

**DEVELOPMENT OF ENTREPRENEURSHIP IN CONDITIONS OF  
ECONOMIC TRANSITION**

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**Abstract**

Entrepreneurship in Macedonia has long been developed in limited socio-economic conditions, low material-financial base, and underdeveloped economic structure. Macedonia belonged to another system of social order, from which Macedonian entrepreneurship lacked any systemic support.

Based on this, if we look at the conditions and the way of the emergence of entrepreneurship in the three basic factors of production: land, work and capital, then the Macedonian entrepreneurs had the most in their work. This finding is especially true for construction and construction crafts.

That is why it is said that the construction and craftsmanship have a mobile resettlement character, which has a favorable impact on the development of the entrepreneurial activity among the Macedonian entrepreneurs who did their business outside the borders of Macedonia.

This was because in construction and craftsmanship the general work was largely learned from the field work itself, while the traditional construction work was taught by masters from Italy, Greece, Austria, the Czech Republic, Hungary, and elsewhere.

The purpose of this paper is to analyze entrepreneurship in Macedonia from its initial appearance to today's model of entrepreneurship development in transition.

**Keywords:** entrepreneurship, development, entrepreneurial activity, economic transition.

*JEL classification:* A12; O15

**INTRODUCTION**

Entrepreneurship is an immeasurable factor of economic development and as a general philosophy of business in market conditions manifests its prosperity in the development of small business. Small and medium enterprises are a very vital and flexible segment of the economy, especially in the context of economic transition. This finding stems from the fact that small and medium-sized enterprises contribute to job creation, diversification of production, activation and valorization of local natural resources, multi-purpose use of technology for rapid production orientation, as well as strengthening and tightening market competition, with the intention of better serving society as a whole. In order to fulfill this ambitious mission, the sector in the small sector

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should be intensively supported by the state, especially in conditions when there is a slow growth of the economy, and therefore in that direction a greater initiative is needed for development of entrepreneurship in such conditions. Providing financial resources for the promotion of the small and medium enterprise sector is one of the most important factors for its quality and quantitative development, thus interacting with other types of support (tax relief and exemptions, customs relief, simpler procedure). of economic activities, business information, management and training, etc.) enables optimal, desired and necessary development of the economy as a whole.

Entrepreneurs' access to sources of financing for their growth and development is one of the key segments of the business climate of any economy.

Entrepreneurship financing in a conditional economic crisis is a very important area of business activity of any business entity, primarily because it monitors the reproduction process and the success of the company depends on its expediency, and the failure of the company despite the action of a number of factors and Implications are also contributed by the poor financial situation. Exactly this factor has a strong impact on the volume and dynamics of entry of new businesses in the economic structure of countries, especially those in economic transition (on the birth rate of the business population), but also on their survival in the competition, and thus on the net entry of new businesses into any economy.

### 1. RISKS IN FINANCING ENTREPRENEURSHIP IN A LOW ECONOMY

A key prerequisite and the most sensitive domain in the development of entrepreneurship is financial support. In fact, the financing of small enterprises, compared to the financing of large enterprises, has special features, which arise from the degree of risk.<sup>1</sup>Namely, in conditions of low economic transition, what makes small companies especially risky is:

- **Inefficient management.** A characteristic of small businesses is that their management is not well trained and does not have enough experience in business. The entrepreneur in this business model relies only on his knowledge and does not want to delegate his authority and responsibility to other employees;
- **Insufficient specialization.** Specialization in work contributes to its effective and efficient execution. The division of labor allows to hire specialists to perform certain activities in large enterprises. In small enterprises, the manager does all the work, such as: salesman, organizer, personnel manager, financial manager, etc., ie he is a general manager;

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<sup>1</sup>Таки Фити, Верица Хаџи Василевска - Марковска, Милфорд Бејтман, „Претприемништво“, 2. издание, Скопје, Економски факултет, 2007 година, стр. 120-121.

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- **Reluctance to cooperate.** Owners of small businesses, because they do not want to share control and ownership over the business, very often do not want to mobilize funds by issuing shares or stakes;
- **Lack of experience.** Because it is about new businesses, about starting new companies, they do not have references to a long-term successful businessman;

Based on this, when approving the financial resources of small and medium enterprises, one cannot start from the same principles that are observed in the distribution of funds (loans or capital) to large and already well-known enterprises.

### 2.THE IMPACT OF BANK LOANS IN FINANCING BUSINESSES IN CONDITION OF LOW ECONOMIC DEVELOPMENT

Before deciding to finance its current and development operations through the use of bank loans, the entrepreneur should examine and estimate the expected profit and the interest he should pay on the loan funds. The funding efficiency rate is used for this assessment. If the financing efficiency rate is higher than one unit, then lending is acceptable and activities are undertaken to conclude a loan agreement.<sup>1</sup> The efficiency rate of financing is mathematically expressed as follows:

$$e_i = \frac{\Delta\Delta i}{\Delta\Delta k} > 1$$

where:

**$e_i$  - rate of financing efficiency**

**$\Delta\Delta i$  - increase profits by investing**

**$\Delta\Delta k$  - increase in lending profits**

Based on that, advantages and disadvantages in lending to businesses through the banking system are shown in the following table 1.

**Table 1.** Advantages and disadvantages of lending through banks

<sup>1</sup>Филиповски Владимир, „Финансирање на мали бизниси“, во „Како да направите сопствен бизнис“, Центар за развој на нови деловни активности, Универзитет „Св.Кирил и Методиј“, Скопје, ноември 2007 година.

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Advantages borrowing from banks	The downside of borrowing from banks
<p>Banks are a cheap source of financing when they can borrow from the central bank themselves</p> <p>Successful loan repayment brings good business reputation in the eyes of business partners and other banks</p> <p>Choice of loans with different conditions (terms, interest rates, etc.)</p> <p>The bank also offers other related financial services (financial advice, salary payments, etc.)</p> <p>Help the business stay solvent to secure a loan repayment</p> <p>There are numerous sources of information about banks and the financing terms they offer</p> <p>Banks are innovative in offering differentiated loans that correspond to the borrower's situation</p>	<p>Numerous forms need to be completed as the bank requires a wealth of information about the business and the entrepreneur</p> <p>Banks are traditionally conservative in terms of risk</p> <p>The bank may impose restrictions on the financial indicators that the company must maintain</p> <p>It is difficult to establish a long-term relationship with the banker</p> <p>The bank may try to influence the business decisions of the company when it feels that its money is at risk</p> <p>The bank usually has a way to follow in great detail the operation of the company and the way it is run</p>

Based on that How does the bank decide whether to grant a loan to the entrepreneur?

It is considered to start from five key elements of the loan, known in practice as "five cs of credit". These five elements are the following:

**Capacity** - this is the ability of the borrower to repay the loan. Such capacity is assessed according to the available assets of the business and according to the analysis of the historical and projected cash flows of the business.

**Capital** - this refers to the willingness of the borrower to invest his own financial resources to finance the business.

**Collateral** - funds that the entrepreneur can offer as collateral (pledge) for the loan, which would guarantee some certainty to the lender that he will repay the loan.

**Character**- the character of the person of the loan applicant, in order to assess the personal readiness to repay the loan. In this context, the character is assessed on the basis of the borrower's past behavior in relation to (discipline in) the payment of credit and other financial obligations by that person.

**Conditions** - general economic conditions in a particular industry or in the economy as a whole can affect the willingness of banks to grant loans. In conditions when there is a recession or stagnation of economic activity in the country, or when the growth potentials in an industry are exhausted, then the banks find it more difficult to decide to approve loans.

### COUNCLUSION

Providing the financial preconditions for encouraging the development of entrepreneurship in conditions of economic transition and the risks it carries includes several measures and instruments, and in order for them to be fully realized and to be able to give the desired results, they should have a long-term character and mutual

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coordination. For successful development of entrepreneurship in conditions of low economic development, the existence of a developed and efficient financial system for financing extended reproduction, as well as a developed and branched financial market, related to the international flows of capital, is of particular importance.

The financial market should enable efficient and fast cross-sectoral mobility of free financial resources and their allocation in those sectors that are identified as priorities by the economic policy. So creation of sound and solid banking system in times of economic crisis is a prerequisite for successful active and favorable credit policy to support small and medium businesses. In that function, in addition to commercial banking institutions, investment banks, development banks, specialized intermediate financial institutions are of essential importance. Small businesses are the most sensitive to all changes in the business environment, but they are the first to prosper by opening new initiatives and rewarding success.

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