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Family Business Successful Succession

**An Overview of the Environment
for Family Businesses**

in the Former Yugoslav Republic of Macedonia

National Report



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Preface

The FABUSS partnership appreciates the usefulness of acquiring and presenting a comprehensive understanding of the environment for Family Businesses in each partner country. There is therefore a need for checking, updating and enriching information presented and analysed in various other sources and for a customised screening of each partner country institutional environment's particularities and weaknesses, as these affect family businesses. The Report in hand, presents the situation prevailing in the FYR Macedonia

Family businesses in FYR Macedonia may be the oldest form of business, but the issues about them are new, unknown, and under-researched. With this report we want to see what family businesses ecosystems look like around the country. This report can be used to discover insights and learn more about family businesses ecosystem, as well as to find recommendations on how to strengthen the ecosystem in the country.

Author of this report is Ms. Natasha Chavdarovska, Consultant to the Association of citizen CEFE Macedonia. For the preparation of the report was assisting Ms. Simona Mladenovska, Consultant to the National Youth Council of Macedonia. Research team conducted both desktop and field research, in order to understand the current state of the family businesses in FYR Macedonia. The desktop research included: identifying and analyzing relevant publications, reports, data on the explored subjects, from, academic, civil sector, international and national organizations; analyzing current and past relevant legal documents and state mechanisms; identifying and analyzing relevant media reports. Field research included interviews or survey with family businesses. The total number of interviews conducted is 63 with representatives of family businesses. Guidelines for the survey's structure and content were prepared by the lead applicant of the FABUSS project (Athens Chamber of Commerce and Industry). A contributor in preparation of the report is Jovan Stalevski, president of CEFE Macedonia.

Date: June 27, 2017

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1. Social and Economic significance on Family Business in the FYR Macedonia

Key findings:

- The legal framework of the country does not have a law that defines the term family business.
- Family businesses in FYR Macedonia are usually associated with small and medium-sized enterprises.
- Important characteristic of family business in FYR Macedonia is their short life cycle.
- Typically, family businesses in FYR Macedonia are active in the trade sector. It is expected that in the near future, other services and sectors will witness a rise of the family business model including, for example, tourism, consulting services, fashion and design, as well as software development and other services in the IT sector.

1.1 Legal framework for family business in FYR Macedonia

The legal framework of the country does not have a law that defines the term family business.

Family businesses in FYR Macedonia are usually associated with small and medium-sized enterprises. According to the Handbook "Overview of Family Business Relevant Issues - FYR Macedonia" possible definitions for family businesses in the FYR Macedonia are:

1. Family members involved in a certain type of business activity within a legal entity can be considered as the most common (widespread) definition for family business in FYR Macedonia.
2. A family business can also be a legal entity, which has been directly owned or controlled (with at least 51%), by a single family member, no matter which size (in terms of turnover or employees) this entity is.
3. A single-person enterprise (company owned and managed by a single individual, without other employees) can be considered a family business only if the area of activity of the enterprise is in the fields of agriculture, wholesale and retail trade, providing services of hotels and restaurants, catering, and similar sectors of the economy. Despite this, another important precondition is that this person should have the main supporting role regarding the financial assets of the family.
4. Sole proprietors can also be considered as family business but only when most of the family members are employed in the company.

2. Policies for Succession and Transfer of Family Business

Key findings:

- In the FYR Macedonia there is lack of national Policies or measures that are referring to the family businesses.
- Most of the policies and measures are for SMEs. The lack of legislative and support directly for family businesses, is making the environment for this type of companies difficult.
- Government efforts to provide increased access to capital and other activities are based on the conclusion that SMEs are crucial for economic development and increased employment.

In the FYR Macedonia there is lack of national Policies or measures that are referring to the family businesses. Most of the policies and measures are for SMEs. Having in mind the fact that most of the family businesses are small and medium sized enterprises, and then we can say that most of those policies and measures are indirectly applicable for the family businesses. However, the lack of legislative and support directly for family businesses, is making the environment for this type of companies difficult.

The criterion for defining small, medium and large businesses in FYR Macedonia is defined by an established legal framework for small and medium enterprises (SMEs). The operations and activities of SMEs are defined in several laws. These laws regulate separate activities of entrepreneurs and SMEs, and therefore in certain situations have their own direct or indirect holding. There are 65 laws that define the operation of enterprises. However, none of them applies only to SMEs (or family businesses). Some of these laws relate to the financial performance of companies, others for employment, human resources and labor relations, while the rest relate to the proper definition of undertakings or steps for registration and commercial operations of the enterprises. The legal framework which regulates SMEs is represented in the legal provisions of the law on trade companies, law on craftsmen, law on consumer protection, laws on tourism and catering, public procurement law, the law on foreign investors, law of bankruptcy, law on the National Bank of the FYR Macedonia, industrial property rights and many other provisions which regulate establishing, operation and termination of small businesses. Many of the legal regulations do not contain criteria for the classification of businesses.

3. Problems identified in Succession and Transfer of Family Business

Key findings:

- Family businesses tend to have many weaknesses which make them unsustainable in the long-run.
- The most important reasons for their lack of sustainability are: poor management (because of complex interpersonal relationship that exists between the company personnel (private and professional), lack of discipline, etc.), problems with access to finance for further development and inadequate cost controls.
- Big number of family businesses has not begun the process of planning.

Access to finance is considered as a major obstacle to “doing business” in FYR Macedonia. The share of SMEs in total private sector lending is estimated at only 35%, yet they constitute almost 99% of all businesses. Smaller companies in particular struggle with accessing loans, and this is reflected in the high number of enterprises who solve their financing needs with internal funds and retained earnings (approximately 80%). Part of the problem, is the relatively high collateral requirements (approximately 150%), combined with the banks’ heavy reliance on immovable assets, together with a credit history assessment, as part of their loan decisions. The Government has supported lending to SMEs with different programmes provided by the Macedonian Bank for Development and Promotion. The extent to which this “access to finance” problem has limited the establishment of new businesses, and restricted the growth of existing businesses, has yet to be explored.

Business support services are another area which requires attention, as many smaller and microenterprises lack important skills in terms of business planning and financial management. This skills gap lessens their growth potential, and restricts their ability to access finance through normal banking channels. Training courses to help start-ups and growth enterprises are offered by various national and international sources, and it is suggested, that online training should be explored as a possible innovative option. Legal support services are also available through the Information Centre of the State Office of Industrial Policy; however, few advances have been made in the dissemination of SME related information. Although information about private

4. Organisations providing support to Family Businesses

Key findings:

- Some of the projects for SME development belong to the financial services group, such as credits, investment, grants etc., and some involve training, technical assistance, campaigns, consulting services, etc.
- This development corresponds to the transformation of the Agency for Privatization into the Agency for Promotion of Entrepreneurship (APE), which started its activities in May 2004.
- The APE is an institution owned by the state, established to support entrepreneurship and the competitiveness of small businesses in FYR Macedonia, as well as implementation of other programs related to entrepreneurship and small businesses.
- The APE is a major player on the national level for the implementation and coordination of national and international support for the SME sector.

In FYR Macedonia in the period 2000 - 2001 there were more than 30 projects, along with an additional number of sub-projects and separate activities in SME development, financially supported by various donors. Some of the projects belong to the financial services group, such as credits, investment, grants etc., and some involve training, technical assistance, campaigns, consulting services, etc. This development corresponds to the transformation of the Agency for Privatization into the Agency for Promotion of Entrepreneurship (APE), which started its activities in May 2004. The APE is an institution owned by the state, established to support entrepreneurship and the competitiveness of small businesses in FYR Macedonia, as well as implementation of other programs related to entrepreneurship and small businesses. The APE is a major player on the national level for the implementation and coordination of national and international support for the SME sector.

Active bilateral donors from EU member states include France, Germany, Italy, the Netherlands and the United Kingdom. Other large donors from outside of the EU include Switzerland and the USA. Multilateral donors active in the themes covered by the strategy include: the Council of Europe; the Organisation for Security and Cooperation in Europe (OSCE); and, the United

5. Identified Good Practices of Family Business Successful Succession

Key findings:

- Although in international practice there are many examples where the big enterprises are family businesses, this cannot be considered a reality in the economy of FYR Macedonia.
- The concentration in certain industries as well as the size of the family businesses is changing mainly due to economic factors as well as social factors including the average salary, labour supply etc.

Although in international practice there are many examples where the big enterprises are family businesses, this cannot be considered a reality in the economy of FYR Macedonia. Yet, the concentration in certain industries as well as the size of the family businesses is changing mainly due to economic factors as well as social factors including the average salary, labour supply etc. For example, in the retail sector, companies such as Tinex or Kam-market have grown to dominate the market. The family company Bujoto develops fast within the furniture making business. In the wine sector, the following companies: Popova Kula, Popov winery and others are also rapidly growing. To some extent Tikvesh winery can also be considered as a family business (the question is whether we consider the nuclear or the extended family members as owners). These businesses tend more toward larger businesses than SMEs.

Bushi hotel - The history of this family business begins in 1955, when the father of the family started producing shoes and slippers. This business developed, and by 1992 the whole family worked together. In the 1980s the eldest son in the family started with an uncle to learn the goldsmith craft. In 1990 they decided to become independent and to open a shop for gold in the Old Bazaar in Skopje. It was a small shop, about 16 square meters, but over the years, the business slowly expanded. In 1995 they opened the first factory for the production of gold. Then they opened "Bushi Fashion" boutiques and clothing shops, organized fashion shows, and created knitted gowns patterned after world brands. In 2008 they became the first representatives of "Swarovski element" in FYR Macedonia. Today they run a hotel, spa and resort center in the Old Bazaar in Skopje, and are planning to open a factory for marble. The hotel has 75 employees, 22 people work in the quarry,

6. Concluding remarks

- Future public policy in FYR Macedonia regarding family business should be directed towards stronger promotion of family business in hopes of promoting further development, fostering the country's economic growth, and consequently reduced levels of unemployment, opening the possibility for presenting our national 'treasure' (culture, heritage, tradition) etc. In addition, we believe that the scale and the scope of the active measures followed by the Government for supporting this segment of the economy, such as supporting access to low-interest financing, will be increased in the future.
- The current state of affairs requires dramatic changes, to increase public awareness about family businesses and their economic and social significance.
- National experts expect that while currently family businesses are focused on traditional sectors (trade, gastronomy, agriculture) in the near future other services and sectors will witness the rise of family businesses, such as tourism, consulting services, fashion and design as well as software development and other services in IT sector.
- A major problem that remains in analysis and research on family businesses in the EU and in FYR Macedonia is the lack of a clear definition of the term "Family Business". The absence of such a common definition does not facilitate formulation of well-focused initiatives and policies at the European and national level.
- The national policy concerning family business should be directed towards stronger promotion of this segment of the economy, which will bring further development and promote economic growth of the region and the country, resulting in lowering unemployment, opening the possibility for the broader presentation of national resources (culture, heritage, tradition).
- In the EU there are national family business associations. If FYR Macedonia were to organize a similar association it might better protect the interests of this business group and offers members opportunities to exchange experiences.
- More concrete policies and measures that are focused on family businesses are needed from the government. At present, only the general policies and measures for small and medium enterprises apply to this type of businesses.

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Annex C: Organisations supporting Family Businesses

Agency for Promotion of Entrepreneurship of the Republic of Macedonia (APERM)

http://www.apprm.gov.mk/about_us.asp

This is a state-owned institution established to implement SME policies and other related projects/programmes adopted by the Government for support of entrepreneurship, competitiveness and innovation. It supports sustainable economic growth, regional development and increased employment, helping Macedonian enterprises to start, grow and reach technology levels needed to competitively enter international markets. The Agency acts as intermediary between policy makers and SMEs through permanent communication and cooperation with all partner institutions dealing with entrepreneurship promotion and SME support.

CEED Macedonia

<http://ceed-macedonia.org/>

CEED Macedonia is part of an international network of entrepreneurial centers operating in Southeastern Europe. Their office in the country started in 2007. CEED benefits entrepreneurs who want sophisticated yet practical training, connections to finance and access to new markets. Most entrepreneurs in the CEED network have successfully grown their businesses in their local markets but have faced many challenges along the way. Through the Micro and Small Enterprise Project, supported by USAID and Swiss Embassy, CEED Macedonia has secured an Acceleration Investment Fund in total amount of \$30.000, to be invested in selected start-ups. The unique CEED Business & Learning Club, which is comprised of about 250 entrepreneurs, owners of successful businesses in FYR Macedonia, provides the opportunity for entrepreneurs and managers to increase their sales and to improve the management of their companies through the exchange of experiences and information with other experienced entrepreneurs and executives from the country.

CEFE Macedonia

<http://cefe.mk/>

CEFE Macedonia is an organization founded in 2008 in Skopje, Macedonia and works mainly with youth and organizations for promoting and raising entrepreneurship and self employability skills. Their main activities are trainings, consultancy and workshops. CEFE areas of expertise are private sector

