Direct control implementation over all other functions and faster setting of corrective measures;
5. Simpler insights for directing the investments, innovations and market occurrences;
6. Higher initiative and innovativeness;
7. Creating higher competition, and with that, increasing the economic effectiveness of the other participants in the economy;
8. Higher responsibility in the labor organization.

The results of the research on 1883 small enterprises in Macedonia, (Shuklev, 2006) have shown that the most important advantages of these enterprises from their managing point of view, can be seen in their flexibility, easier control, personal satisfaction, less risky decisions, possibilities for higher earnings, innovations, opportunities for employment, easier organizing, etc.

Other studies analyze the advantages of the small and medium enterprises in the developing countries, and David Gordon (Gordon,1979) has noted the following ones:

1. The small and medium enterprises in the initial stages of industrialization may have an important role in the production for domestic consumption, and for the export in later stages. They have low expenses for maintaining the technique, and low administrative costs;
2. Mainly, they start with simpler technique and technology and use more labor force;
3. Through performing various services, they support the big industry development;
4. The developed network of small and medium enterprises is a precondition for higher profitability of the heavy industry.

According to these and other studies in the modern economic science and to world experiences, it can be seen that the economic development cannot be realized without more significant occurrence of the small and medium enterprises in the economic structure of each country. This claim has been derived from their proven contributions for employment, people's knowledge, skills and entrepreneurial abilities coming to prominence, exploitation of the local natural resources, multi-purpose technology use, fast production redirection, decreasing the costs of big companies, intensification of the innovation process and economies competitiveness, boosting of the entrepreneurial spirit etc.

Having in mind these advantages of the small and medium enterprises, the countries in transition have liberalized their laws and encouraged the SMEs development, and that was clearly expressed in the processes of privatization of the state enterprises and the break-up of the big enterprises.

In the European Union, according to its legislation, an enterprise is each organization included in the economic activity and which is independent in its legal form. As per the EU definition, the small and medium enterprises may have from 10 to 250 employees, 10-50 million EUR annual turnover or 10 to 43 million EUR in property. Therefore, the enterprises in the EU can be classified according to different criteria. By size, they are classified into micro, small, medium and big enterprises. Last years, the small and medium enterprises in the countries of EU, have gained more importance for their economies. So, in the EU, more than of 99% of the existing firms are small and medium enterprises, and in the last 5 years they have created about 85% of their jobs, and they have employed about two thirds of all employees, or 67,4% of the jobs, and have created about

60% of the added value (www.eurostat). Consequently, SMEs are economically and socially very important for the economy. Their importance is not only as the main driver for generating jobs, but they also advance the innovations, realize the business ideas into the practice, encourage regional economic connections, and maintain the social stability.
And in Macedonia also, the small and medium enterprises have key importance for the economic development. Their role is best shown in creating jobs and added value.

4. Characteristics and determinants of the investment decision in the small and medium enterprises

The investment, i.e. the process of investing, is an important segment of the continuing development process of each enterprise, on which the enterprise's future efficient working depends. No matter what size the enterprise is, the investments, i.e. the process of investment decision making, are indispensable for realizing the planned aims, and the entire development. Having in mind that the investments are made in order to realize higher benefit in the future from the invested resources volume, their assessment through comprehensive analyses of the relevant factors, requires implementation of procedures for detailed rationalization of the expenses and incomes that will come out from that process. The large number of basic relevant factors, the constant risk presence, the connection between the present and the future, and the dynamics of the changes in the market and competitive conditions for those investments realization, are the main limiting elements for the projected effects, i.e. they make the assessment of their certainty more complex and uncertain. Therefore, the investment decision making should be based on objective, professional, complete and multilateral analyzing of the investment determinants in all decision making stages, and with determination of the possible implications of the used resources. The specificities of the small and medium enterprises (above mentioned), which are their advantages or disadvantage in relation to the big enterprises and their importance for the economies make the process of the investment decision making in these enterprises, different. In the economic literature, there are many different theoretical reviews and different economic studies that highlight separate investment determinants. They include neoclassic theory that takes the firms' sale as a main determinant, so if the sale is increased, the firms' investments will increase too; while the theory of free cash flow, (Jorgenson,1971) states that the investments are determined by endogenous factors, such as the cash flow, while according to one other theory, the height of the firm's debt has negative influence on the investments level, based on the assumptions that in most of the SMEs the ownership and management overlap, although the problem of mediation between the owners and the management is irrelevant, it is very important. While some other theories include and examine, besides the a.m. determinants, the years of the firm existence, the powers for the firm's growth, the interest rate, and the gross national product, as key determinants of the SMEs investments (Deakens & Mileham, 1998).
In separate studies, which analyze SMEs investments and the factors for their success or failure, there is a grouping of those factors into several groups. So, on the basis of the analyses in the scientific studies, those factors can be grouped into two groups- individual factors and not individual factors. Not individual ones are divided into those that originate from the environment-external factors and those that originate from the characteristics of the enterprise itself- internal factors. Several studies examine different factors of these groups. So, Zahra Arasti, Fahimed Zandi and Kambeiz Talebi have identified the motivation, the skills, the abilities and the individual characteristics, in their quantitative research. While, as internal not individual factors, they include: lack of management, careless market appearance, indifference and dissatisfaction at the working place, wrong projects evaluation, lack of appropriate experience, expertise and good working relations, problems in the partnership and team working, not knowing the determinants of the business sector, lack of knowledge about law issues, frauds and framings.

On the basis of these researches, we can make general conclusion that the process of investment decision making in the small and medium enterprises, as a process that is indispensable for maintaining continuous enterprise functioning, is real, objective, professional and correct realization which will enable selection of the most economical and beneficial alternative of the investment. The determinants that increase the uncertainty of that process may have internal and external character, on which it is very hard to have an influence, and often they are unknown in advance.

5. Research methodology

In order to give new prospect to this issue, a survey on small and medium businesses was carried out in the period from February to April 2021. The survey comprised 120 SMEs from North Macedonia, and there were 96 questionnaires. The questions were divided into three groups. The first research part included an analysis of the firm and its key problems at starting the business and the financial resources. The second group of questions was aimed to determine the kind of the investments it had done and the responsible person for investment decisions. The third group of questions was to find out the influence of the selected factors on the investment decisions.

Research descriptive statistics

On the basis of data analysis from the first group of questions, the following results have been obtained:

- From the businesses-respondents, 46 were registered before 2000, and 47 were established after 2000, which means that the number of surveyed firms older than 10 years and the firms that have been formed in the last 10 years, is approximately the same. Most of the respondents, i.e. 43% are small businesses, 30% micro and 27% medium businesses.
- On the question "Which financing sources did you use at starting the business?", 59% used their own savings, 15% used a credit, 7% loans from relatives and friends, 10% own savings and loans from relatives and friends, and 9% used other sources.
- On the question "Which were the main problems you were faced with at starting your work?", 19% mentioned the lack of capital, 16% complex legislation, 15% high costs, 13% location, 12% gaining the buyers' trust, 9% lack of working capital, 7% getting a credit, 6% lack of experience, 3% problems with the suppliers.
- While, on the question "Which are the key problems in running Your business?", 16% of the respondents have stated the taxes, 5% the inflation, 10% the weak sale, 32% the payment, 10% the interest rate, 6% the workers, 11% the regulations and 10% the competition.

As it is mentioned before, the second group of questions refers to businesses' investment decisions.

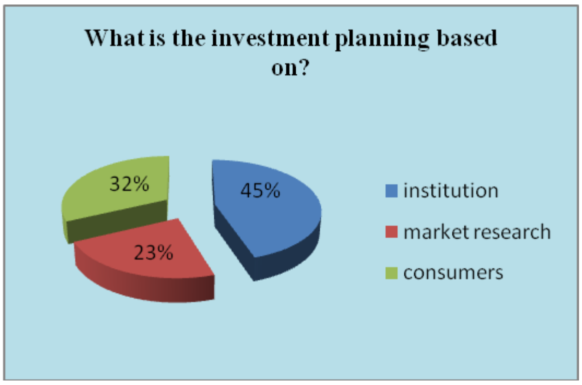
On the question "Do You plan investments in the future?", 81% of the respondents have answered that they plan to extend their own activity in future, which means that they are have been satisfied and successful in their working up to now. This answer confirms even more that the small and medium businesses have big potentials for opening new jobs in the county and for mitigating the problem with unemployment.

From the analysis of the questions 6 and 7, the following results have been obtained: 62% of the respondents have answered that the owner makes the investment decisions, 13% - the managers and 25% have answered that the owner together with the manager, make the investment decisions.

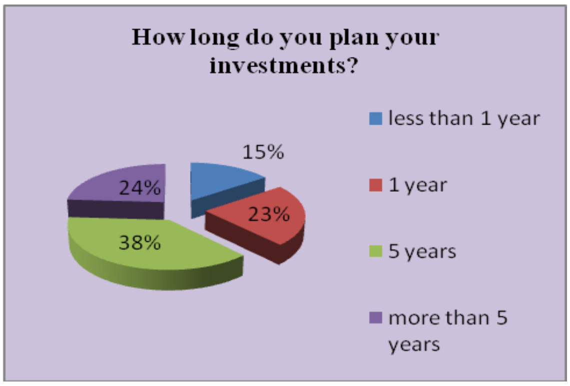
Most frequently, SMEs invest in IT equipment, i.e. 28%, 15% in cars and other transport vehicles and 12% of the respondents invest in plants and equipment.

On the question "What is the investments planning based on?", the following results have been obtained: 45% make the decisions intuitively, 32% according to the consumers and 23% through market research. On the basis of the answers to the question no. 8, it can be concluded that most of the respondents, i.e. 38% plan their investments for 5 years, 24% for more than 5 years, 23% for a year and 15% for less than a year.

Graph 1



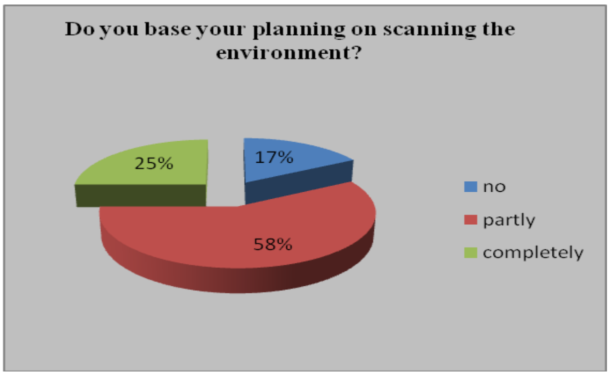
Graph 2



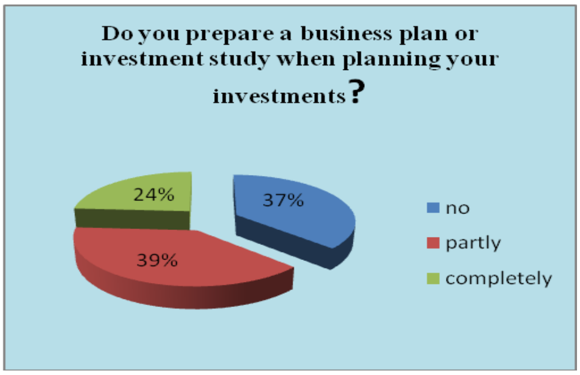
In order to get knowledge if the environment has influence on the investments, the following question has been asked: "Do You base the planning on the environment scanning?" and the following results have been obtained: 17% have answered "no", i.e. they do not base the planning on the environment scanning, 25% answered "completely" and 58% "partially".

And on the question "Do You prepare a business plan or an investing study for planning Your investments?", 39% answered "partially", 37% "no" and 24% "completely".

Graph 3



Graph 4



The aim of this research is to identify the factors that determine the decisions for investing of the small and medium enterprises. In that sense, this study uses statistical methods and techniques to define the characteristics and relations among the investments and their modalities expressed by variables connected with the personal characteristics of the investment decisions makers (from X_1 to X_5).

- X_1 : The manager / owner as an investment decision maker.
- X_2 : Procedure for making an investment decision .
- X_3 : Experience for making investment decisions
- X_4 : Methodologies for preparing a business plan or program for investing.
- X_5 : Methods and techniques for making decisions for investing.

By processing the data referring to the above defined variables, and by using appropriate statistical methods and techniques, it is expected to get answers to the following questions: Who makes the

investment decision, the owner or the manager? Has the knowledge of the procedure for making investment decision a positive influence on the decisions for investing? Does the efficient implementation of the investment decisions depend on the investment decisions makers' experience? Is the knowledge of the methodologies for preparing a business plan or investing program positively connected to the investment decision making? Does the professional knowledge of the methods and techniques for making investment decisions influence the investment decision?
To this effect, the following hypothesis as a main one is defined:

X1: Making an investment decision does not depend on the personal characteristics of the investment decisions makers

Enclosed are data on influence of decision makers' personal characteristics over the investment decision, by ranking from 1-5.

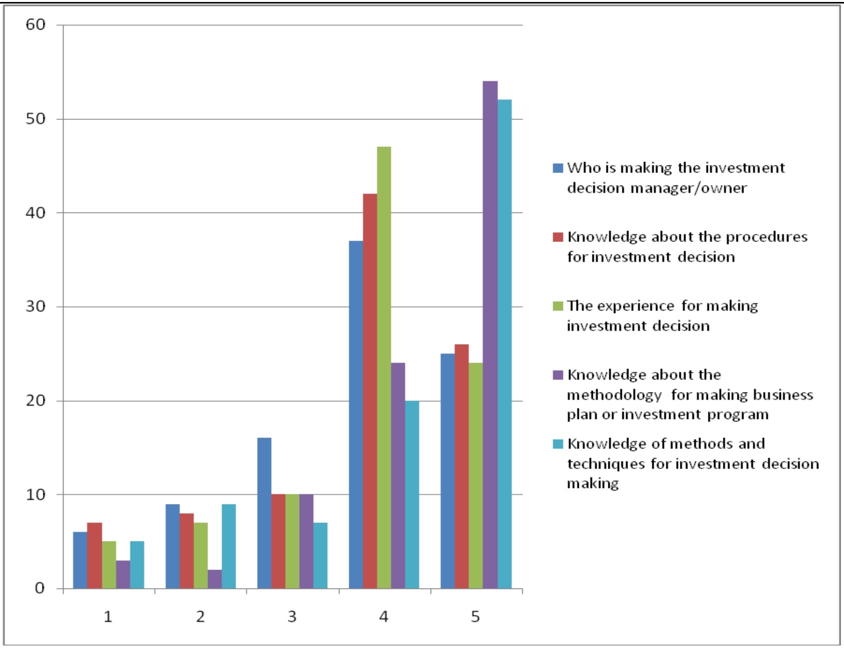
Table 1: Assessment of the personal characteristics of the decision maker in the investment decision making

How do you assess (1-5) the impact of personal characteristics in investment decision making					
	1	2	3	4	5
Who is making the investment decision/manager/owner	6[1]	9	16	*37*	25
Knowledge about the procedure for investment decision	7	8	10	*42*	26
The experience for making investment decisions	5	7	10	*47*	24
Knowledge about the methodologies for preparing a business plan or investment program	3	2	10	24	*54*
Knowledge of methods and techniques for making investment decisions	5	9	7	20	*52*

From the table 1, it can be stated that the respondents gave very good grades for the personal characteristics of the decision maker (the manager/the owner as the investment decision maker, for their knowledge of making investment decision, their gained experience for making investment decisions, knowledge of methodologies for preparing a business plan or an investing program, understanding of the methods and techniques for making investment decisions) when making the investment decision. 58,06% of the respondents have given the highest grade for the decision maker's personal characteristics referring to the knowledge of methodologies for preparing a business plan or an investing program, 55,91% of the respondents have given the highest grade for the decision maker's personal characteristics referring to the knowledge of methods and techniques for making investment decisions. 38,93% of the respondents have given the highest grade for the all mentioned personal characteristics of the decision maker when making an investment decision.

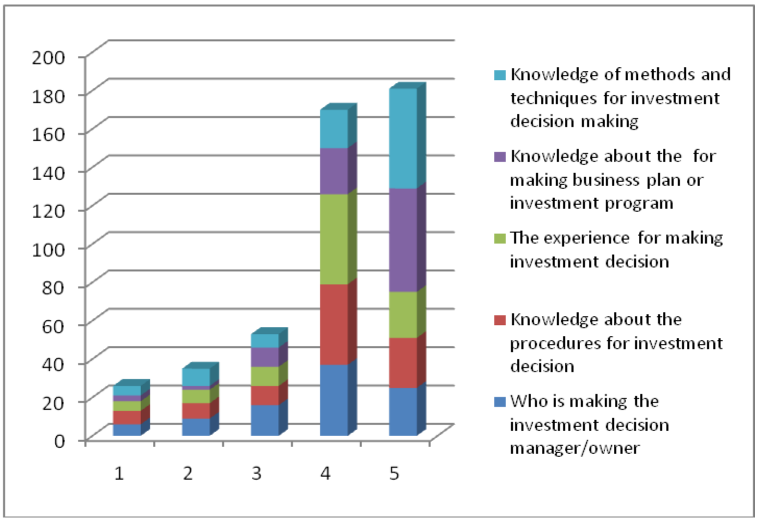
Figure 1. A grade for the decision maker's personal characteristics when making the investment decision

[1] Број на респоденти



On figure 1 and figure 1a., we can see the concentration of the highest grades for almost all characteristics of the decision maker, and the highest concentration is for the knowledge of methodologies for preparing a business plan or an investing program, and for the knowledge of the methods and techniques for making investment decisions.

Figure 1a. A grade for the decision maker's personal characteristics when making the investment decision



Furthermore, the highest average grade has been given to the decision maker's personal characteristic when making an investment decision that refers to the knowledge of methodologies for preparing a business plan or an investing program, while the lowest average grade has been given to the decision maker's personal characteristic referring to the fact who makes the investment decision - the manager or the owner as the investment decision maker. Here, we should note the lowest average variability or the respondents' highest agreement in grading the decision maker's personal characteristics, and it refers to the knowledge of the methodologies for preparing a business plan or an investing program. On the other hand, the respondents do not agree in grading the decision maker's personal characteristics referring to the knowledge of the methods and techniques for making investment decisions. (See table 2).

Table 2: Indicators of the average and variability of the respondents' grades referring to the decision maker's personal characteristics, when making an investment decision

Decision maker's personal characteristics	Average values of grades	Average variabilty of grades
Who is making the investment decision/manager/owner	*3,709677*	5,548903
Knowledge about the procedure for investment decision	3,774194	5,618231
The experience for making investment decisions	3,83871	5,113234
Knowledge about the methodologies for preparing a business plan or investment program	*4,333333*	*4,708149*
Knowledge of methods and techniques for making investment decisions	4,129032	*5,883273*

Using the statistical test (χ^2 -test) , and applying the CBS statistical package, we test the hypothesis:

H1: Investment decision making does not depend on the personal characteristics of the investment decision makers.

By processing the data from table 1. we get the following results:

CBS-Chi-Square Analysis 06-20-2017 - 10:26:35

Information Entered – Observations

Number of Columns: 5
Number of Rows: 5

	X1	X2	X3	X4	X5	Total
1 =	6	7	5	3	5	26
2 =	9	8	7	2	9	35
3 =	16	10	10	10	7	53
4 =	37	42	47	24	20	170
5 =	25	26	24	54	52	181
Total	93	93	93	93	93	465

Alpha Error: .05
Degrees of Freedom: 16
Critical chi-square: 26.2962

Results - Expectations

	X1	X2	X3	X4	X5	Total
1 =	5.2	5.2	5.2	5.2	5.2	26
2 =	7	7	7	7	7	35
3 =	10.6	10.6	10.6	10.6	10.6	53
4 =	34	34	34	34	34	170
5 =	36.2	36.2	36.2	36.2	36.2	181
Total	93	93	93	93	93	465

Critical chi-square: **26.2962**
Computed chi-square**:** **52.5479**
p value: **0.0001**
Conclusion: Reject Hypothesis

Since the estimated test value (52,5479) is higher than the theoretical test value (26,2962), we discard the formulated hypothesis and conclude that making an investment decision depends on the decision maker's personal characteristics. We come to the same conclusion by comparing the theoretical value of p=0,05 to the estimated value of p=0,0001.

6. Conclusion

By that, the process of making investment decision is less certain, more complex, and because of that the owners neglect it and with that bring the functioning effectiveness and the enterprise's future in danger. If the small and medium enterprises pay more attention to the strategic planning, and with that, to the process of making an investment decision, despite the determination of these processes by many external and internal factors, they would increase the chances for success in their working and their own future development. Such business entities have possibilities to anticipate unpredictable environment in time, to research and assess the investments more actively as a way for exploiting the market changes. Such enterprises are by rule more successful and should be a model for other small enterprises owners who want to progress, but on that way, they give up or partially implement the necessary activities in preparing the investment decisions.
Because of that, we would mention the following key proposals and measures for more serious treatment of the investment decisions with the small and medium enterprises:

- Growing presence of the formal planning of investing activities. The needs of the decision for investing such as the projecting of future cash inflows and outflows, impose the need of appropriate documentation for those cash flows.
- Gaining more knowledge for the investments financing from external financing sources.
- More knowledge for the procedures of making investment decisions and experience.
- Application of wide spectrum of investing criteria when assessing the investment decisions, and knowledge of the techniques and problems at estimating the capital cost.
- The investments planning on the basis of quality and efficient scanning of the environment factors, otherwise the investing ambitions move only within the boundaries of smaller results, i.e. their main preoccupation is how to survive, not how to develop.

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