

The Relationship between Entrepreneurship and Unemployment in Republic of North Macedonia

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Abstract

In the last decade entrepreneurship has gained significant attention from both scientists and government, and it has been linked with economic growth and unemployment. After the economic crisis in 2008, one of the tools that Europe has been using to fight high unemployment has been entrepreneurship. In Macedonia, the main driver of the economy are private enterprises. 99% of Macedonian companies classify as small and medium enterprises, and the number of SMEs is increasing year by year. According to the Agency for promotion of entrepreneurship in Republic of Macedonia, SMEs are great contributors to the country's economy and an important factor for creating new jobs, creating innovative products and services, the increase of exports and a greater promotion of domestic products on foreign markets.

The objective of this paper is to explore the relationship between entrepreneurship and unemployment in Macedonia for the period between 2011 and 2017. Through empirical analyses we identify how the evolution of entrepreneurship has helped decrease unemployment in Macedonia through job creation, and what the different factors are that influence both entrepreneurship and unemployment.

Key words: *Entrepreneurship; Unemployment; Employment; Youth Unemployment; Relationship; SME's; Macedonia.*

Introduction

The interaction between entrepreneurship and unemployment is analyzed through two-way communication, i.e. the unemployment push effect and the prosperity pull effect (Parker et al., 2004). According to the unemployment push effect, high unemployment reduces the chances to obtain a stable job, and an expected income from employment, so the unemployed person is “pushed” or forced to start a small business. Ritsila and Tervo (2002) claim that without unemployment push entrepreneurs will not start a business, and that entrepreneurship is probably not their dream but a choice of lesser “evil”, the other “evil” being the present unsatisfactory situation of unemployment. Scientific researchers found that unemployment is positively associated with entrepreneurship, i.e. increased unemployment encourages starting one’s own business (Blau, 1987). However, according to Remeikiene and Startiene (2009), if the country has a high unemployment rate, entrepreneurs face reduced demand for their products or services. The high unemployment rate weakens the consumers’ buying power which leads to increasing the risk of bankruptcy and entrepreneurs and be easily pulled out of the private sector. Lucas in 1978, cited in Remeikiene and Startiene (2009), explained that there is an inverse relationship between unemployment and entrepreneurship, meaning that unemployed people are generally the type of people who do not have the necessary expertise to begin start-ups and do not have the intrinsic characteristics of entrepreneurs. On the other hand, Parker and Robson (2004) state that unemployment has a contradictory effect on entrepreneurship. When unemployment increases, job opportunities become scarce or less attractive and unemployed individuals start their own businesses. As unemployment increases, more people believe that starting their own business will help them financially, and this makes the unemployment have a positive effect on entrepreneurship. However, a high unemployment rate can lower the economic activity, and people will feel more at risk when starting their own business. According to the prosperity pull, individuals will open a business if the country’s economic situation will allow thus reducing the unemployment rate (Remeikiene & Startiene, 2009). According to Muhelberger, (2007) in Remeikiene and Startiene (2009), individuals tend to be self-employed when unemployment is low, since the chances of returning to a wage labor are higher.

Factors that influence the relationship between entrepreneurship and unemployment

Studies claim that we cannot approach entrepreneurship and unemployment with a simple mathematical method, because the situation from one country to another is different. Economic and cultural factors have influence on both entrepreneurship and unemployment. According to Blau (1987), basic economic factors such as technological change and industrial structure lead to the development of a country.

Benefits of large companies can be reduced through structural changes, creating better opportunities for small and medium enterprises (Remeikiene and Startiene, 2009). However, Parker and Robson (2004) claim that if the employees are able to adapt to changing working conditions, the external technological factors may have no influence on the unemployment rate. Scientific researchers assume that unemployment should bring more new start-ups businesses, however this assumption is not proven in Europe. In Germany, only 3 percent of the unemployed think of becoming self-employed and only 1 percent decide to make the first step (Remeikiene & Startiene, 2009). On the other hand, according to Birch, (1987) in Amoros, Borraz and Veiga (2016), most of the new jobs created in the United States are from small businesses.

A gender gap is present in self-employment according to Acs, Audretsch and Evans (1994) in Parker and Robson, (2004). The study shows that self-employment is lower for women than for men. Gender stereotypes where women are seen as the caretaker in the family, is the main obstacle for women to integrate into the labor market, and maybe even start their own business (Remeikiene & Startiene, 2008). Remeikiene and Startiene (2008) also agree that the number of men in business exceeds the number of women, except in the service sector such as hotels, restaurants and financial intermediation, while men are more present in industry and construction.

The influence of entrepreneurship on youth unemployment

After the financial crises in 2008, Europe had for the first time more than 23 million unemployed, and majority of small and medium enterprises had not been able to jump back to the previous levels of employment (Rotar, 2014). According to data by Eurostat the youth unemployment rate was 23.9% (EU28) in the first quarter of 2013, and declined to 19.7% at the end of 2015. According to the International Labor Organization, the global youth unemployment rate was 16.6% in 2013, and in the EU youth unemployment increased by as much as 24.9% between 2008 and 2012 (Gopalakrishnan, 2016). Since the unemployment issue had appeared in Europe, EU member states have been using different tools to fight it. One of the tools that Europe has been using is entrepreneurship. Entrepreneurship plays an important role to tackle the unemployment, especially the youth unemployment (Rotar, 2014). Young people face a lack or a mismatch of skills and experience when entering the labor market. In the US there are 11 million unemployed people, and 4 million unfilled jobs, as a result of skills mismatch (Gopalakrishnan, 2016). Scientists agree that young people should have entrepreneurial education to prepare them for entering the labor market. Entrepreneurial education should spread an entrepreneurial culture among students and staff, foster innovation and innovative thinking and should find ways to encourage exchange and knowledge transfer between the university, industry, and the local communities (Sandri, 2016). But, in order to promote entrepreneurial activity among young people, it is crucial to learn more about young people's awareness of and attitudes and aspirations towards entrepreneurship and

business (Schoof, 2006). According to a Euro barometer survey cited in Rotar, (2014), the number of young people interested in self-employed business surpasses the number of middle aged people. It was found that middle age people generally do not want to take risks, they want to have stability in their job, and they are happier to have a regular fixed income versus an irregular variable income. On the other hand, young people are more interested in becoming self-employed because of personal independence, the desire to seek out new challenges, to earn more money, to realize an idea or vision, to gain more reputation, and to connect a passion with a job (Schoof, 2006). According to Rotar (2014), Slovenian young people are very interested in start-up businesses because they think about what they can do for themselves instead of what the government can do for them, and with some changes in labor market policy, the number of young entrepreneurs can increase in Slovenia.

From the statements above, we can conclude that youth unemployment is higher in Europe because of lack or mismatch of skills and experience. On the other hand, young people are more interested in starting their own businesses. With entrepreneurial education and help of labor market policies, young people can more easily enter in the labor market with their own businesses.

The effect of entrepreneurship on unemployment and economic growth in Republic of North Macedonia

According to the Agency for promotion of entrepreneurship in Republic of North Macedonia (APPRM), the main driver of the economy in our country is private enterprise. They are an important factor for creating new jobs, increasing exports and creating innovative products and services. In the Republic of North Macedonia after independence during the nineties privatization and market liberation came along, and many state companies that were not able to deal with the challenge of market liberation were closed. Many unemployed people decided to use their entrepreneurial ideas to start their own business. The decision to open their own business according to Markoski and Gosevska (2012) usually comes from the desire to have permanent jobs, free financial resources and the possession of an entrepreneurial spirit. Ramadani (2013) supports this view, stating that people are motivated to start their own business in order to earn more money, to be independent, to use a profitable opportunity in the market, the desire to be an entrepreneur, and the impossibility to find a better job with a higher salary.

The procedures for starting a new business influence entrepreneurship. In North Macedonia since 2005, the Law for one-stop-shop registration system has been functioning well. This system represents a single electronic register for the territory of the Republic of North Macedonia, and it creates easier access to information for the public. From one counter you can get accurate information about business partners, financial reports and the current condition of any legal entity. It has shown to offer many advantages to the business entities, because it is time and cost effective (APPRM, 2015). According to Doing Business

of World Bank, North Macedonia in 2011 was rated 38 out of 183 economies for ease of doing business, and in 2017 it was rated 10, better than Croatia, Bulgaria, Montenegro, the Czech Republic and Greece.

The Ministry of Labor and Social Policy, the Employment Agency of Republic of North Macedonia and the Agency for Promotion of Entrepreneurship Development Program of the United Nations established a self-employment program with a grant offering as a tool to increase entrepreneurship and to decrease unemployment. The grants were offered for direct support for procurement equipment and materials and basic entrepreneurship training. Also a part of the self-employment program was provided specifically for persons with disabilities. Within this program 1050 unemployed people were covered, and they were employed in 1000 newly-created micro enterprises. Besides the self-employment program, there is a start-up business program designed for young people up to the age of 29, as well as subsidies for SMEs. The start-up business program is focused predominantly in communication technologies, production, tourism and organic agriculture. The program has covered 196 unemployed young people that were employed in 140 newly opened micro enterprises. And the project for subsidizing of new jobs in SMEs as a part of the Operational Plan for Active Programs and Measures was created, with the purpose to create new jobs for active unemployed people. This program covered 250 unemployed young people up to 29 years old and people with disabilities. The program included exemption from the payment of contributions from compulsory social insurance and / or personal income tax for employers who will employ registered unemployed persons in accordance with the provisions of the Law on Employment and Insurance in Case of Unemployment (APPRM, 2017).

Research Methodology

Secondary data is used for this research. The secondary data for North Macedonia were accumulated from the State Statistical Office of North Macedonia, Agency for Promotion of Entrepreneurship in North Macedonia, European Commission and Global Entrepreneurship Monitor.

Results

The labor market of North Macedonia is characterized by high unemployment, low activity, and low employment. The unemployment rate has been high since the independence of North Macedonia, but it has been decreasing slowly through the years. In 2011 the unemployment rate was 31.4% and it declined to 22.4% in 2017; on the other hand the employment rate has increased by 5.2%. From 2015 to 2017 the growth of real GDP decreased from 3.8% to 0.2% (State Statistical Office of N. Macedonia), however the unemployment rate has continued to decrease from 26.1% to 22.4%.

Table 1. Rate of unemployment in Republic of North Macedonia

Year	2011	2012	2013	2014	2015	2016	2017
Unemployed	31.40%	31%	29%	28%	26.10%	23.70%	22.40%
Employed	38.90%	39%	40.60%	41.20%	42.10%	43.10%	44.10%

Source: State Statistical Office of North Macedonia – Makstat database

Even though the unemployment rate has decreased it is still high and represents a major cost for the economy of North Macedonia. Different factors are responsible for the unemployment rate high such as mismatch of supplied labor and demanded skills, low salaries, and cultural and traditional factors regarding women.

Table 2. Unemployment rate by age

Age	2011	2012	2013	2014	2015	2016	2017
15-24	55.3	53.9	51.9	53.1	47.3	48.2	46.7
25-29	40.6	41.5	40.5	39.3	39	35.2	33.9
30-34	30.1	29.6	29.5	28.9	25	23.2	23.6
35-39	26.1	29.4	25.8	21.2	22.9	20.6	16.9
40-44	26	24.5	22.3	21	19.6	18.6	17.2
45-49	23.6	23	19	20.7	18.7	17.8	14.9
50-54	24	23.6	22.1	22.1	21	16.3	16.4
55-64	28.2	25.1	24.1	22.7	20.9	17.7	16.6
65 and over	6.8	9.4	7.4	6.8	0	1.1	1.2

Source: State Statistical Office of North Macedonia – Makstat Database

Table 2 shows the unemployment rate by age in North Macedonia. The transition from school to work, the lack of skills and the desire to take risks and find their ideal job make the rate of youth unemployment high. In North Macedonia even though the youth unemployment rate has been decreasing through the years, it is still high. The youth unemployment rate in Macedonia in 2017 was 46.7%, which is at much higher rate than EU28, which was 16.1 % in November 2017 (Eurostat, 2019). According to Petreski et al. (2017), in North Macedonia usually young people live longer with their parents, so if the family financial situation is good, the child tends to stay unemployed longer as a result of looking for a better job, but on the other side if the young person stays longer without a job, it becomes more difficult for him/ her to find a job. On the other hand, the unemployment rate is lower for people aged 35 and over. The data give us evidence that people over 35 have the needed skills to have a permanent job, and are less interested in experimenting with changing jobs and professions.

Table 3. Number of people employed in private enterprises

Size of	2011		2012		2013		2014		2015	
Company	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
		44.8		33.4		33.3		32.4		32.33
Micro	121988	%	111288	%	113536	%	114079	%	119026	%
		20.2		22.0		22.2		22.1		22.29
Small	55059	%	73252	%	75758	%	77789	%	82079	%
		16.3		21.2		21.2		19.4		19.75
Medium	44266	%	70623	%	72234	%	68450	%	72706	%
		81.2		76.6		76.6		73.9		74.37
SMEs	221313	%	255163	%	261528	%	260318	%	273811	%
		18.8		23.4		23.4		26.1		25.63
Large	51092	%	77782	%	79838	%	91767	%	94348	%
Total	272405	100	332945	100	341366	100	352085	100	368159	100%

% % % %

Source: EU Commission –SBA Fact Sheet of FYROM 2013-2017. The data cover the non-financial business economy such as construction, industry, trade and services, except agriculture and other non-market service sectors such as health and education.

Table 3 shows that SMEs are the main employers in the business entities in North Macedonia, with micro companies being the ones that create the most jobs. Although, the number of people employed in SMEs has been decreasing starting in 2011 until 2015, from 81.2% to 74.3%. On the other hand with the entrance of more foreign direct investments (FDIs) in Macedonia the number of people employed in large companies has increased. However, there are no data given for the number of people employed in SMEs for 2016 and 2017.

Table 4. People employed according to the economic status

Year	Employee			Employer			Self-Employed		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
2011	71.8%	58.1%	41.9%	5.7%	75.2%	24.8%	13%	82.1%	17.9%
2012	73.2%	58.6%	41.4%	4.8%	73.8%	26.2%	13.6%	81.2%	18.8%
2013	71.9%	58.4%	41.7%	4.7%	71.6%	28.4%	14.5%	79.6%	20.4%
2014	73.3%	58.2%	41.8%	3.9%	76.6%	23.4%	14%	84.4%	15.6%
2015	73.9%	57.5%	42.5%	4.3%	75.2%	24.8%	13.9%	81.6%	18.4%
2016	75.9%	58.6%	41.4%	4.4%	75.1%	24.9%	13.2%	79.3%	20.7%
2017	76.3%	58.6%	41.4%	4.5%	77.5%	22.5%	12.9%	81.6%	18.4%

Source: State Statistical Office of North Macedonia – Makstat database

Most of the working population in North Macedonia is employees, with 76.3% in 2017. The percentage of employees in North Macedonia decreased in 2013 by 1.3% from the previous year; however it again increased by 4.4% by 2017. The data above show us that the percentage of employers is lower than the percentages of self-employed. Most of the employers are men, and their percentage has increased from 2011 to 2017 for 2.3%. On the other hand, the percentage of women employers is lower than the percentage of men employers, with the highest percentage being 28.4% in 2013. However, in 2017 the percentage of women employers decreased to 22.5%. From the data above we can conclude that men are dominant in every field, and we prove the theory from the literature review that self-employment is lower in women. This is a result of the influence from different factors such cultural and traditional habits, the lack of skills and education, and the availability and the cost of childcare services.

Table 5. Entrepreneurial Behavior and Attitude

Entrepreneurial Behavior and Attitude	2012	2013	2015	2016
Perceived Opportunities Rate	30.79	37.15	37.77	38.36
Perceived Capabilities Rate	55.11	49.69	54.44	54.50
Fear of Failure Rate	39.43	35.57	34.33	34.44
Entrepreneurial Intentions Rate	27.74	29.11	23.32	24.85
Total early-stage Entrepreneurial Activitiy (TEA)	6.97	6.63	6.11	6.53
Established Business Ownership Rate	6.73	7.29	5.91	7.2
High Job Creation Expectation Rate	27.73	25.54	22.2	19
High Status to Successful Entrepreneurs	66.73	67.89	57.07	58.5
Entrepreneurship as a Good Career Choice Rate	69.59	69.49	67.1	64.8

Source: Global Entrepreneurship Monitor Data

The decision to become an entrepreneur is influenced by many factors that are sometimes difficult to define. Some people opt for starting their own business, while others are afraid of failure (GEM, 2013). The rate of entrepreneurs that see opportunities to start a new business increased by 7.57 % from 2012 to 2016. However, even though the rate of people who believe they have the required skills and knowledge for starting a business decreased in 2013 to 49.69, it increased again to 54.5 % in 2016. On the other hand, the fear of failure determines whether a person will start a new business or not. In 2012 39.43% of the respondents stated that the fear of failure would stop them from starting a new business, however in 2016, 34.44 % of the respondents stated that. Also in 2012, 27.74% of the respondents stated that they plan to open new company in the next 3 years; however this data decreased to 24.85% in 2016.

TEA which is one of the most famous indicators of GEM presents the percentage of people who are either nascent entrepreneurs or owner-manager of a new business. The TEA index was characterized by a

downward trend until 2015. In 2012 it was 6.97 %, in 2015 it declined to 6.11 %, however in 2016 we can notice a small increase reaching to 6.53%. Also, the percentage of entrepreneurs in TEA that expected to create 6 or more jobs in the next 5 years has fallen, going from 27.73% in 2012 to 19% in 2016.

In North Macedonia 66.73 % of the respondents believe that successful entrepreneurs enjoy high status in the society, however this indicator has declined to 58.5% in 2016. Also, in 2012 69.59 % of the respondents stated that entrepreneurship is a good career choice, and even though in 2016 this number fell to 64.8%, it is still relatively high.

Conclusion

The purpose of this article was to analyze the relationship between entrepreneurship and unemployment in North Macedonia. An empirical analysis from secondary data was made for the period 2011-2017. After its independence in the nineties, North Macedonia faced high unemployment, and many people fought unemployment by opening new companies. Even though unemployment has been decreasing through the years, it is still high with 22.40% in 2017. The highest unemployment rate is among young people, and among people with 4 year secondary school education.

On the other hand, from the given data we can conclude that the main employers in North Macedonia are SMEs, even though the rate of people working in SMEs has declined, while the rate of people working in large companies has increased. The TEA index shows us that the percentage of new companies in Macedonia was decreasing until 2015, but in 2016 it increased again, however there is a need of further data for 2017.

In order to fight unemployment and encourage the development of entrepreneurship the government of North Macedonia in 2005 made the procedures for registration of a new company fast and low cost and it offers grants for self-employment, which is mostly for young people and for people with disabilities. However, in order to encourage entrepreneurship especially among young people, the government should continue to offer the grants for self-employment, it should add more programs for entrepreneurial education, and the trainings for entrepreneurship and grants should be promoted more intensely.

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