Alma Mater Studiorum – Università di Bologna

DOTTORATO DI RICERCA IN

SCIENZE E TECNOLOGIE AGRARIE, AMBIENTALI E ALIMENTARI

Ciclo XXVI

Settore Concorsuale di afferenza: 07/A1 – ECONOMIA AGRARIA ED ESTIMO

Settore Scientifico disciplinare: AGR/01 – ECONOMIA ED ESTIMO RURALE

TITOLO TESI

ENTREPRENEURSHIP INFLUENTIAL FACTORS IN DEVELOPMENT OF RURAL TOURISM AS DIVERSIFIED RURAL ACTIVITY IN REPUBLIC OF MACEDONIA

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Esame finale anno 2015

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LIST OF ABBREVIATIONS AND ACRONYMS

AESRM - Agency for Entrepreneurship Support of the Republic of Macedonia

AVE - Average Variance Extracted

CAP - Common Agricultural Policy

CARDS - Community Assistance for Reconstruction, Development and Stabilisation

CB-SEM – Covariance Based Structural Equation Modeling

CEECs – Central Eastern European Countries

CEFTA - Central European Free Trade Agreement

DG - Directorate General

EAFG - European Agriculture Fund for Guarantee

EAFRD - European Agricultural Fund for Rural Development

EC - European Commission

EU - European Union

FAO – Food and Agriculture Organization

GDP – Gross Domestic Product

GEM - Global Entrepreneurship Monitor

GNP - Gross National Product

GVA - Gross Value Added

IPA - Instrument for Pre-accession Assistance

IPARD - Instrument for Pre-Accession Assistance in Rural Development

LAU - Local Administrative Unit

LEADER - Liaison Entre Actions de Développement de l'Économie Rurale

LFA - Less Favored Areas

LSU – Livestock Units

MS - Member States

NGO – Non-Government Organizations

NMS – New Member States

NPARD - National Program for Agriculture and Rural Development

NSRT - National Strategy for Rural Tourism

NSTD - National Strategy for Tourism Development

NUTS - Nomenclature of Territorial Units for Statistics

OECD - Organization for Economic Co-operation and Development

OLS – Ordinal Least Squares

PHARE - Poland and Hungary Assistance for Restructuring their Economies

PLS - Partial Least Squares

PLS-SEM - Partial Least Squares Structural Equation Modeling

RDP - Rural Development Policy

RM – Republic of Macedonia

SAPARD - Special Accession Programme for Agriculture and Rural Development

SEM - Structural Equation Modeling

SME – Small and Medium Enterprises

SNA - System of National Accounts

SPS – Single Payment Scheme

SSO – State Statistical Office

TAA - Tourism as Additional Activity

TEA - Total Early-Stage Entrepreneurial Activity

TSA - Tourism Satellite Accounts

TSG - Tourism Sustainability Group

UNDP – United Nations Development Program

USAID - United States Agency for International Development

VAF – Variance Accounted For

VIF - Variance Inflation Factor

WTO - World Trade Organization

ACKNOWLEDGEMENTS

My most sincere thanks go to my advisors and mentors, Dr. Matteo Vittuari for his constant and unselfish support and to Prof. Andrea Segrè who gave me the opportunity to perform this research.

I would also like to thank Francesca Regoli, as an expert in rural tourism her suggestions were always extremely useful.

I would like to express my gratitude to all participants in the telephone survey and personal interviews. Without their willingness to devote their time to share with me their opinions, this research would have never been possible.

I would like to express my eternal gratitude to my family, especially my wife Slavica Todorova, for her generous support, encouragement and understanding.

I want to express sincere gratitude to the Director of the Agency for Financial Support of Agriculture and Rural Development of Republic of Macedonia, Toni Dimovski and Biljana Vuković who were extremely tolerant and support me in my work.

Finally, I owe thanks to all my colleagues, friends and relatives who directly or indirectly helped me in this scientific work.

ABSTRACT AND KEYWORDS

Rural tourism is relatively new product in the process of diversification of the rural economy in Republic of Macedonia. In the recent years several studies have identified the entrepreneurs and their motives of engagement in rural tourism accommodation business. However, none of the previous studies have identified and measured the factors that influence success of the entrepreneurs in rural tourism. This study used desk research and life story interviews of rural tourism entrepreneurs as qualitative research method to identify prevalent success influential factors. Further, quantitative analysis was applied as second stage of the research in order to measure the strength of influence of identified success factors. The primary data for the quantitative research was gathered using telephone questionnaire composed of 37 questions with 5-points Likert scale. The data was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) by SmartPLS 3.1.6. Results indicated that human capital, social capital, entrepreneurial personality and external business environment are predominant influential success factors. However, human capital has non-significant direct effect on success (p 0.493) nonetheless the effect was indirect with high level of partial mediation through entrepreneurial personality as mediator (VAF 73%). Personality of the entrepreneur, social capital and business environment have direct positive affect on entrepreneurial success (p 0.001, 0.003 and 0.045 respectably). Personality also mediates the positive effect of social capital on entrepreneurial success (VAF 28%). Opposite to the theory the data showed no interaction between social and human capital on the entrepreneurial success. This research suggests that rural tourism accommodation entrepreneurs could be more successful if there is increased support in development of social capital in form of conservation of cultural heritage and natural attractions. Priority should be finding the form to encourage and support the establishment of formal and informal associations of entrepreneurs in order to improve the conditions for management and marketing of the sector. Special support of family businesses in the early stages of the operation will also have a particularly positive impact on the success of rural tourism. From the external business environment most prevalent factors of success would be investment in local infrastructure, access to the financial instruments and destination marketing.

Keywords: *rural tourism, entrepreneurship, success factors, life story interviews, PLS-SEM, social capital, human capital, entrepreneurial personality, business environment*

1. INTRODUCTION

1.1. Research motivation, objectives and problems addressed

Republic of Macedonia (RM) similarly to other countries in the Balkan Peninsula is struggling with migration and depopulation of the rural spaces (Bornarova & Janeska, 2012; Grečić & Kaludjerović, 2012; Jakimovski, 2002; Janeska & Bojnec, 2011; Kostadinova-Daskalovska & Noshpalovska, 2000; Pearce & Davis, 2000). Rural-urban migration trends and dynamics are not very different even from those registered in some of the CEECs countries that joined European Union (EU) in 2004 (Baláž & Kusá, 2012; Drbohlav & Rákoczyová, 2012; Okólski & Topińska, 2012) and EU 2007 enlargement countries (Abadjieva, 2008; Alexe, Horváth, Noica, & Radu, 2012; Bogdanov & Rangelova, 2012). In order to face this condition and to find a solution, the Republic of Macedonia implements numerous actions in the form of policy measures for support and development of rural areas and decreasing rural-urban differences (Bojnec, 2012; Todorov & Vittuari, 2010). Most of these policy measures as a result of the European Union (EU) integration process are designed similar to the measures in the EU Rural Development Policy (RDP), second pillar of the Common Agricultural Policy (CAP) that can be considered as a major milestone for the rural policy of the countries in the region as it has been an important milestone for the CEECs in the 1999-2004 period. This is evident in the National Program for Agriculture and Rural Development (NPARD) 2013-2017 of Republic of Macedonia that is characterized by variety of policy measures. Some of them related to more broader concept as investments in the development of various types of hard and soft infrastructure in rural areas considering that infrastructure is important factor influencing directly and indirectly the development and economic grow of rural areas (Janvry, Sadoulet & Murgai 2002; Jakimovski, 2004). Others measures are related to another important EU RDP concept as rural development through support of diversification of economic activities (Clark & Chabrel, 2007; Hjalager, 1996; Sharpley & Vass, 2006). In this regard Republic of Macedonia, as a result of enormous cultural and natural heritage, has identified rural tourism as significant

diversified economic activity and as an opportunity for rural development. Consequently rural tourism has been earning its place in the local development strategies. The concept of rural tourism was framed on a national level by adopting the National Strategy for Tourism Development (NSTD) 2009-2013 and National Strategy for Rural Tourism (NSRT) 2012-2017.

The NSRT 2012-2017 is a most comprehensive document delivered in the last decade in the field of Republic of Macedonia's rural tourism. It provides definitions, analyses the trends in rural tourism with more in depth attention to the situation in the country, the institutional capacity and the legal framework. The NSRT suggests determining the strategic framework for the development of rural tourism in Macedonia focused on achieving three key strategic objectives: (1) increased capacity in rural tourism, (2) increased employment in rural tourism, and (3) increased tourist offer in rural areas. The second key strategic objective is directly linked to the development of human capital in rural tourism that is identified as one of the most important inputs in the sector. Therefore the NSRT sets list of activities that should be performed for reaching certain goals in the sector as development of specific human capital. It suggests creation of a project for raising awareness of younger groups of the rural population, prospects for career development in rural tourism, creation of action plan for raising awareness of the rural population about the importance of tourism in rural areas, developing a plan for the implementation of training activities by regional and local needs etc. In brief, the NSRT at the macro level provides clear guidance for continuous and sustainable development of rural tourism with exact actions, however at the micro level there are still gaps to be filled.

On international theoretical aspect rural tourism is closely linked to small ventures, agriculture, landscape, tradition and action and innovation of individuals not only for personal purposes like increasing revenue and providing lifestyle, but also supporting the community and preserving the environment. Therefore the position of the entrepreneur in rural tourism business is milestone (Clark & Chabrel, 2007; Getz & Carlsen, 2005; Lundberg & Fredman, 2012; McAreavey & McDonagh, 2011; Sharpley & Jepson, 2011). The entrepreneur is key figure in every venture moreover in rural tourism due to the combination of social, environmental and economic activities that should be preformed (J. Ateljevic & Page, 2009; Nancy G. McGehee,

Kim, & Jennings, 2007; Rogoff, Lee, & Suh, 2004). Complexity of rural tourism as an economic activity immediately raises the question of: Who is the person behind this activity? What are his motivations? Which are the factors that influenced him and in what meaner? Are there any groups that are substantially different based on success factors?

Some of these questions raised are already answered as a result to different studies in RM. Metodijeski (2012) performs literature research on concepts of rural tourism and how these concepts could be implemented most successful in the field of rural tourism in the RM. It determines the potential of different regions in the RM. The research of Metodijevski (2012) structured as three independent researches using descriptive, inductive, historical, qualitative and quantitative methods, is giving answer to: (1) Who do it and what are his/her motivations? – Profiling entrepreneurs offering accommodation services in rural tourism in the RM. (2) Marketing and the role of travel agencies in the development of rural tourism in RM and (3) The role of the rural women in creation and development of rural tourism and creative industries. Further, Taskov at al. (2013) researched prevalence of rural tourism in mountainous areas, Dimitrov & Petrevska (2012) researched rural tourism development zones in RM and Kostadinov (2012) researched the state of rural entrepreneurship in RM.

However, one of the gaps that are understudied on national level in RM is the understanding of rural tourism entrepreneur, their development, behavior and the factors that are determining their success and vice versa how success is modeling the development of the sector. There is still missing more targeted research on rural tourism entrepreneurship that would give answers to the questions: What are the crucial factors that are influencing rural tourism entrepreneur success? Are there interactions between the factors? To what extend they are influencing the success?

Understanding the factors that are influencing the entrepreneurs in this sector is crucial hoop in the chain of development of the sector. Consequently determining success factors and measuring their influence on success is in the center of the development of the sector.

Bearing in mind that on national level in Republic of Macedonia there is a wide gap of understudied factors that are influencing entrepreneurs in the rural tourism sector the intention of this research is through analysis of previous similar international studies in this field to develop theory and determine most crucial external and internal

factors that have influence in the process of success of rural tourism entrepreneur. Internationally there are numerous researches' identifying and measuring influential factors on entrepreneurs in general and rural tourism entrepreneurs in particular. (Hughes & Carlsen, 2010; Li, Wu, & Bai, 2012; Lundberg & Fredman, 2012; N G McGehee, 2004; Pearce & Davis, 2000; Rogoff et al., 2004; Sidik, 2012; Simpson, Tuck, & Bellamy, 2004; Walker, 2004; Watson, Hogarth-Scott, & Wilson, 1998; Wijewardena & Tibbits, 1999; Wilson, Fesenmaier, Fesenmaier, & Van Es, 2001; Wong, 2005). They all served as an inspiration for filling the identified gap in the literature in RM.

As a consequence of the exploratory character of the research it was set as three-phase research: theory development, qualitative and quantitative research. Each phase of the research have goals to be reached and the results to be used in the consequent phase. The primary goal of the research is to define list of factors and to structure them in groups in accordance to their interactions concerning relevant theories of entrepreneurship, rural development and tourism. Second goal of the research is to test and prove the theory using qualitative and quantitative primary data analysis and to quantify the strength of influence on individually each factor and the groups of factors. Therefore research aims to explain and quantify the correlation between measured variables, and to measure latent unobserved variables. The overall goal of the research is to give answers to the questions stated above and by doing so to recommend more targeted actions that can be implemented in various support policies for substantial increase of operators in the sector of rural tourism and increase in the national economy share of the sector contributing to the rural development through diversification.

1.2. Outline of the thesis

The thesis is structured in 8 chapters starting with broader elaboration of the theory of entrepreneurship, rural development and tourism continuing to more focused research of rural tourism success factors.

The first chapter introduces the main issues of the thesis and elaborates in brief the problems addressed, objectives and goals to be reached explaining the aim and motivation of the research.

The second chapter of the research describes the research questions as a consequence of the problems addressed by the research continuing in the methodology development of the research explaining the methods used for data collection and analysis.

The chapters 3 and 4 are dedicated to extended existing theory analysis. Starting with rural development comparative theory and country analysis between EU and RM with in depth analysis of the role of rural tourism in the economy continuing with entrepreneurship and economic growth theory analysis. The main objective of these chapters is to identify the core theory of rural tourism entrepreneurship.

Chapter 5 identifies the crucial influential factors of entrepreneurship success in the theory of rural tourism entrepreneurship. This chapter is explaining the theoretical concept of success in SME's in general and more specific in the tourism continuing with identification of success factors by examination of previous research in the field of success factors.

Moving from existing theory analysis to explorative research and theory development for the study area, chapter 6 explains the two stages of the research preformed in Republic of Macedonia. This chapter elaborates qualitative and quantitative research, analysis of the data ending with discussion of the results. Consequently to the discussion and results from the research, chapter 7 presents the main evidence from the research setting a series of recommendations.

The last chapter "Bibliography" lists the scientific books, articles, journals, policies, programs and web sites that are elaborated in the thesis.

2. RESEARCH QUESTIONS AND METHODOLOGY

2.1. Rational and research framework

Worldwide trends of industrialization and growth are central urban approach of development. In parallel, the stress of the urban lifestyle contributes to the syndrome counter urbanization. All this leads to an increased interest in rural areas and it specific livelihood. Increased development of tourism worldwide is associated with the potential development of rural tourism. Rural tourism is one of the few activities that can offer solutions to social problems in rural areas, especially the problem of high unemployment and cultural conservation. In addition, there are other factors that divert focus to rural tourism as: increased interest in cultural heritage and raising the level of environmental awareness. These conditions created a challenge to promote rural tourism as the primary tourism product that would spread tourism and its socio-economic benefits for rural areas. Essentially, rural tourism is an activity that takes place outside of urban areas. As such, it is a complex activity and it may include: farm tourism, nature tourism, adventure tourism, ecotourism and others. Contrary to conventional, rural tourism has certain specific features. It is oriented towards specific experience, the locations of rural tourism are less populated and is mostly a natural environment, it has seasonal character in relation with local events and is based on the preservation of culture, heritage and traditions.

Rural tourism cannot be developed anywhere and by anyone. There is a need of meeting a number of factors, which are requirement for the development of this type of alternative tourism. The essential factors that allow the existence of rural tourism can be formulated as follows:

1. Existence of anthropogenic (e.g. cultural, historical, archaeological, ethnographic) and natural tourism resources (e.g. geomorphological, hydrographic, biogeographically)
2. Appropriate accommodation facilities (e.g. rural houses with traditional architecture; apartments and rooms in houses with modern architecture; Eco agricultural household and rural small family hotels)
3. Human factors - Tourism creates great opportunities for employment in both primary and secondary sectors of the economy. It creates direct employment

in restaurants, hotels and other tourism facilities and indirect employment referring to people who are engaged in activities dependent on tourism as construction workers, doctors, retailers, gas stations etc. Third is the induced additional employment of local residents and are calculated from the additional income earned.

4. Institutional support - in terms of central and local government financial and non financial support, NGO sector development and external support e.g USAID, IPARD
5. Built social and production infrastructure (e.g. transport, communications, water etc)
6. The existence of constant travel demand, ensuring constant demand of rural tourism products and effective use of accommodation

Although all this factors are allowing the creation of the rural tourism and are preconditions for development of the sector as in any other economic sector that is dependent on creation and existence of SME the milestone of the presence of the rural tourism is the entrepreneur. The entrepreneur combines and allocates the existing resources, interact on the market and produces new added value products and services. Their ability of recognition and identification of the opportunity, knowledge of specific and general resources allocation makes their enterprises successful. The entrepreneur is the core of the rural tourism sector. As a result to this conclusion the entrepreneurs are in the center of this research.

As indicated by Regoli, Vittuari and Segrè (2011) proper exploitation of the natural, human and social resources is contributing to the sustainable development of rural tourism. Taking this into account and considering that in the core of the exploitation of the resources is the entrepreneur the basic hypothesis structured in this research is that human, social and natural resources are influencing rural tourism entrepreneurial success. Later, due to the extended literature review and existing theory exploration this list of resources was extended with business environment referring to the external factors that are fostering or suppressing SME development in the rural tourism sector.

Based on the review of the literatures on tourism, rural development, rural tourism, entrepreneurship, social and human psychology this research examines the theoretical relationship among human capital, social capital, personality and business environment and their effect on entrepreneurial success in rural tourism.

2.2. Research questions

Rural development although depending on many different sorts of actions its sustainable development is closely linked to the development of entrepreneurship. Sustainable development of entrepreneurship is perceived as major milestone in decreasing of rural-urban differences, confirmed by numerous actions in the form of policy measures. In this regard Republic of Macedonia, as a result of enormous cultural and natural heritage, has identified *rural tourism* as significant diversified economic activity and as an opportunity for rural development. This research aims at assessing the theory of tourism, entrepreneurship and rural development finding the overlaps and communalities between the existing theories with focused attention on the *entrepreneur* as a key figure and a point of interest centering the theories on this point. Entrepreneur in this research is seen as developer or person that sees the opportunity and creates new possibilities out of existing and available resources.

Therefore this research aims at answering the following questions:

1. Is rural tourism recognized and supported by the existing policies in RM?
2. What is the position of entrepreneur in the development of rural tourism?
3. What are the crucial factors that are influencing rural tourism entrepreneur success?
4. To what extend they are influencing the success?
5. Are there interactions between the influential factors?
6. Are there any groups that are substantially different based on success factors?

2.3. Methodology

2.3.1. Methodology outline

Methodological research is divided into three phases. The first phase is the desk research that summarized all previous research in the area and the relevant existing theories. The second phase includes a qualitative survey of entrepreneurs involved in rural tourism incorporating all previously acquired knowledge about the connection of relevant theories and focusing on entrepreneurial experiences and stimuli. The third

and final phase of the research related to qualitative research on the factors that influence the success of entrepreneurs in rural tourism. All three phases of the study are related to each other and consequently enabling easy and logical traceability and focus on the research and results.

2.3.2. Desk research

The research of previous work in the field of rural tourism was starting point and the widest part of the study. This was due to the complexity of the issues addressed and questions raised that the research should provide answers. The purpose of this part of the research was to link existing theories of rural development, entrepreneurship and tourism and to find their similarities setting entrepreneurs in the center of the research. Given that the entrepreneurs are at the center of the research the desk research was extended on related behavior theory, self-efficacy and needs theory developed in the field of psychology and closely related to human behavior.

The desk research tends to give a clear picture of the geography area in which research is conducted. Makes a comparison between the existing theories for defining rural areas at the level of OECD and EU countries linking it to the regulation for defining rural areas in RM.

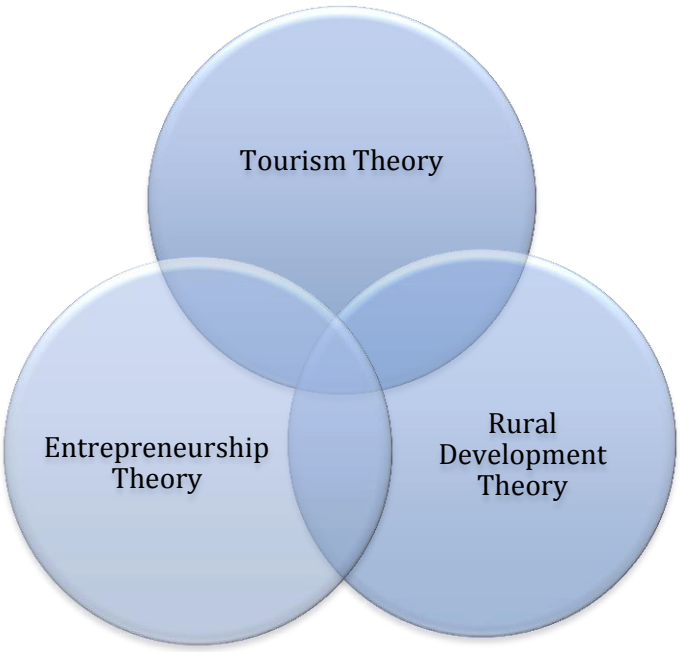
Creating comparison of the agricultural sector between the EU and RM the research focuses deeper on the RDP two periods 2007-2013 and 2014-2020. The focus is on the RDP due to the fact that the development of the rural tourism sector is closely related to the rural development and supported through RDP. Consequently the desk research manages to link RDP of EU and RM and the effect of the enlargement instrument of EU on rural tourism development in RM. Further the desk research is closely linking the theory of tourism and leisure to the theory of rural development and makes comparison of both policies on EU and RM level.

Exploring the theory of entrepreneurship the study challenges to interlink rural development and tourism theory to the entrepreneur as a key figure in entrepreneurship theory. The last part of the desk research summarized the existing theory on entrepreneurial success addressing the factors that are influencing the entrepreneurial success in rural tourism, tourism and general entrepreneurial success.

Substantial amount of consistent secondary data as research papers, reports, scientific books, statistical databases and web sites has been referred. The desk research has

been based on collection and analysis of available secondary data. Important sources for secondary data included: Abstract and citation databases as: Scopus, ScienceDirect and Cabi; SSO of RM, EUROSTAT and FAOSTAT; European Commission (EC); Organisation for Economic Cooperation and Development (OECD); Government of RM and National library of RM.

Fig. 2.1 Methodological theory approach



2.3.3. Qualitative research – life story interviews

The second phase of the research includes a qualitative survey or life story interviews of entrepreneurs involved in rural tourism. This phase of the research is logic continuation of the desk research that aims at confirming the theoretical knowledge extending the research in specific conditions and current situation in RM.

Why life story interviews? - Telling the life story is so much part of our nature that we are often unaware of its importance. We think in the form of a story, talk in the form of a story, and gives meaning and sense of our lives through stories. People everywhere tell their stories of their lives. Storytelling is part of us, as human kind. The stories were once the center of life in the community. Narration in life gives us direction, it validate our experience, they return the value of our lives and strengthen community bonds.

The stories can attest, evaluate and support our experience in social framework and clarify our relationship with those around us. They emphasize the norms of moral order and shape according to the individual needs of society. Stories help us to understand the differences and our similarities and relationships with others. Stories develop a sense of community.

Scientists in many academic disciplines conducted interviews life story before it become recognized. It can be said that the life story interview evolved from oral histories, life histories and other ethnographic approaches. It is a qualitative research method for gathering information about the subjective essence of the life of the individual.

2.3.4. Quantitative research – Data collection and PLS-SEM

The research is based on structural model that illustrates the hypothetical relationship between the constructs that will be examined in this research. The sequence of the constructs in the structural model is based on the theory previously examined and developed through literature review, logic, experiences and partially concluded by the use of qualitative research (first step of the research applied life story interviews with rural tourism entrepreneurs). Fig 1 illustrates the basic diagram of the hypothesized constructs that influence entrepreneurial success in rural tourism.

Based on the review of the literatures on tourism, rural development, rural tourism, entrepreneurship, social and human psychology this research examines the theoretical relationship among human capital, social capital, personality and business environment and their effect on entrepreneurial success in rural tourism. The key relationships in the structural model are expressed in the following **null hypotheses**:

H1. *Human Capital of the rural tourism entrepreneur is positively related to his/her entrepreneurial success*.

H2. *Personality of the rural tourism entrepreneur is positively related to his/her entrepreneurial success*.

H3. *Social Capital of the rural tourism entrepreneur is positively related to his/her entrepreneurial success*.

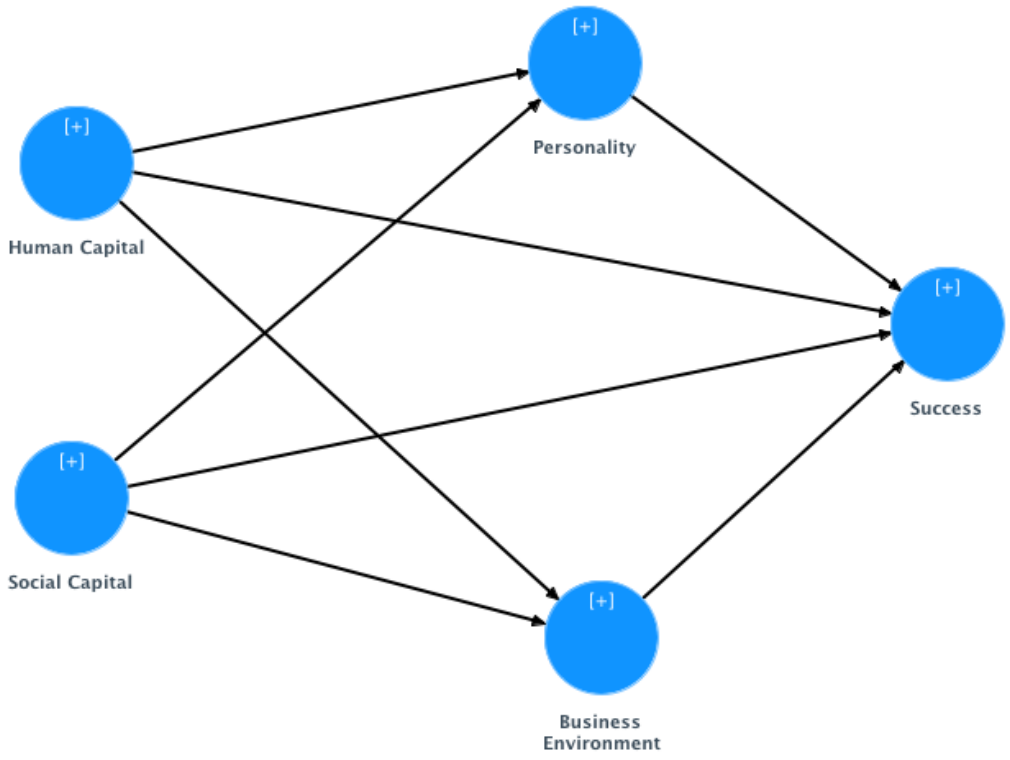
H4. *External financial environment is positively related to his/her entrepreneurial success.*

H5. *Personality of the rural tourism entrepreneur mediates the positive effect of Human Capital and Social Capital on entrepreneurial success.*

H6. *Financial environment mediates the positive effect of Human Capital and Social Capital on entrepreneurial success.*

H7. *Human Capital moderates the positive effect of Social Capital on entrepreneurial success.*

Fig. 2.2 Hypothesis Structural Model



As part of this research a questionnaire was used for collection of primary data. As indicated by deferent scholars, (De Vaus, 2002; Foddy & Foddy, 1994; Oppenheim, 1992) there are large amount of technics for collecting primary data by questionnaire in social sciences. The basic aim of the questionnaire was to quantify how often the measured variables occurs in the population and what is the strength of the measured variables ones that are directly measured by questions and latent variables or construct that are unobservable and measured indirectly. Since the constructs in the

research are developed by the use of theory and qualitative research and the aim of the research was to measure the relationship between the constructs the process of measurement required use of scaled closed-ended questions. As most frequently used scale in social sciences for qualitative research is Likert scale this scale was used in the main section of the questionnaire. The questionnaire was design in 2 sections composed of 37 questions. It started with introductory paragraph of the research explaining to the respondents the aims and objectives of the research, persons and institutions involved, instruction of answering and ethical issues of the questionnaire. The content of the questionnaire was structured in two paragraphs. First content paragraph of the questionnaire evaluating the success crucial influential factor was composed of 23 question: 19 question on 5-points Likert scale ("Strongly disagree", "Disagree", "Neither agree nor disagree", "Agree" and "Strongly agree") and 4 questions on 10 point scale. Second content paragraph of the questionnaire measured the grouping variables as: form of registration, size of business, gender, education, geographic position, utilized capacity, employment and included other demographic characteristics.

The list participants was composed of entities registered for rural tourism in the national chamber of commerce registers, municipality registers, local web pages information's, local tour operators and National Farmers Federation. The final list included 268 enterprises and natural persons involved in rural tourism accommodation sector. All sources for survey population evaluation indicated that best possible way of contacting the respondents was by telephone because most of them did not have access to Internet for Internet survey and the post is usually high time consuming and the respond rate is low. Therefore as best possible choice it was used telephone survey.

Pilot testing of the questionnaire was undertaken as a preface in order to test the quality of the questionnaire, get additional independent, assess the content of the questions and explore the structure of the questionnaire. With the use of piloting the questionnaire was checked for redundancy, scalability, wording, meaning, flow and timing. Pilot testing of the questionnaire is preformed with random sampling of ten participants from the list of population. Additionally subject matter experts preformed pilot testing in order to preform content validity of the constructs. All data and

suggestions gathered from pilot testing was evaluated and used in defining the final version of the questionnaire.

All listed possible participants were contacted by telephone revealing that 23 listed participants were out of work and 152 agreed to participate in research and answered the questionnaire. The respondent rate was 62%, which was good respondent rate for social sciences telephone survey.

Given the multivariate nature of the proposed hypothesis model and the need of exploratory analysis Structural Equation Modeling (SEM), was used for the analysis of the data. It is statistical method that simultaneously analyzes multiple variables. SEM is a technique for analysis of unobserved variables measured indirectly by indicators (independent variables). It is multivariate technique that combines aspects of factor analysis and regression allowing simultaneously examination of relationship among measured variables and latent variables as well as between latent variables in the model. SEM as a second-generation statistical method widely used in the past 20 years by social science researchers for confirmatory as well as exploratory research. SEM advantage over first generation methods is in the possibility of measurement of the unobserved variables.

Table 2.1 Multivariate Research Methods

	Primarily Exploratory	*Primarily Confirmatory*
First-generation techniques	• Cluster analysis • Exploratory factor analysis • Multidimensional scaling	• Analysis of variance • Logistic regression • Multiple regression
Second-generation techniques	• **PLS-SEM**	• CB-SEM • Confirmatory factor analysis

(Hair Jr, Hult, Ringle, & Sarstedt, 2013)

SEM as a multivariate analysis uses the **variance,** linear combination of several variables, as fundamental building block. It is particularly useful technic in measuring abstract, complex and not directly observable phenomenon. This kind of phenomenon that is measured by SEM refers to latent (unobservable) variable or **construct**. Constructs in SEM are large abstract concepts that are measured indirectly by indicators or manifestations each representing a single separate aspect of the concept.

In other words constructs in SEM are measured indirectly by combining several items. Combining several item for measurement of the construct makes the measure more accurate taking into account different aspects of the concept which reduces measurement error.

There are two types of Structural Equation Modeling (SEM). Covariance-Based SEM (CB-SEM) is primarily used for confirmatory theory analysis based on systematic relationships between multiple variables that can be tested empirically. CB-SEM determines how well the proposed theoretical model can estimate the covariance matrix for a sample data set. The second type of SEM is Partial Least Squares SEM (PLS-SEM) a method that is focusing on explaining the variance in the dependent variables and by that primarily used for development of theories in exploratory research. This type of SEM is more useful in situations where theory is less developed. The variance based PLS-SEM algorithm was developed by Herman Wold (1975; 1982; 1985) and later extended by Lohmoler (1989). Its statistical properties are determent by OLS regression based estimation.

For the analysis of the data in this study PLS-SEM was used applying SmartPLS 3.1.6. SmartPLS 3 was chosen as much more advanced and sophisticated PLS-SEM software than others on the market at the moment.

PLS-SEM generally achieves high levels of statistical power (renders specific relationship significant when it is in fact significant in the population) with small sample size although there are minimum requirements in sample size considering different level of statistical power (Cohen 1992). PLS-SEM makes no distributional assumptions and uses data that have normal and non-normal distributional properties. The PLS-SEM measurement model generally requires metric data but also works well with ordinal scales (Likert scale) and binary coded data (dummy variables) as ones used in this research.

2.3.5. Methodological research limitation

The research is focused on specific geographic region referring to the country of interest, Republic of Macedonia, and more niche economic sector, therefore it has some general country related constraints and specific sector constraints.

As a general constraints to this research and any other research in Republic of Macedonia is the scarcity of reliable and official statistical data. Last census preformed by the State Statistical Office was in 2002 and the data from there forward is estimated data. Therefore most of the secondary data used in the research is estimated data however in order to overcome this problem the core of the research uses primary data.

The previous research in the field of entrepreneurship, moreover in rural tourism entrepreneurship in Republic of Macedonia, although small in size and range, is lacking in systematic national database on previous research. Therefore there were limitations collecting and tabulating all previous research in the field. However out of the available and reviewed research for the time being the topic of this research wasn't elaborated in none of the previous studies.

The implementation of life story interviews as a part of the qualitative research faced limitations in terms of time and budgeting. Although considerable amount of personal social capital of the researcher was used the persons that were interviewed were still vary bashful and uncomfortable to discus personal data. Therefore the period of interviewing sometimes lasted several days with long acquaintance between the researcher and the respondent.

And last in the part of the qualitative research there were questions in the questionnaire that even in the preface and piloting were considered as sensitive nature. These were the questions linked to the income analysis and as expected the income values were with extended amount of missing data and therefore were not incorporated in the analysis.

3. RURAL TOURISM AND RURAL DEVELOPMENT – INSTITUTIONAL FRAMEWORK IN THE EU AND THE REPUBLIC OF MACEDONIA

3.1. European Union Rural Development Policy and enlargement process

3.1.1. Defining 'rurality' in the EU context

Diversity is EU's great resource, especially in rural areas. The EU rural areas are diverse in many aspects: physical, socio-economic, environmental and institutional. Nevertheless this diversity creates great challenges for the EU authorities to accurately define rural areas across the EU (ENRD TWG 1, 2010b).

The starting point in defining rural areas in the EU context has been to characterize rural areas in accordance to the Organization for Economic Co-operation and Development (OECD), which is the only internationally recognized definition. The OECD (2006) regional typology classified regions in three categories: (1) predominantly urban, (2) predominantly rural and (3) intermediate. This was done by using three criteria and two-step approach (ENRD TWG 1, 2010a):

(A) First step is identification of municipalities as rural:

1. **Population density.** A community is defined as rural if its population density is below 150 inhabitants per km^2 (500 inhabitants for Japan due to the national density which is above 300 inhabitants per km^2)

(B) Second step is identification of the regions on NUTS3 and NUTS4 level:

2. **Regions by % population in rural communities**. A region is classified as predominantly rural if more than 50% of its population lives in rural communities, predominantly urban if less than 15% of the population lives in rural communities, and intermediate if the share of the population living in rural communities is between 15% and 50%.
3. **Urban centers**. A region that would be classified as rural on the basis of the general rule is classified as intermediate if it has an urban center of more than 200,000 inhabitants representing no less than 25% of the regional population. A region that would be classified as intermediate on the basis of the general rule is classified as predominantly urban if it has

an urban center of more than 500,000 inhabitants representing no less than 25% of the regional population.

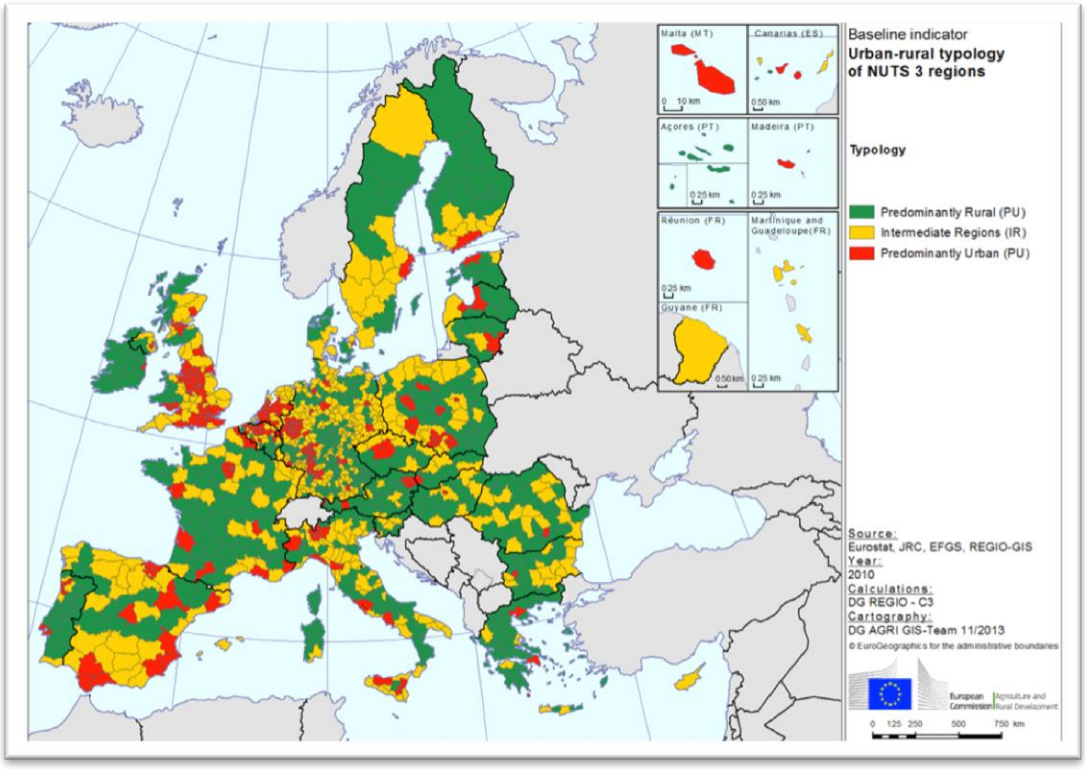
The OECD definition of rural areas in the early process of defining "rurality" in the EU was only taken up by a minority of national and regional Rural Development Programs of Member States during the period 2007-2013 (ENRD TWG 1, 2010b). Member States (MS) or regions were free to modify the OECD definition or to adopt their own definition, which was the case for many MS. This was justified in regard to the limited ability of the OECD definition to describe the socio-geographical needs of the country or regional diversity and the desire for a more relevant national distinction between rural and urban areas in the accurate use of policy tools for specific area needs (ENRD TWG 1, 2010b).

In 2010, the European Commission agreed on a new typology of predominantly rural, intermediate and predominantly urban regions based on a variation previously used by the OECD methodology. The new typology was based on population grid at one square kilometer resolution as an alternative to population statistics for administrative areas. All cells under 300 inhabitants per km^2 and maximum population of 5,000 inhabitants are considered as rural. Applied on NUTS 3 level if more than 50% of the total population lives in rural grid cells, the region is classified as predominantly rural. Regions are classified as intermediate if there is 20% and 50% of the population living in rural grid cells, while those with less than 20% in rural grid cells are predominantly urban (European Commission, 2013a). The presence of large urban centers is considered in the same way as in the OECD methodology:

- Predominantly rural region is re-classified as intermediate if there is an urban center with more than 200,000 inhabitants representing no less than 25% of the regional population;
- Intermediate region is re-classified as predominantly urban if there is an urban center with more than 500,000 inhabitants representing no less than 25% of the regional population.

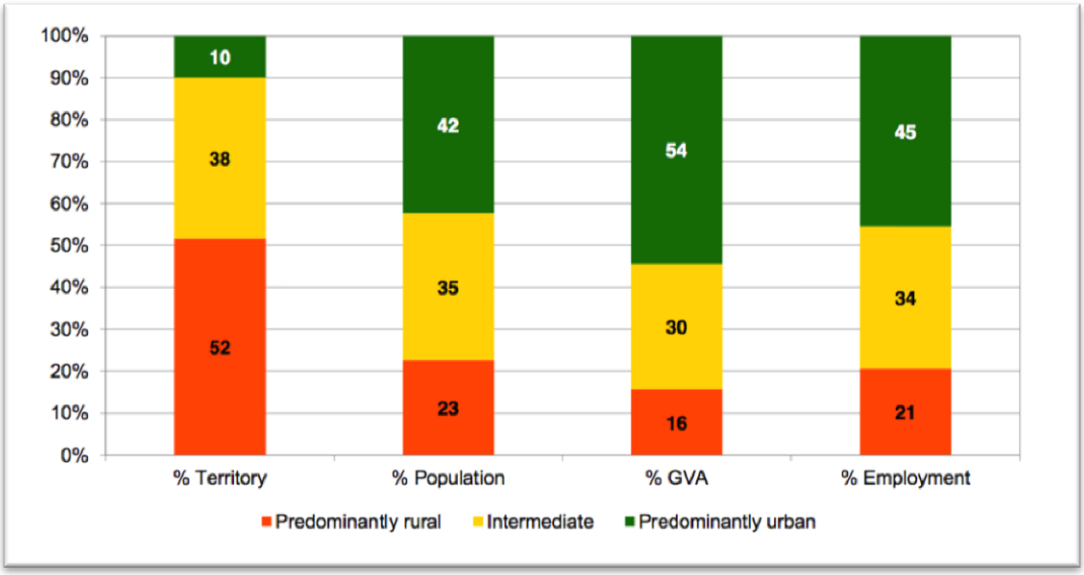
Predominantly rural regions in the EU, according to the new adopted typology, represent 52% of the territory and 23% of the population. In 2010 they generated 16% of the total GVA and 21% of the employment compared to the urban areas with 54% and 45% respectably (European Commission, 2013a).

Fig. 3.1 The European Commission territorial typology, 2010, NUTS 3 level



Source: (European Commission, 2013a)

Fig 3.2. Regional Indicators EU 27



Source: (European Commission, 2013a)

3.1.2. CAP and Rural Development Policy

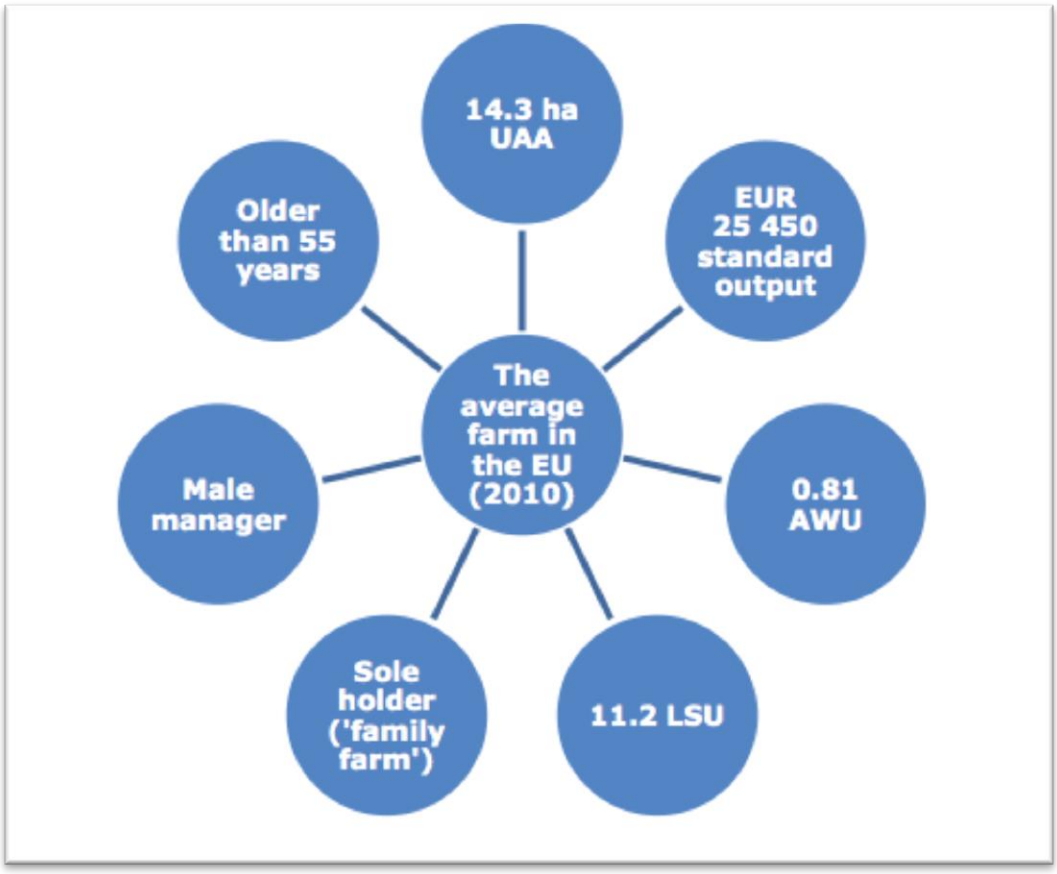
With 58% of the EU-27 population living in rural areas (predominantly rural and intermediate), which accounts for around 90% of the territory of the EU-27 (European Commission, 2013a), the agricultural policy and rural development policy have large significance to the EU. In the EU rural areas, farming and forestry are still in the center as crucial economic sectors in land use and management of natural resources. The average income per head in rural areas is still lacking behind the one in urban areas having large effect on the quality of life of the rural population and poverty, presented as low levels of health and education, inadequate physical security, poor access to clean water and sanitation, low access to basic goods and services that mostly appears in the New Member States (NMS) (European Commission, 2006b, 2008a, 2013a).

The European Commission outlines that "the numbers of people affected by relative income poverty are still very significant with more than 72 million people or 15% of the EU population living at risk of poverty in 2003" (2008a). This poverty is depending to great extent on poverty in rural areas (European Commission, 2008a; European Council, 2004).

The evidence from the OECD countries is not far from the EU situation. GDP per capita in OECD country's predominantly rural regions in 2000 has been only 83% of the national average with decreasing tendency in terms of share of the national GDP per capita (OECD, 2006). Agriculture is still shaping rural landscapes across the OECD countries, but due to the productivity increase, with decline in rural population employed in agriculture (10% OECD 2006) and share in gross value added. The poverty in rural regions is even more present.

In the statistical report of the rural development 2013, EU-27 is characterized by 12 million farms, 172 million hectares of agricultural land and 25 million people involved in agricultural production. An average farm has 14.3 ha of agricultural land and generates around € 25,000 in Standard Output. It employs less than 1 full-time worker and have slightly more than 11 Livestock Units (LSU) (European Commission, 2013a).

Fig. 3.3. Farm structure: average farm in the EU-27



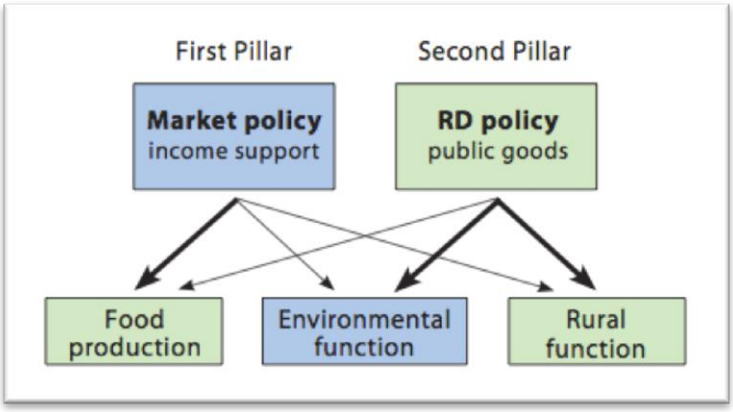
Source: (European Commission, 2013a)

The Common Agriculture Policy (CAP) was introduced in the early 1960s, managed by the provisions of the Treaty of Rome 1957, at a time when farming accounted for 30% of the employment and 20% of the GDP. Six founding members introduced CAP with main purpose of boosting agriculture production and food security, providing fair standard of living for farmers and transforming the economy from agriculture to manufacturing and services (Bureau & Matthews, 2005; European Commission, 2013b). Until 1980s, CAP has reached its goals, it increased agricultural productivity, stabilized agricultural markets, increased food security, ensured fair trade. In the same time CAP generated largely increased production with extreme surpluses and made negative economic effects in EU that triggered the reforms of the policy (Daugbjerg, 2009).

The first reform was *MacSharry Reform*, adopted in 1992, that introduced producers' support instead of product price support, aiming at improving the

competitiveness and stabilizing the market of agricultural products (Daugbjerg, 2009; J. Haynes, 1992; Tangermann, 1999). The second most crucial reform was the *Agenda 2000 Reform* (Berlin summit, 1999) that introduced a major change in the overall philosophy of the CAP, by promoting the idea of a 'second pillar' or the Rural Development Policy. The Rural Development Policy (RDP) and inclusive measures were established in the CAP framework as 'second pillar' governed by one main rural development regulation[1] (Beard & Swinbank, 2001; Daugbjerg, 2009; Philippidis & Hubbard, 2003).

Fig. 3.4. CAP structure Agenda 2000 Reform



Source: (European Commission, 2013a)

The *2003 CAP Reform* highlighted the key role of the second pillar. The introduction of decoupling (single payment scheme) and cross-compliance supported and strengthened the competitiveness of the agriculture sector (Maye, Ilbery, & Watts, 2009; Nedergaard, 2008). The 2003 reform strengthened the rural development policy through transfer of funds from the first to the second pillar and introduction of new measures. It also introduced the environmental function of the CAP and RDP (Daugbjerg, 2009).

The *Health Check Reform* (2008) introduced new measures focused on the main key issues related to new environmental challenges with simplification of the Single Payment Scheme (SPS)[2], introducing the single common market organization[3] and

[1] Council Regulation No 1257/1999 of 17 May 1999
[2] Council Regulation (EC) No 1782/2003
[3] Council Regulation (EC) No 1234/2007

reform of the RDP that resulted in adoption of the Rural Development Programme 2007-2013 [4] (Daugbjerg & Swinbank, 2011; Moss, Binfield, Patton, Zhang, & Westhoff, 2008)

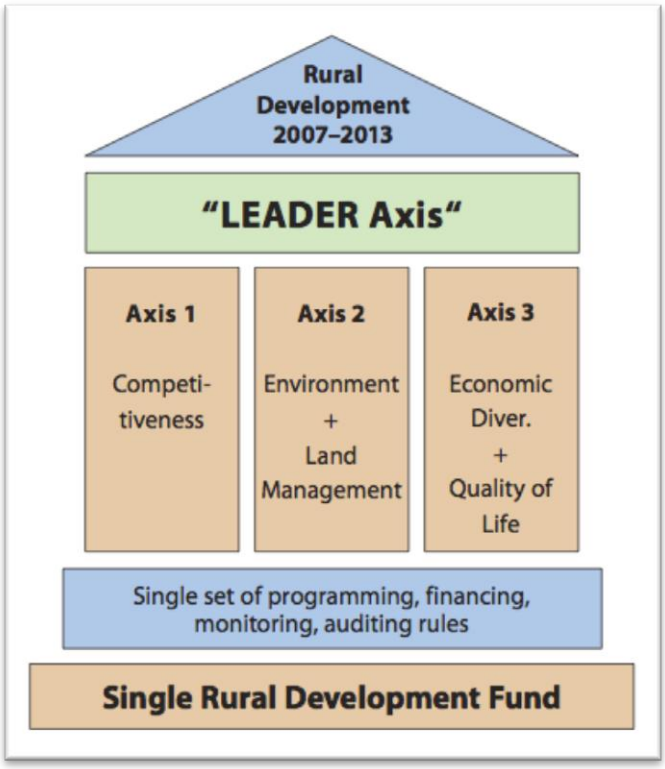
The Rural Development Programme 2007-2013 period aimed to:

- improve the competitiveness in the agricultural and forestry sector;
- support the land management to enhance the environment and countryside;
- improve quality of life in rural areas through diversification of economic activities.

Those objectives are transposed in four Axes concerning:

- The competitiveness of the agricultural and forestry sectors (Axis 1),
- Environment and land management (Axis 2),
- Quality of life in rural areas and economic diversification (Axis 3),
- Local capacity for employment and diversification (Axis 4 – Leader programme).

Fig. 3.5. Structure of Rural Development Policy 2007-2013



Source: (European Commission, 2013a)

[4] Council Regulation (EC) No 1698/2005

The measures in RDP led to investment in physical and human capital, preservation and development of high nature value, balanced access to productive assets, markets and services, and more participatory and accountable institutions (Bradley, Dwyer, & Hill, 2010; Mihalache, 2013; Peters & Gregory, 2014; Sadowski & Czubak, 2013). National and regional strategies had to be structured in accordance to the RDP 2007-13 and approved by the European Commission (EC). Moreover, the rule of complementarity between Community instruments had to be fulfilled. MS should have ensured complementarity and coherence between structural, employment and rural development policy (European Regional development Fund, Cohesion Fund, Social Fund, European Fisheries Fund and EAFRD). Nevertheless, to guarantee balanced strategy reflecting the main objectives, the EC fixed a minimum funding for each thematic axis: 10% - Axis 1 and Axis 3; 25% - Axis 2; 5% - Axis 4. As a result to the low minimum percentages, each Member State could have highlight the priority Axis that it considered the most relevant fitting to the country situation (ENRD TWG 1, 2010b; European Commission, 2006b).

In the process of the preparation of the national programs each Member State had to consider six strategic guidelines:

1. Improving the competitiveness of the agricultural and forestry sectors.
2. Improving the environment and countryside.
3. Improving the quality of life in rural areas and encouraging diversification.
4. Building local capacity for employment and diversification.
5. Translating priorities into programs.
6. Complementarity between Community instruments

(European Commission, 2006b).

The RDP and the Axis are composed of set of measures as described in Table 3.1.

Table 3.1. EU Rural development Policy 2007-2013 Axis and Measures

EU Rural Development Policy 2007-2013		
Axis	**Measures**	**Funding**
Axis 1 **Competitiveness**	Human Resources	Share min 10% EU co-financing 50/75%
	Physical Capital	
	Quality of agricultural production and product	
	Semi-subsistence and producer groups	
Axis 2 **Land Management**	Sustainable use of agriculture land	Share min 25% EU co-financing 50/80%
	Sustainable use of forestry land	
Axis 3 **Wider rural Development**	Quality of life	Share min 10% EU co-financing 50/75%
	Economic diversification	
	Training skills acquisition and animation	
Leader Axis	Leader approach for selected territories within the frame of previous Axis (Leader I, Leader II and Leader +)	Share min 5%, EU co-financing 55/80%

Source: RDP 2007-2013

The regulation for financing the CAP[5] allowed creation of two funds for funding of the two pillars:

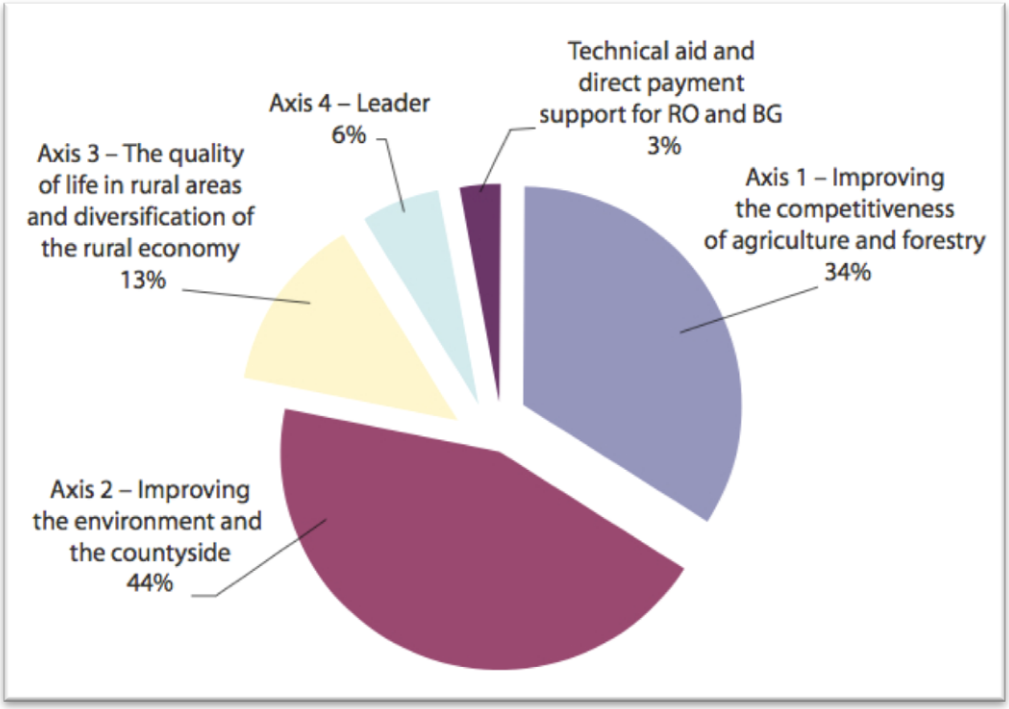
- European Agriculture Fund for Guarantee (EAFG) for funding of Pillar 1
- European Agricultural Fund for Rural Development (EAFRD) for funding of Pillar 2

The total amount of € 90.8 billion EU contribution was made available for the programing period 2007 – 2013, to be used for the 94 Rural Development Programs submitted by the Member States (European Commission, 2008b) with additional € 57.7 billion from national co-financing, € 64.8 billion private contribution and € 12.4

[5] Council Regulation (EC) No 1290/2005 of 21 June 2005

billion national top-ups ending with a total of € 225.7 billion. Most Member States submitted a single national RDP while Belgium submitted 2 RDPs, Germany 14 RDPs, Spain 17 RDPs, Italy 21 RDPs and the United Kingdom submitted 4 RDPs.

Fig. 3.6. Total EAFRD expenditures 2007-2013 by Axis



Source: (European Commission, 2013a)

The Axes and related Measures also considered the existence of specific areas with considerable limitations to land use defined as Less Favored Areas (LFA)[6] (Eliasson et al., 2010; Ruben & Pender, 2004; Štolbová, 2007). According to the specific criteria, farmers living in those areas receive compensatory payment. The identified areas are: *mountain areas* (under Article 18: handicapped by high altitude, steep slopes or combination of both); *intermediate less favored areas* (under Article 19: land of poor productivity, production which results from low productivity of the natural environment, and a low or dwindling population predominantly dependent on agricultural activity) and *areas affected by specific handicaps* (under Article 20, where farming is important for conserving or improving the environment, maintaining the countryside, preserving the tourist potential of the areas, protect the coastline). In

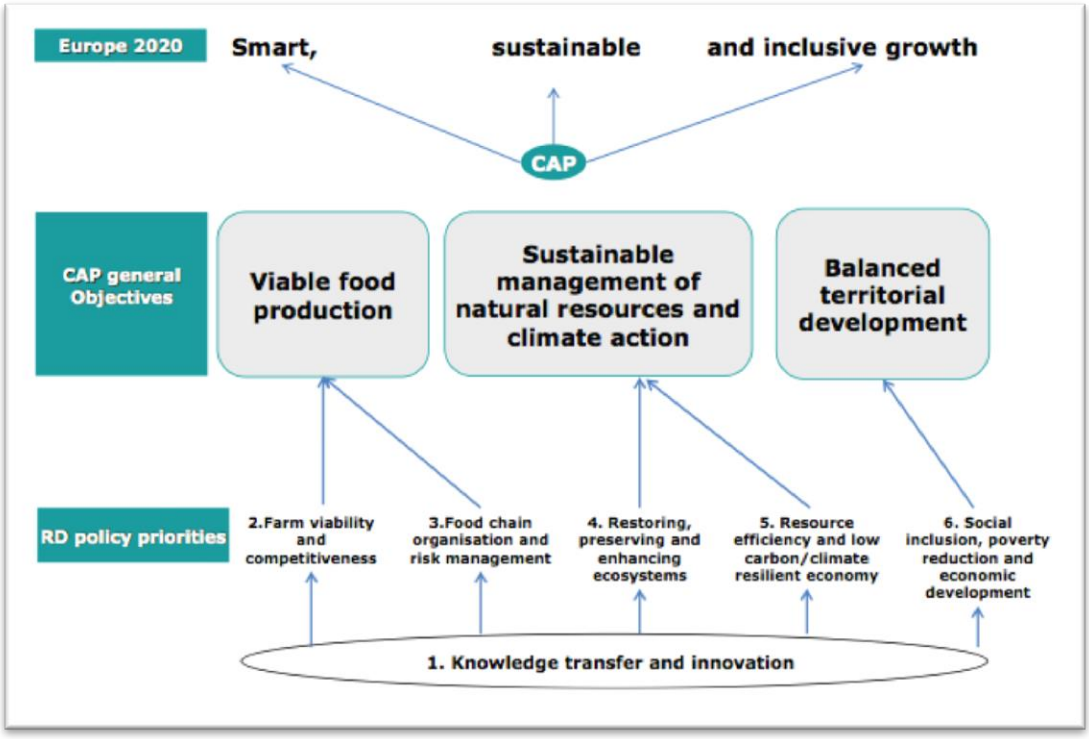
[6] Council Regulation (EC) No 1698/2005 and 1257/1999

the EU-27, more than half of the total Utilized Agriculture Area (54%) has been classified as LFA. The highest share concerns LFA's under Article 19 and 20 (34%), followed by mountain LFA (16%).

The Rural Development Policy 2014-2020 was adopted in late 2013. In the new RDP the general concept of the policy remains the same as previous but as a replacement of the Axis and minimum spending per axis, member states can decide on their own concerning the measures (17 measures plus LEADER) that will use in the National Rural Development Programs in order to achieve targets set against six broad "priorities" and their more detailed "focus areas" (sub-priorities) as follows:

1. Fostering knowledge transfer and innovation in agriculture, forestry, and rural areas
2. Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forests
3. Promoting food chain organization, including processing and marketing of agricultural products, animal welfare and risk management in agriculture
4. Restoring, preserving and enhancing ecosystems related to agriculture and forestry
5. Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors
6. Promoting social inclusion poverty reduction and economic development in rural areas

Fig. 3.7. RDP 2014-20120 priorities



Source: (European Commission, 2013a)

3.1.3. EU enlargement instruments

In the process of enlargement of the EU from 6 Member States to 28 Member States several instruments were introduced to facilitate the adhesion process and the implementation of the *acquis communautaire*[7]. The first instrument was the **PHARE programme** (Poland and Hungary: Assistance for Restructuring their Economies) that was introduced in 1990 mainly developed as technical support and institutional building for implementation of the *acquis* in the Countries of Central and Eastern Europe (CEECs) and for promotion of economic and social cohesion. Later, in 2000 the EU developed another instrument for financial assistance of the Western Balkans, **CARDS programme**, (Community Assistance for Reconstruction, Development and Stabilisation). In 1999, the European Council established **SAPARD** (Special Accession Programme for Agriculture and Rural Development) to help the candidate countries to adjust their agricultural sector and rural areas and implement the *acquis*

[7] *Acquis communautaire* often shortened to *acquis*, is the accumulated legislation, legal acts, and court decisions which constitute the body of European Union law.

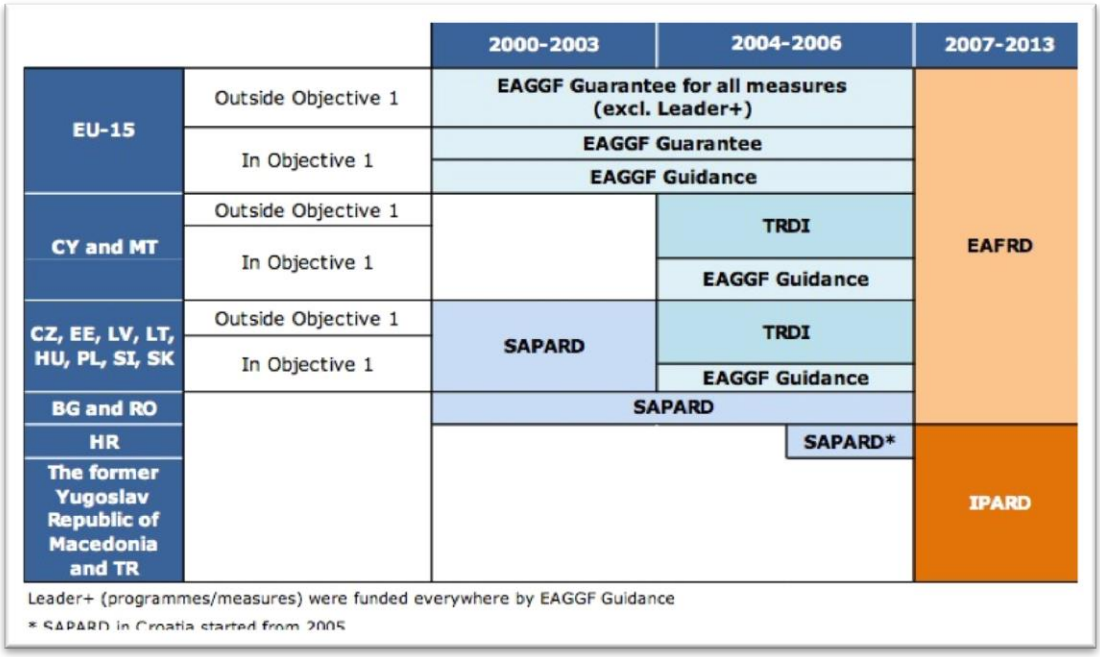
and CAP. It covered the period 2000-2006 with a total budget of € 1.5 billion. **ISPA** (Instrument for Structural Policies for Pre-Accession) was one of the three instruments (along with SAPARD and PHARE) for pre-accession, used from countries of the 2004 and 2007 enlargement, as well as Croatia from 2005. In 2006[8], **IPA 2007-2013** (Instrument for Pre-accession Assistance) was established and implemented[9]. It was available to beneficiary countries divided into two categories: candidate countries and potential candidates countries. The IPA 2007-2013 with a budget of about € 11.5 billion, was structured in five components:

1. Support for transition and institution-building – funding of capacity building
2. Cross-border cooperation
3. Regional development – funding of transport, environment, regional and economic development
4. Human resources development - for strengthening of human capital and combating exclusion
5. Rural development

In March 2014, **IPA II** was established[10] for the financial period of 2014-2020 with allocation of € 11.7 billion. Continuing and reinforcing the IPA 2007-2013, IPA II is based on development of Country Strategic Papers (specific strategic planning documents made for each beneficiary for the 7-year period) in following nine sectors: (1) Governance and public administration reform (2) Justice, home affairs and fundamental rights (3) Environment (4) Transport (5) Energy (6) Competitiveness and innovation (7) Education, employment and social policies (8) Agriculture and rural development (9) Cross-border cooperation and regional cooperation.

8 Council Regulation (EC) No 1085/2006
9 Council Regulation (EC) No 718/2007
10 Council Regulation (EC) No 231/2014 complemented with Council Regulation (EC) No 236/2014 rules and procedures for implementation of IPA II and Commission implementing Regulation (EU) No 447/2014

Fig. 3.8. Instruments for facilitating adhesion process



Source: (European Commission, 2013a)

The **IPARD 2007-2013** (Instrument for Pre-Accession Assistance in Rural Development) is the fifth component of IPA. It was developed with three main objectives: improving market efficiency and implementation of EU standards, preparatory actions for implementation of the agri-environmental measures and local rural development strategies, and development of the rural economy. This objectives were implemented through various measures divided in three axis:

Axis 1 Improving market efficiency and implementing EU standards;

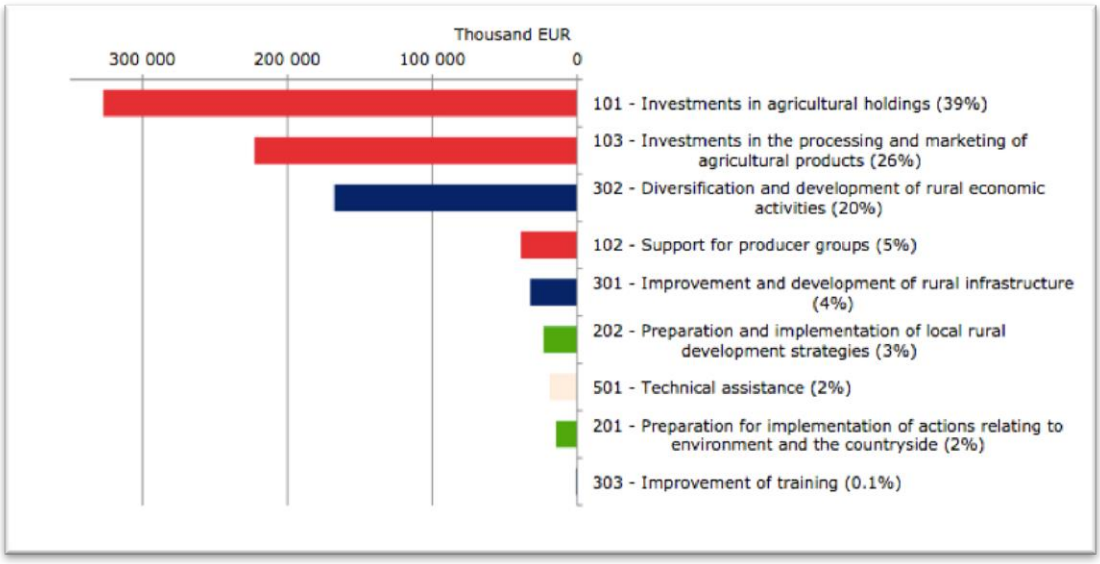
Axis 2 Preparatory actions for implementation of the agri-environmental measures and Leader;

Axis 3 Development of the rural economy

During the financial period of 2007-2013 a total amount of € 1.13 billion were allocated for IPARD out of total € 11.5 billion budget for IPA. Eligible countries for this financial period were Republic of Macedonia, Croatia and Turkey.

Rural tourism has special place in IPARD's Axis 3. This is due to the fact that rural tourism is related to agricultural production, rural environment, and rural way of life. It makes connects to the cultural and historical traditions of everyday rural life and preserve the environment and ambience in best possible way.

Fig. 3.9. IPARD allocation of funds by measures



Source: (European Commission, 2013a)

3.2. Tourism in European perspective

3.2.1. Tourism as part of EU economy and policy

Tourism has an important role in many countries' economies. In the OECD countries, tourism accounts for 4.7% of GDP; 6% of employment; and 21% of exports of services (OECD, 2014). In the EU, as a number one tourist destination accounting for over half of all international tourist arrivals worldwide in 2011 (European Union, 2013), tourism has a significant impact on many member states' economic development. According to the EC (2013c) and the use of Tourism Satellite Accounts (TSA) indicators in 17 Member State countries that account for close to 90% of tourism activity in Europe, tourism generates more then 10 million jobs (12 countries available data) (Eurostat estimation 17 million jobs) and 3.9% GVA generating 10% of the EU GDP with 2.44 billion nights spent in 2011 of which 57.3% were by domestic tourists (European Union, 2013).

It is well known that tourism has interdisciplinary structure and creates linkages with other sectors and fields as education, youth, culture, environment etc. (Darbellay

& Stock, 2012; Di Giovine, 2013; Gretzel, Jamal, Stronza, & Nepal, 2009; Schmelzkopf, 2002). The process of development of the tourism sector due to these synergies is very complex and dynamic. Therefore in the EU the support and development of tourism is dispersed through several programs and funds elaborated in Table 2 by Regoli (2011).

Table 3.2. EU Funds and Actions for support and development of tourism

Programme/Funds	Actions
Structural Funds - European Regional Development Fund (ERDF)	For social and economic development ("Convergence", "Regional Competitiveness and Employment" and "European Territorial Cooperation"). *Potential actions*: - to enhance cultural and natural heritage, - to develop accessibility and mobility related infrastructure and to promote ICT, - innovative SMEs, business networks and clusters, - higher value added services, - joint cross-border tourism strategies and inter- regional exchange of experience, - environment and transport infrastructures (also financed by the Cohesion Fund).
Cohesion Fund	To speed up convergence in the Member States and regions whose development is lagging behind by improving conditions for growth and employment through a sustainable approach. *Potential actions*: - related to the environment and sustainable development, - to transport with focus on trans-European transport networks.
European Social Fund (ESF)	Effective actions in creating economic activity and employment. *Potential actions*: - educational programmes and training to enhance productivity and the quality of employment and services in the tourism sector, - targeted training combined with small start-up premiums to tourism micro-enterprises, support to professional mobility.
Lifelong Learning Programme	Mobility programme for apprentices and young persons in initial vocational training. *Potential actions*: - tourism has been identified as a possible pilot action for European apprenticeship-training models
Agricultural Fund for Development (EAFRD)	Rural areas become more attractive and offer many environmental amenities. *Potential actions*: - rural tourism an important source of : - diversification of the rural economy, integrated with farming activities,

	- improving the quality of agricultural production and products, - ameliorating the environment and the countryside, - studies and investments for the maintenance, restoration and upgrading of the cultural heritage
The European Fisheries Fund (EFF)	As a new priority theme for the period 2007-2013 "the sustainable development of fisheries areas". *Potential support*: - eco-tourism as one of the areas to which fishermen may redirect their activities, - small-scale fisheries and tourism infrastructure will also be supported through the EFF, as well as schemes for re-training in occupations, besides sea fishing, which may relate to tourism.
The Competitiveness and Innovation Framework Programme	To support innovation activities (including eco-innovation), provide better access to finance and delivers business support services in the regions for SMEs. *Potential actions*: - to support the competitiveness of EU enterprises and in particular of SMEs
7th EU Framework Programme for Research	Research programmes, technological development and demonstration activities *Potential support*: - research on information and communication technologies, satellite applications, - cultural heritage and land use may result in benefits for the tourism sector.

Source: (Regoli, 2011)

The elaboration on the programmes, funds and tourism actions stresses the multi-sectorial nature of the tourism. In this context Hall (2006) emphases the importance of the tourism sector and in contrast low level of importance given to it in the *acquis*. EU Commission under the DG Enterprise and Industry has delivered several Communications (policy papers) on tourism in the last decade. In 2001 the Communication "Working together for the future of European tourism" (European Commission, 2001) aimed to start a new process focused on a cooperation approach among the main stakeholders in the sector (Member States, tourism industry, civil society and the Commission). It was build up upon recommendations elaborated by the five working groups, established by the Conference on tourism and employment (COM (1999) 205) and to the Conclusions of the Council of 21 June 1999 on the subject of "Tourism and Employment" encouraged by the resolution of the European Parliament on 18 February 2000. The Communication (2001) emphases the importance and set up measures to: strengthen the role of the Advisory Committee on

Tourism, promotion of better interface between tourism industry and other stockholders, increased interaction between stakeholders, introduce of TSA, promotion of sustainable development of tourism and implementation of Agenda 21.

In 2003 the European Commission delivered Communication (COM (2003) 716 final), "Basic orientations for the sustainability of European tourism" (European Commission, 2003). This Communication set-up the basis for initiation of the Tourism Sustainability Group (TSG), established later in 2004. The TSG is composed of representatives of the various stakeholders and has the task of drafting a detailed framework for action, which gives specific activities to the individual stakeholders.

Later in 2006 a new communication "Renewed EU tourism policy: towards a stronger partnership for European tourism" (European Commission, 2006a) outline the importance of the tourism sector in growth and job creation and the facing challenges as aging population and sustainability. This communication clearly defines that there is a need of cohesive tourism policy at EU level with following main focus areas:

1. Mainstreaming measures affecting tourism with better regulation, policy-coordination and improving the use of available European financial instrument;
2. Promoting tourism sustainability, which was already in the Communication 2003. For this purpose the Commission lunched European Agenda 21 for tourism and set up TSG in 2004;
3. Enhancing the understanding and the visibility of tourism through use of TSA and support to the promotion of European destinations.

In 2007, the EU adopted the "Agenda for a sustainable and competitive European Tourism" (European Commission, 2007) in order to emphasize the importance of sustainability for European tourism and to contribute to the implementation of the Lisbon Strategy for Growth and Jobs and of the Sustainable Development Strategy.

"Europe, the world's No 1 tourist destination – a new political framework for tourism in Europe" European Commission Communication on tourism was adopted in 2010 (European Commission, 2010). It set up ambitious objectives of more sustainable growth of tourism sector in EU and four groups of actions:

1. Stimulate competitiveness in the European tourism sector through promoting diversification of the supply of tourist services, developing innovation in the tourism industry, improving professional skills, encouraging an extension of the tourist season and consolidating the socioeconomic knowledge base for tourism;
2. Promote the development of sustainable, responsible and high-quality tourism;
3. Consolidate the image and profile of Europe as a collection of sustainable and high-quality tourist destinations;
4. Maximize the potential of EU financial policies and instruments for developing tourism.

In line with the previous and in order to face the global challenges and to guarantee a responsible development of tourism "Roadmap 2010-2020" for tourism identifies five fields of actions: support tourism demand (in terms of improving quality service, skills, creating a brand of Europe); stimulate innovation and entrepreneurship; combine available resources more efficiently; ensure that development of tourism is sustainable; provide oxygen to the industry (stimulate the use of financial instruments, to reduce administrative burden) (ECORYS, 2009). In the frame of those actions, several EU programmes and projects have been developed.

The *CALYPSO project* focused on social tourism, thus allowing as many people as possible to go on holiday and therefore, increasing tourism accessibility for additional strata of the European population. This approach favors the development of off-season tourism, to promote regional development thanks to the increased mobility flows of new tourist groups. As a follow up of the Calypso initiative which clearly highlighted how senior tourism can contribute to combat seasonality the Commission launched in May 2012 a pilot phase for a "*Senior Tourism Initiative*", to define the framework conditions to enhance senior citizens' travel in Europe. The "*50.000 tourist initiative*" was developed with collaboration of EU and the governments of Argentina, Brazil and Chile, the industry and airlines by using spare airline and hotel capacity during low season. In 2008 the *Network for competitiveness and sustainability of European tourism* was established. *EDEN - European Destinations of Excellence* was launched in 2006. The project aims to promote sustainable tourism

development models across the European Union. It focuses on the specific characteristics of European destinations and offers particular support to those pursuing growth in tourism while ensuring social, cultural and environmental sustainability. Six editions have been implemented, each one with a specific theme: (1) Best emerging European rural destinations of excellence (2007); (2) Tourism and local intangible heritage (2008); (3) Tourism and protected areas (2009); (4) Aquatic tourism (2010); (5) Tourism and regeneration of physical sites (2011); and (6) Accessible tourism (2013).

The last issue (2013) focuses on overall approach to accessibility for tourists regardless of their special needs, limitations, disabilities or age. Destinations for 2013 had to fulfill the general criteria of EDEN destinations and additional and additional aspects of accessibility.

3.2.2. Rural Tourism in EU

Towner (1996) claims that the beginning of rural tourism in Europe is linked with the use of the rural environment as a place for recreation for the European "elite" in the XVII and XVIII century. In 1863, Thomas Cook runs the first organized trip to the rural areas of Switzerland, which sets the beginning of the rapid growth of tourism in the rural area, based on the establishment of health and mountain sports (Cormack, 1998). In Germany, the early development of rural tourism is associated with the 1873 introduction of paid holiday for state employees. Later in 1914, tourism became part of civil servants' lives, and it took place in cheap accommodation, small hotels or rooms in villages near towns and farms (Oppermann, 1997). Wine roads begun to develop and enrich the supply of rural tourism in Germany from 1920 (C. M. Hall, Sharples, Cambourne, & Macionis, 2009). In Norway, the beginning of rural tourism dates from 1870, when the European "elite" discovered the Norwegian fjords and valleys (Barton, 2007; Hundstad, 2011). During the 1960s, rural tourism in Western Europe was synonymous for "cheap holidays" (Cánoves, Villarino, Priestley, & Blanco, 2004; Hummelbrunner & Miglbauer, 1994). The development of rural tourism in the 1970s is characterized by changes in tourism demand as a result of the new expectations for tourist "more perfect" vacation organization, due to the extended free time and increased earnings. Accumulated stress and overloaded urban

environment made people looking for authentic rural environment, environmentally clean and fresh food and friendly contacts with the local population. This alternative (in every respect: supply, demand, location) tourism is named "rural tourism".

What is rural tourism? According to OECD (1994) rural tourism is a complex multi-faceted activity that includes farm-based holidays, but at the same time can include walking, climbing, riding, sport, hunting, adventure, and etc. Respondents to an English Tourism Council research project on rural tourism described the concept of rural tourism as 'peace and quiet', 'slower pace of life', 'fresh air', 'non-urbanized' and 'lots of space.' (English Tourism Council, 2001). Rural tourism is a characteristic of highly urbanized and developed countries, as a result of the people desire to return back to nature, because it provides an opportunity for people, without having to spend huge funds to get closer to nature, or to discover unknown crafts, cuisine and specific new culture (Jaworski & Pritchard, 2005). The Bulgarian Association for Alternative Tourism (BAAT, n.d.) defines the basic elements of rural tourism, paying attention to the place of activity and the specific activities during tourist stay. Baath considers rural tourism as: (1) stay in rural areas; (2) making contacts with the hosts; and (3) access to their household. As a rule, tourists are included in everyday rural economic activity: harvest of fruits, vegetables, herbs, cooking traditional dishes, including local customs and holidays, observing and training for local crafts, folklore and more. These activities are usually supplemented by other types and forms of tourism (hiking, horseback riding, visiting monasteries, museums, archaeological and other facilities, schools and other crafts.).

As described by English Tourism Council there is also a large general interest for holidays that provide peace, quiet and relaxation in rural surroundings. In the last years, there has been increasing numbers of visitors with different consumption patterns making significant changes to the scope and scale of rural tourism and recreation and to its role as an agent of rural development (Sharpley, 2001). Therefore, rural tourism definition has evolved or changed over time. Hall & Kirkpatrick (2005) makes clear comparison between deferent authors definitions (Table 3).

Table 3.3. Comparative evaluation of the definitional components of rural tourism

Components	Lane (1994)	Page & Getz 1997	Roberts & Hall (2001)	Hall & Kirkpatrick (2005)
(1) Scope	Located in 'rural areas'	Add remote areas and wilderness – there is a spectrum	Useful 3-fold categorisation (sparsely populated, rural core areas, rural areas near towns), for practical purposes, within a recognised spectrum	The 3-fold categorisation has a strong practical application; 'wilderness' has a range of culturally-based interpretations and social constructions
(2) Function	'Functionally rural'	Need to allow for specialist (mass) resorts	Recognition of the functional and scale differences between 'rural tourism' and 'tourism in rural areas'	We need to appreciate that 'rural tourism' and recreation can involve mass activity while 'tourism in rural areas' can have a niche dimension – e.g. rural conference centres, corporate incentive and hospitality activities
(3) Scale	'Small in scale'	Enterprises need to be sufficiently large to be viable	Importance of collaboration and networks to help overcome smallness and fragmentation	The predominance of micro-businesses in rural tourism renders collaboration and networks essential – scale and external economies can be gained through spatial and functional clusters
(4) Provenance	Traditional, growing organically, locally based	It is not always practical to have all these attributes	Embeddeness in local economy and society is an important attribute for success, e.g. for rural food tourism	Local provenance and embeddedness can assist the complementary development of e.g. trails and customer-oriented networks
(5) Form	Enterprises should be diverse	This reflects the complexity of the rural environment	Diversity and complementarity are important	Rural business structure and morphology may not be complex compared to their urban counterparts, but complementarity again emphasises the importance of collaboration

Source: Lane (1994), Page & Getz (1997), Roberts & Hall (2001) in Hall & Kirkpatrick (2005, p. 355,356)

In general all rural tourism activities are based in rural areas. But describing rural could be much more then defining rural for administrative purpose. As elaborate in George at al. (2009) work the concept of a rural-urban continuum is a way of coping with the complexity of the situation in comparing and defining the typology of the areas (Table 4). The typology of the area in many ways shapes the perception and expectations of the tourists. Many times rural is perceived as opposite of urban, resistant to modernization and globalization, which is in fact key factor in rural tourism development (George et al., 2009). As a result the typology of the area is shaping the tourism activity in that area.

Table 3.4. Rural versus Urban typology

Rural	Urban
Community	Association
Social fields involving few but multiple role relationships	Social fields involving many overlapping role relationships
Different social roles played by same person	Different social roles played by different people
Simple economies	Diverse economies
Little division of labor	Great specialization in labor force
Ascribed status	Achieved status
Education according to status	Status derived from education
Role embracement	Role commitment
Close-knit networks	Loose-knit networks
Locals	Cosmopolitans
Economic class in one of several divisions	Economic class in the major division
Conjunction	Segregation
Integration with work environment	Separation of work environment

Source: Frankenberg, 1966 in (George et al., 2009, p. 9)

Important part in the definition of rural tourism plays intensity of use, location, , integration with the community, management and other factors. In some cases rural tourism can be connected to farming and agriculture but not obligatory. The concept of farm tourism is more developed in EU countries then in other parts of the world.

The OECD document (1994, p. 14) states rural tourism should be:

- *Located in rural areas*
- *Functionally rural, built upon the rural world's special features; small scale enterprise, open space, contact with nature and the natural world, heritage, traditional societies and traditional practices.*
- *Rural in scale both in terms of buildings and settlements and therefore, small scale.*
- *Traditional in character, growing slowly and organically, and connected with local families. It will often be very largely controlled locally and developed for the long-term good of the area.*
- *Sustainable in the sense that its development should help sustain the special rural character of an area, and in the sense that its development should be sustainable in its use of resources. Rural tourism should be seen as a potential tool for conservation and sustainability, rather than as an urbanizing and development tool.*
- *Of many different kinds, representing the complex pattern of rural environment, economy and history.*

Rural tourism defers from mass tourism in many ways. A list of differences between Urban/Resort tourism and rural tourism are described in Table 5.

Table 3.5. Urban and Rural tourism characteristics

Urban/Resort Tourism	Rural Tourism
Little open space	Much open space
Settlements urban and rural	Settlements rural
Densely populated	Sparsely populated
Built environment	Natural environment
Many indoor activities	Many outdoor activities
Infrastructure - intensive	Infrastructure - weak
Strong entertainment/retail base	Strong individual activity base
Large establishments	Small establishments

Nationally/Internationally owned firms	Locally owned businesses
Much full time involvement in tourism	Much part-time involvement in tourism
No farm/forestry involvement	Some farm/forestry involvement
Tourism interests self supporting	Tourism supports other interests
Workers may live far from workplace	Workers often live close to workplace
Rarely influenced by seasonal factors	Often influenced by seasonal factors
Many guests	Few guests
Guest relationships anonymous	Guest relationships personal
Professional management	Amateur management
Cosmopolitan in atmosphere	Local in atmosphere
Many modern buildings	Many older buildings
Development/growth ethic	Conservation/limits to growth ethic
General in appeal	Specialist appeal
Broad marketing operation	Niche marketing

Source (OECD, 1994, p. 14)

The statistics and figures for estimation of rural tourism market are still difficult to provide even in developed countries. This is as a result to the scarcity of relevant data and due to the fact that vast majority of rural accommodation falls below the threshold of capacity that is used to include tourism services in official statistics. It is estimated that more than 2.5 million SMEs are involved in the tourism industry in Europe with 81.5% of these actually falling into the micro category (D. R. Hall & Kirkpatrick, 2005). Eurogites[11] indicates that in EU 27 Agro tourism represent 15-20% of the total 500,000 accommodation units, around 6,500,000 bed places in rural tourism. Moreover, Eurogites indicates that the average annual growth over the past 15 years has been around 10-15%, a much higher value than for European tourism in general, where the rate has only been around 4-5% (ECORYS, 2009).

[11] The **European Federation of Rural Tourism *(EuroGites)*** is formed by 35 professional and trade organizations from 27 countries of geographical Europe. The product of EuroGites is rural Bed&Breakfast and self-catering in private homes or farms, up to small family-run rural hotels and guesthouses, and related restaurant or activity tourism services.

> *In Europe, [...] both domestic and international demand for recreational use of the countryside continues to increase. Despite inconsistent and incomplete data, an emerging pattern internationally shows that visitors are already the largest contributors to many rural economies.*
>
> *(D. R. Hall & Kirkpatrick, 2005, p. 361)*

The forces behind the growth of rural tourism are more long term in nature, therefore it is not an accidental or temporary growth phenomenon. The OECD (1994) defines 14 key factors responsible for rural tourism growth: (1) Increasing levels of education (2); A growing interest in heritage; (3) Increases in leisure time; (4) Transport and communications; (5) Health consciousness; (6) better outdoor clothing; (7) A growing interest in specialty food; (8) Green issues; (9) Authenticity; (10) Peace and tranquility; (11) Ageing but active populations; (12) REAL travel (rewarding, enriching, adventuresome and a learning experience); (13) Individualism; and (14) The rural agencies.

3.3. Republic of Macedonia - Overview of the country

3.3.1. Macro- and Socio- economic situation in the country

The Republic of Macedonia became independent country in September 1991, after the succession of Yugoslavia, where it was one of the six independent republics. It is UN and WTO member and CEFTA member since 1993.

Fig. 3.10. Macedonia and EU27

Source: (MAFWE, 2013)

In March 2004, the Republic of Macedonia submitted an application for EU membership. Following the recommendation of the European Commission, on 17 December 2005, the European Council decided to grant it the status of candidate country for membership to the EU. Until 2014, the Republic of Macedonia hasn't started the negotiations for EU membership due to the bilateral dispute between EU member Greece and Republic of Macedonia over the use of the name Macedonia.

The Republic of Macedonia is a land-locked country in Southeastern Europe, on the Balkan Peninsula. The country has a surface area of 25,713 $km^{2,}$ out of which

1.9% water surfaces, 19.1% plains and 79% hilly and mountainous terrains[12] and population of 2,022 millions[13].

Territorial division of the country has undertaken two major changes from 1965 until today, first one in 1996 when the number of municipalities was raised from 34 to 123 municipalities and second one in 2004 when the number of municipalities was set on 84 divided in 8 statistical regions whit 34 towns. According to the last country's territorial division[14], municipalities are classified as urban (with headquarters in towns) and rural (with headquarters in villages) and the city of Skopje is conglomerate of 10 municipalities. In accordance to this typology, there are 41 municipalities with rural centers and 33 municipalities with urban centers and the city of Skopje with 10 municipalities.

Out of 84 municipalities in total, there are 53 municipalities, which are surrounding urban centers that in general have better human resource potential and better opportunities for business development. The situation, however, varies significantly according to the size and performance of the urban center, as well as the connection infrastructure and distance.

Table 3.6. Municipalities by type according to the Law on territorial organization

Administrative division	**Number of municipalities**	**Total number of settlements**	**Number of settlements bellow 30 000 inhabitants**	**Population (2002)**	**Territory**	**Population Density**
					Km^2	Inhabitants/km^2
Rural municipalities	**41**	**744**	**744**	**397,446**	**10,162.0**	**39.1**
Urban municipalities	**33**	**971**	**962**	**1,118,172**	**14,969.0**	**70.1**
- *of which villages*	/	*938*	*938*	*362,950*		
The city of Skopje	**10**	**61**	**56**	**506,929**	**582.6**	**870**
- *of which villages*	/	*51*	*51*	*101,792*		
Total	**84**	**1,776**	**1,762**	**2,022,547**	**25,713**	**78.65**

Source: SSO of RM

[12] 44% of the territory is between 500-1000 m above see level and 30.5% of the territory is above 1000 m with height point 2,764 m above see level

[13] SSO estimation 2011 made on the basis of the total population from the last census in 2002. According to the latest official census, preformed in 2002, the country had a total population of 2,022,547 in 564 296 total numbers of households (3.6 persons per household); with an average population density of 79 per,ons per km^2

[14] Low on territorial organization of the local self-government of Republic of Macedonia (Official Gazette 55/2004)

The remoteness from large urban centers, small population and low-population density in remote rural municipalities create additional constraints to socio-economic development. The rural areas outside urban municipalities have suffered higher population decline, have less-educated labor force and experienced much higher unemployment rates. In the rural municipalities bordering or near the capital the socio-economic development can be regarded as positive (MAFWE, 2013).

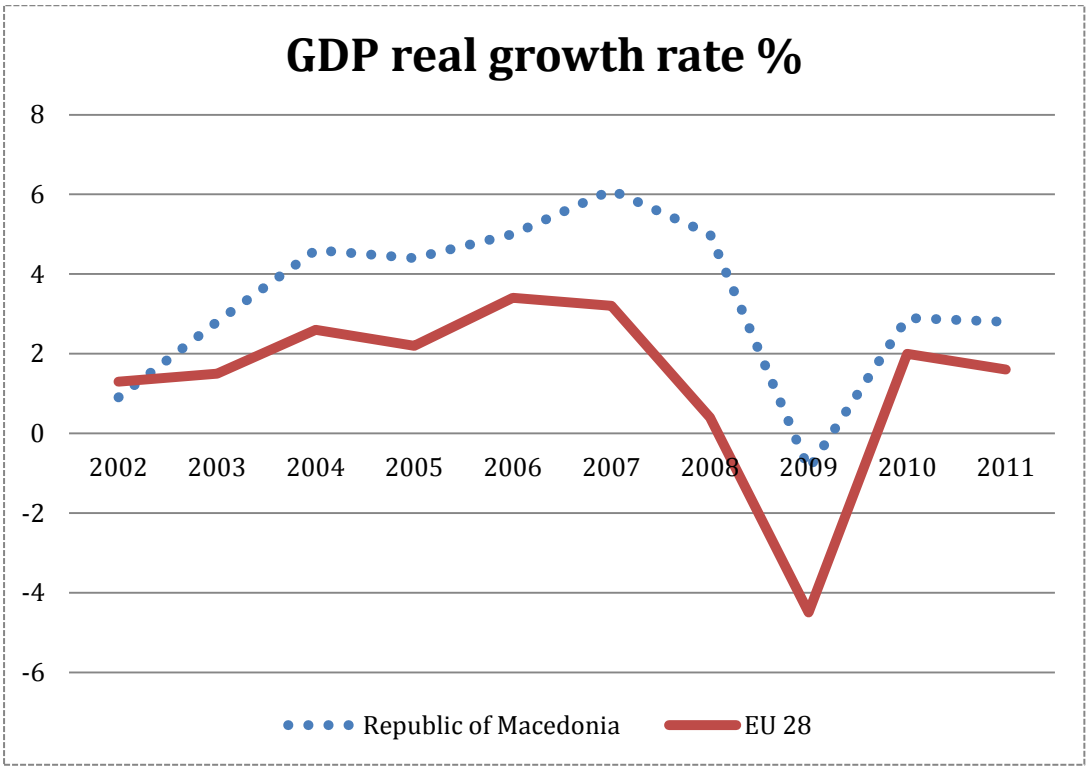
The Republic of Macedonia has a Gross Domestic Product (GDP) ranging from € 3.3 to around € 7.5 billion (1999-2012) and GDP per capita in 2011 was € 3,630 (SSO of RM, 2011b). Real GDP growth continuously increasing since 1995 with the exception of 2001 and in 2009 and 2012 due to the world financial crises. Economic development is concentrated in the larger cities and the capital Skopje in particular, and there are significant regional disparities in terms of infrastructure and income between urban and rural areas (MAFWE, 2013).

Table 3.7. Macroeconomic data 2000-2012

	GDP real growth rates %	GDP in million euros	GDP per capita in euros	Employment rate % over 15 years	Unemployment rates %
2000	4.5	3 893	1 921	35.8	32.2
2001	-4.5	3 839	1 887	38.6	30.5
2002	0.9	4 001	1 981	35.8	31.9
2003	2.8	4 217	2 081	34.5	36.7
2004	4.6	4 442	2 186	32.8	37.2
2005	4.4	4 814	2 363	33.9	37.3
2006	5	5 231	2 564	35.2	36
2007	6.1	5 965	2 919	36.2	34.9
2008	5	6 720	3 283	37.3	33.8
2009	-0.9	6 703	3 269	38.4	32.2
2010	2.9	7 057	3 434	38.7	32
2011	2.8	7 473	3 630	38.9	31.4
2012	-0.4	7.521	3 616	39	30.6

Source: SSO of RM

Fig. 3.11. GDP real growth rate %



Source: SSO of RM

The following sectors had the biggest share of value added in the structure of GDP in 2012: Wholesale and retail trade; repair of motor vehicles and motorcycles; Transportation and storage. Agriculture from being the third contributor in GDP has dropped as fifth although its share in GDP has remained steady comparing in the last 6 years.

According to the SSO data unemployment is still major problem for the economy. In 2013 the unemployment rate was 29% (SSO of RM, 2014), although compared to the heist peek in 2004 when it was 39.2 % it shows significant decline.

3.3.2. Entrepreneurship and Business opportunities in Republic of Macedonia

The 2012 data from the SSO on the structure of active business entities by sectors (Annex 2) is showing that highest number of business entities 25,429 entities or 35.7% are in wholesale and retail trade followed by manufacturing with 7,918 entities or 11.1%, whereas the least represented were the sectors mining, electricity, gas, with only 0.2% of the wntities. Accommodation and food service activities with 4,482 entities and 6.3% are on the 5th place by number of active business entities with

relatively high share. As in no other sector in Accommodation and food service, SME's are accounting for 99.4% of the total active enterprises in the sector. *Measuring only micro enterprises and enterprises with no data in the sector, indicates that 87% of the enterprises are below 9 employees which often fall under family business or self-employment*. The data for the all enterprises is showing 87.4% of share for business entities with 1-9 persons employed, followed by entities with 10-19 persons employed with 4.2%, 20-49 persons employed was 2.5%, 50-249 persons employed participated with 1.8%, while entities with 250 or more persons employed had a share of only 0.3%. As in most economies, SMEs represent the vast majority of all enterprises. According to the number of active enterprises, 65,375 or 92% were micro and small enterprises (SSO of RM, 2012). The data of employed persons in Annex 2 represents the total number of employed persons in the sector[15] (due to the scarcity of data on employed persons in legal entities) and it could not be compared on basis of active enterprises.

The number of active SMEs convert into an SME density per 1,000 inhabitants on national level reveals relatively high regional density of 32 SMEs/1000 inhabitants. This is higher than average figures for the SEE region accounting for 23 per 1,000 inhabitants (Fletcher, Huggins, & Koh, 2008; PACT, 2003; Sanfey, Falcetti, Taci, & Tepic, 2004), but is far below the EU25 average of 45 per 1,000 inhabitants. There is an underdeveloped SME sector in rural areas. The company density in rural areas is significantly lower than in urban areas estimated as 22 enterprises on 1,000 inhabitants while 34 enterprises on 1,000 inhabitancies in the predominantly urban regions.

Almost all of the food processing industry is located in rural areas (MAFWE, 2013). *In all regions the development of industry is constrained by the quality of road infrastructure and business related infrastructure and increasingly by the shortages of qualified labor* (Јакимовски, 2004).

The GEM research in Republic of Macedonia (Лазаревска, 2008) reveals that almost 47% of the entrepreneurship inactive population believed that in the following six mounts would have good opportunity for starting business, which presents high expectations in entrepreneurship enrollment. Same study reveals that 35% of the respondents who are entrepreneurially inactive have suggested that fear of failure

[15] Self-employed persons with no legal entities and legal entities employed persons

would prevent them from starting their own business and 52% of the respondents in Macedonia, which are non-entrepreneurs, believe they have the necessary knowledge, skills and experience to successfully start a business. In the Republic of Macedonia, 80% of the respondents believe that entrepreneurship is a good career choice. This is among the highest percentages in all GEM countries surveyed. In the Republic of Macedonia nascent entrepreneurship is 7.2%, while the percentage of owners of new businesses is 7.7%. Together, they provide the key GEM index, TEA Index[16] 14.5%. TEA index is the most commonly used indicators of entrepreneurial activity. It should be noted that half of the entrepreneurial activities at an early stage is driven by necessity and half of entrepreneurship motivated by opportunity. In the research 11% of respondents said they were already owners of established businesses (which are over 3.5 years). All together the overall entrepreneurial activity is 24.8%. The last indicator of entrepreneurial activity is discontinuation business activity, which for Republic of Macedonia is 5.3%.

TEA index for Republic of Macedonia is 14.5% higher than the average of the European Union 5.85% and OECD countries average 7.10%. The TEA index for Republic of Macedonia was higher even compared to the region countries as Serbia and Croatia 7.6%, Bosnia and Herzegovina 9% and Greece and Slovenia, economies based on innovation, 9.9% and 6.4%, respectively. GEM indicators of entrepreneurial activity are usually highest in countries with lower gross domestic product per capita. In developed countries TEA index is falling because people are starting to have better alternatives for employment, rather than to self-employment. Therefore, for countries with lower GDP, TEA index decline can be seen as a positive signal, especially if it is accompanied by political stability, a good business climate and economic growth.

Based on GEM indicators it is obvious that in the Republic of Macedonia entrepreneurship is more necessity then opportunity driven. Having in mind that entrepreneurship is not only an economic, but also a wider socio-economic phenomenon, other factors (historical, cultural, institutional, demographic, etc.) are contributing to the stated situation.

[16] TEA (Total Early-Stage Entrepreneurial Activity) assess the percent of working age population both about to start an entrepreneurial activity, and that have started one from a maximum of 3 years and half

3.3.3. Entrepreneurship institutional framework

As a result of the inter-sectorial nature of the entrepreneurship, several institutions are responsible for creation of good entrepreneurship environment in the Republic of Macedonia. However most responsible institution is the Agency for Entrepreneurship Support of the Republic of Macedonia (AESRM) as government body under the Ministry for Economy. AESRM is established for realization of the Programme with measures and activities for entrepreneurship support and creating of competitiveness of small businesses in the Republic of Macedonia, other programs related to entrepreneurship and small businesses and implementation of international support in the sector.

The strategic framework to support the development of small business is defined in the following documents: National Strategy for Development of Small and Medium enterprises, Program of measures and activities to support entrepreneurship and creating competitiveness in SMEs, European charter for small enterprises, the Low on Craft Activity and National Council for Competitiveness and Entrepreneurship as an advisory body to the Government.

Target groups identified by AESRM are following:

(1) Enterprises with less than 50 employees, have annual turnover of les then 1,5 million EURO, are independent in their activities and have more than 51% of private property;

(2) Sole proprietors;

(3) Craft;

(4) Other service providers.

One of the most successful Programme for entrepreneurship development in the recent years is the Programme for self-employment supported and implemented with cooperation between the AESRM, UNDP, Agency for employment and Ministry for Labor and Social policy. The Programme is based on a grant scheme for persons that are not employed and would like to create their own business. Since the Programme began in 2007, more than 6,000 people created their own companies or formalizing their existing business. More important is that 73% of the entrepreneurs who have received grant over the past five years have remained in business, passing through early business failure.

Based on the several research studies the access of rural SMEs to business consultancy services is weak point of SMEs development (Ačevska, 2002; PACT, 2003; Sanfey et al., 2004). The Ministry of Economy via the Agency for Promotion of SME supported creation of a network of advisors and promoted voucher system for consultancy services. Main interest for this voucher system, soft loan schemes for business establishment and self-employment, was used by agriculture, trading and services sectors.

Table 3.8. Active enterprises by category according to territorial organization

Type of Region	Total Number	Between 1-9 employees	Between 10-49 employees	Between 50-249 employees	Above 250 employees
Rural municipalities	20 384	15 211	4 956	164	53
Urban municipalities	50 906	34 724	15 285	519	378
Total	71 290	49 935	20 241	683	431

Source: SSO of RM

The analysis of the active businesses according the territorial organization reveals that less than one third (28%) of the active enterprises are rural municipality based with little higher share between micro enterprises (30%). Analyzed on the bases of definition on rural areas in Law of agriculture and rural development this percentage is even lower accounting roe 22 enterprises density on 1,000 inhabitants. Comparison between regions (NUTS 3) active enterprises uncovers grate disparity between Skopje region (the region enclosing Capital) and others regions. Skopje region with 28% of the population as most economically active region with 28,859 active enterprises (Table 9) account for almost 38% of the total number of enterprises in the country, leaving the remaining seven regions with total of 62% of the active enterprises (or by regions from 6% in the Northeast region to almost 12% in the Pelagonia region). This situation reveals even greater regional inequality between what is considered urban and rural.

Table 3.9. Number of active business entities by regions NUTS 3

Region	Number of business entities by number of persons employed					
	Total No	0	1-9	10-49	50-249	250+
Vardar region	5526	295	4810	303	105	13
East region	5796	254	4894	455	175	18
Southwest region	7219	284	6433	392	103	7
Southeast region	6083	295	5247	419	111	11
Pelagonia region	8268	323	7280	509	135	21
Polog region	7236	217	6620	313	79	7
Northeast region	4303	139	3760	320	79	5
Skopje region	26859	2608	21555	2065	504	127

3.3.4. Rural areas in Republic of Macedonia

According to the national definition[17] the territory of administrative units and settlements are designated as rural areas if the following conditions apply:

- Rural area is designated on the level of municipality as administrative unit (LAU1) in which the number of inhabitants per settlement does not exceed 30,000 inhabitants in accordance to the national population census or the population density is bellow or equal to 150 inhabitants per square km of the Municipality territory;
- Rural area is designated on the level of settlements as administrative units (LAU 2) in cases in which the municipalities have one or more settlements populated with more than 30,000 inhabitants or the population density is higher than 150 inhabitants per square km.

According to the national definition of rural areas, the rural areas target around 59% of the total country's population and around 80% of its territory.

17 Article 63 of the Law on Agriculture and Rural Development

In addition[18] there are areas with limited possibilities for agriculture, defined as, (1) *Mountainous areas* above 700m of altitude where natural handicaps and climatic conditions, as well as steep slopes, are limiting the opportunities for efficient agriculture activity. The 'mountainous' areas are delineated on a settlement level (LAU2). The number of settlements listed as 'mountainous' areas are 734 with total population 244,460 inhabitants; (2) *Areas with natural disadvantages* are areas below 700 m above sea level, where natural disadvantages are caused by climate conditions and slope agricultural land and low productivity of the soil. Erosive areas, areas prone to seasonal floods and ponds, and swamps can be considered as Areas with natural disadvantages; (3) *Areas with specific disadvantages* are depopulated rural communities and areas where the performance of agriculture is limited in the interest of protecting the environment, nature and biodiversity on the basis of laws relating to the protection and improvement of environment and nature.

According to the latest official census, preformed in 2002, the country had a total population of 2,022,547 in 564,296 total numbers of households (3.6 persons per household); with an average population density of 79 persons per km^2 (low population density on national level compared to EU average of 115)[19] (European Union, 2013).

The population density in 5 regions is below 80 people per km^2 and 3 regions (Polog, Skopje and South-western region) are above the national average. Most densely inhabited is Skopje region with 318 inhabitants per km^2 or 28% of the total population is situated in this region; the Vardar region (38 inhabitants/km2) is the least populated region with only 7.6% of the total population.

The population is mainly concentrated in the urban centres, with 23.1%, in Skopje-the capital city, 5% in Kumanovo, 4% in, Bitola, 3.5% in Tetovo, 3% in Veles, and in 24% in other smaller cities-towns (most of which are up to 15,000 inhabitants).

18 Article 64 of the Low on Agriculture and Rural Development

19 According to 2012 population estimates of SSO, the total population was 2 062 294 inhabitants and national population density of 80.2 inhabitants per km2

Table 3.10. Rural areas according to OECD definition and National definition

Type of Region	Population (Census 2002)		Territory		Population Density
	Number	% of Total	km2	% of Total	Inhabitants / km2
OECD definition					
Predominantly Rural regions	1,204,613	59.56	17,418	72.26	69
Intermediate Regions	817,934	40.44	6,668	27.74	122
National definition[20]					
Rural	1,258,625	62.23	18,966	78.68	66
Urban	763,922	37.77	5,140	21,32	148
Total	2,022,547	100.00	24,106	100.00	83.9

Source: SSO of RM

In 2002, the rural population was 1,258,625 or 62% of the total population lived in rural areas. The population density in the rural areas is two-thirds the national average (66 vs. 83.9 inhabitants per km^2, respectively). The average number of the population in rural municipalities is 20,963. However, 35 rural municipalities have total population of around 10,000 inhabitants out of which almost one third of the rural municipalities have less than 5,000 inhabitants.

According to the last population estimates in 2012, the number of population has increased to 2,062,294 people. However, the increase in the population in predominantly rural regions compared to 2002 was insignificant (1%) than in the intermediate regions (3.3%). The observations made on the level of rural municipalities, almost all rural municipalities experience decline in the population and 80% of the population increase in 2012 is in the Skopje region only.

The average age of the population in Macedonia is approximately 40 years, and nearly 61% of the population is of working age (between 15 and 64). According to gender structure of the population 68.8% of men are between 15-64 years of age and 67.7% of women being between 15-64 years of age.

[20] According to the Law on Agriculture and rural development (Article 63)

In the last thirty years, the country faces severe 'aging population syndrome'. From 1981 to 2012, the number of young people (0 to 19 years) declined from 41% to 23.9% in the total population, while population aged 65 and above increased from 8% to 12%. The population decline in rural areas is significantly higher than on the national level and it is estimated to around 150,000 people from 2002-2012. Although the working age population share is almost equal in the predominantly rural regions and intermediate regions, rural areas still have problems in retaining the young population (Борнарова & Јанеска, 2012; Јакимовски, 2004).

Table 3.11. Population (2012) by age according to OECD definition

Type of Region	**Population Below Working Age (0-15)**		**Population at Working Age (15-64)**		**Population Above Working Age (65 and above)**		**Total**	
	Population	% in total popul.	Population	% in total popul.	Population	% in total popul.	Population	% in total popul.
OECD definition								
Predominant Rural regions	407,798	33	675,554	56	135,549	11	1,218,901	100
Intermediate Regions	147,255	18	584,205	69	111,933	13	843,393	100
Total	**555,053**	**27**	**1,259,759**	**61**	**247,482**	**12**	**2,062,294**	**100**

Source:SSO of RM

3.3.5. Agricultural sector in the Republic of Macedonia

Agriculture has traditionally been one of the most important sectors in the economy. The agriculture sector plays a key role in the successful implementation of structural reforms in the country, due to its social role in providing food and stable income (FAO, 2012; MAFWE, 2013). In agricultural census 2007, 476,000 people have declared that they are working full time or part time in agriculture and another 100 000 people that work like seasonal workers which accounts for approximately 50% of the working force in Republic of Macedonia (SSO of RM, 2007).

Agriculture share in GDP counted for 9.6% to 10% from 2007 to 2012. The data for the GDP share of agriculture is showing that even in the previous years it had steady share. In the period of political and economic restructuring of the country in

the ’90 agriculture played a critical role in the social and economic stability (Dimitrievski, Georgiev, Simonovska, Martinovska Stojceska, & Kotevska, 2010; Jakimovski, 2002; MAFWE, 2013; Volk, 2010).

Out of the total territory of the country 25,713km^2, 1,268 million ha or 49% is agricultural land (cultivated land and pastures) and 38% are under forests. Cultivated land represented 510,000 ha or about 40% of total agricultural land. From the total cultivated land 81% are under arable land and gardens, 3% are under orchards, 4% under vineyards, while the meadows represent 11% from total cultivated land. Pastures are represented on 757,000 ha or 60% of total agricultural land in the Republic of Macedonia (SSO of RM, 2007).

Table 3.12. Agriculture land area in ‘000 ha

Area	2007	2008	2009	2010	2011	2012
1. Agricultural land, out of which	1,077	1,064	1,014	1,121	1,120	1,268
1.1 Cultivated land	526	521	513	509	511	510
1.2 Arable land and gardens	431	424	420	415	415	414
1.3 Orchards	13	14	14	14	14	15
1.4 Vineyards	23	22	21	21	21	21
1.5 Meadows	59	61	58	59	61	60
2. Pastures	550	542	500	611	608	757
3. Ponds, reedbeds and fish ponds	1	1	1	1	1	1

Source: MAFWE

According to the 2007 Agriculture Census there are total of 192,675 agriculture holdings, out of which 192,378 are individual agriculture holdings (family farms) and 297 agriculture enterprises. However, the latest farm structural survey in 2012, showed decrease as the total number of agriculture holdings is 170,885 out of which 170,581 are individual agriculture holdings (family farms) and 304 agriculture enterprises. The decrease is recorded in the number of individual agriculture holdings.

Table 3.13. Number of agricultural holdings and available area/LSU (2012)

	Number of agricultural holdings	Total available area of the holdings, ha	Total utilised agicultural area, ha	Utilised agricultural area by holding, ha	LSU	LSU per ha
Total	**170,885**	**369,270**	**315,863**	**1.85**	**2.14**	**1.16**
Individual Agriculture Holdings	170,581	314,638	266,579	1.56	1.96	1.25
Agriculture Business entities	304	54,632	49,284	162.12	105.23	0.65

Source: MAFWE

Two major problems in the country's agricultural sector are: the aging of the labor force and land fragmentation (SSO of RM, 2007; Volk, 2010). Only about 10% of the employed in agriculture are young (from 15-24 of age). According to the 1998 Cadastral registry, the total area of 2,464,876 hectares in the country is divided into 4,572,129 cadaster parcels. The average size of arable land parcels is 0.26 hectares, whereby 0.2 hectares is the average size of privately owned parcels and 0.53 hectares is the average size of state-owned parcels. Low incomes and unfavorable working conditions in agriculture, as well as deteriorating living conditions in rural areas discourage young people to start a carrier in agriculture or in rural places that lead to high depopulation and aging of the population in rural areas.

3.3.6. Rural Tourism in Republic of Macedonia

In the Republic of Macedonia there is large amount of nature resources dispersed in majority of municipalities that can contribute to the development of the rural tourism (Dimitrov & Petrevska, 2012; Metodijeski, 2012; Taleska, 2009). However, rural tourism is a relatively new term introduced in the tourism terminology in the Republic of Macedonia compared to the EU development of rural tourism (Metodijeski, 2012).

Legal framework

The legal framework for development of this niche market is set in several official documents in the Republic of Macedonia that contribute to the recognition of the rural tourism sector.

In general two Laws are contributing to the development of the legal framework for rural tourism. *Law on Tourism* in Article 51 stipulates tourist services and services carried out as rural, ethnic and ecological tourism. Article 51 defines several services in rural and ethno tourism that are only small portion of services in rural tourism. Article 51 includes:

- Horseback riding;
- Photo safari;
- Production and sale of domestic handicraft, souvenirs, instruments and other products and services in rural household.

This Article limits the activity-holders only to physical persons registered in the register under the local government and therefore makes large constrains to the development of small businesses and entrepreneurship.

Low on Catering on other hand defines special provisions governing the standards for providing catering services in rural tourism, by determining the minimum standards of accommodation in rural households. Article 40 of the Law defines catering services that can be carried out by physical persons. Article 53 defines terms of catering services in rural households as maximum number of beds (20) and rooms (10) in the rural household. This Article defines mandatory categorization and issuing of special designation for rural households.

National Strategy for Tourism of the Republic of Macedonia 2009 -2013 emphasize the development of rural tourism as an essential important part for development of tourism offer and tourism products in the country with emphasizing different forms of unique travel destinations in rural areas. The executive summary of the National Strategy for Tourism states that the key resources for the development of tourism in the Republic of Macedonia is the diversity of cultural, natural and gastronomic heritage and various related environments, colors and sounds that emerge from it (Влада на Република Македонија, 2009). The National Strategy for Tourism highlight several main areas for rural tourism in Macedonia, although it states that

only completely organized rural tourism can be found in the village Brajcino (LAU1 Resen NUTS3 Pelagonia region) where there are facilities for accommodation and catering, trails and activities. There are many attractions and trails organized in municipalities Pehchevo and Berovo (NUTS 3 East Region), and accommodation and catering, as well as attractions and restaurants in Southeast Region, settlements Kolesino, Bansko, Mokrino and Smolare. There are villages e.g. Zrnovci that are planning their authentic strategy for development of rural tourism. The attractive nature of the mountains in the Polog Region and the South-West Region and the long history and tradition of these regions have been promoted only in municipality of Mavrovo-Rostuse, settlements as Galicnik, Jance, Rostuse. Municipality of Vevcani is another good example of organized paths and attractions, as well as accommodation and catering. Taleska (2009) as an contribution to this statement in the National Strategy for Tourism argues that there are about 60 villages that have the possibility to developed rural tourism. Moreover, Taskov at al. (2013) in correlation with Dimitrov & Petrevska (2012) concludes that in Republic of Macedonia there are 30 touristic zones with over 130 settlements. In contrast to the existing conclusion of unique resources in the field of rural tourism, the Strategy concludes that there is a lack of compound rural tourism offer. The recommendation in the National Strategy for Tourism in the field of rural tourism is creating tourism products with logo or philosophy "Plunge into Macedonian Authentication"

Even in the long term *Strategy for Sustainable Development of Macedonia 2010-2030*, rural development and tourism in rural areas are among the six key areas directly constituting sustainable development. This puts strategic importance and stronger recognition on the rural tourism sector in the sustainable development of the country.

As a result of the emergence of the rural tourism, the Ministry of Economy, Sector for Tourism initiated development and adoption of the *National Strategy for Rural Tourism 2012 – 2017*. The National Strategy for Rural Tourism 2012 – 2017 according to the SWOT analysis of the Institutional capacities and legal framework, Human resources, Infrastructure, Marketing and Capacities for accommodation and catering in rural tourism suggests three main strategic goals for development of rural tourism:

1. Goal 1: Increase the capacity of the rural tourism;
2. Goal 2: Increase employment in rural tourism;

3. Goal 3: Increase the tourist offer of rural tourism.

The NSRT 2012 – 2017 suggest achievement of strategic objectives through the creation three main programs, with set of projects and activities aimed at the same goal and named: "Macedonia Can, Macedonia Knows, Macedonia Has".

"Macedonia Can" specific goals are: (1) Preserving the authenticity and identity of territorial feature of geographical destination with a choice of themed elements that will be integrated into the building and reconstruction of buildings (2) Enabling conditions for infrastructure investment in rural tourism (3) Enabling coordinated construction of authentic objects by businesses and individuals.

"Macedonia Knows" specific goals are: (1) Determination of the necessary institutional changes and implement them for development of human resources in rural tourism; (2) Implementation of activities that will influence the negative perception, attitude and behavior towards rural tourism industry as an attractive employment; and (3) Implementation of activities for support the development of human resources in rural tourism.

"Macedonia Has" specific goals are: (1) Determination of specific skills for formation of the essential rural product; (2) Determination of specific skills for the formation of additional elements of the tourism product that will meet the needs for attraction and unique experience of the tourists; and (3) Mapping the elements of the region that can be described as Top ... or Only ... (*sic*).

In correlation with the NSRT 2012-2017 the Law on Catering undertook one change in 2012 and two in 2013 introducing the system of categorization of catering premises in rural households.

Rural tourism market in the Republic of Macedonia

The NSRT 2012-2017 summarize the data for the number of accommodation facilities and available beds and catering premises with number of chairs in municipalities with rural centers in 2009. The data presented in the NSRT 2012-2017 shows that only 3.7% of the total catering facilities with accommodation were located in rural areas and they have only 1.15% of the total bed capacity in Republic of Macedonia. In the same time the number of seats in the catering facilities in rural areas is 15.4% of the total number of seats in the catering facilities in the country. In NSRT 2012-2017 it is stated that there is a lack of official statistical data focused

precisely on rural tourism in all its forms. According to the SSO during the period 2006-2012, the leading tourist destinations with 1,115,000 overnight stays of tourists was Southwest region followed by Skopje region with 371,000 overnight stays and Southeast region with 327,000 overnight stays. According to the number of rooms and beds in 2013 Southwest region accounts for almost 60% of the total number of rooms and beds (16,050 rooms and 41,411 beds) followed by Pelagonia region (3,322 rooms and 10,001 beds) Southeast region (2,346 rooms and 6,298 beds) and Skopje region (2,487 rooms and 5,142 beds). In SSO there is a lack of data on the number of tourist and overnight stays on LAU2 level. The data from the SSO on tourism is on municipality level, as a result to this scarcity of data there is no possibility for elaboration of the number of tourist and overnight stays in rural areas defined as rural tourism. There is even greater problem in defining rural tourism and data gathering in this sector because rural tourism is located in rural areas but not necessarily every accommodation in rural areas is rural tourism. According to the Metodijeski (2012), about 250-300 premises in rural areas are offering rural tourism products. Most of these facilities are mainly concentrated in three regions: Southwest, Pelagonia and East.

Analysis of the demand for rural tourism in the Republic of Macedonia using SSO data on number of tourist and overnight stays bases on rural and urban municipalities according to the administrative division concludes that 35% of the total tourists and 37.6 % of the overnight stays are located in rural municipalities (Table 17). It should be underlined that this analysis doesn't take into account which of the premises were rural tourism premises (in both urban and rural municipalities) it only takes into account the place were the stay was made based on administrative territorial division of the country.

Table 3.14. Number of tourist and overnight stays in RM, 2013

National definition LAU1 level	Total 2013			
	Number of tourist	%	Number of overnight stays	%
Rural communities	226,900	35	746,144	37.6
Urban communities	420,645	75	1,235,391	62.4
Total	647,545	100	1,981,535	100

Source: SSO of RM

The SSO (2011c) preformed a research study on the tourism demand from domestic population. The data derived from this study shows that only 2.88% of respondents spent their holidays in a facility that is located in the countryside. Often this visit took place in friends and relatives household (75%) and in their own house (25%).

Lacking official statistics on rural tourism market, such as: number of tourists, revenue from rural tourism, the number of premises and accommodation, seasonal use of the facilities for accommodation and food etc., is causing lack of research in this area. The lack of such statistics greatly complicates the analysis and opportunities to make objective analysis and forecasts for the development of rural tourism and its forms in the Republic of Macedonia (Metodijeski, 2012).

Among the greatest obstacles for tourism development in rural areas is the insufficient development of tourist attractions and facilities, as well as difficult access to tourist amenities, national parks and tourist sites, primarily due to the poor condition of the road infrastructure (Јакимовски, 2004; Министерство за Економија, 2012). The number of skilled workers or labor market constrains is also evident in the development of rural tourism. The highest number of unemployed people with professional qualifications required for work in the tourism is in the Southwest region (1,205) and in the Skopje region (1,307). From the available data on the unemployed people in the rural areas, the NSRT 2012-2017 estimates that the population of 15 to 39 years with qualifications to work in the tourism, with the additional training for the specific subsectors of rural tourism could greatly add to the development of this sector.

In the process of strategic planning and marketing of rural tourism resources and products almost all municipalities have stated rural tourism as one of the objectives in their local development strategies, mainly as a result of their potential. Nearly two-thirds of rural municipalities identified in their strategies specific infrastructure projects for rural tourism development.

In the process of rural tourism development in Republic of Macedonia Metodijevski (2012) notes that rarely rural households registered tourism enterprises when starting a business. The reason is often the inability to provide sufficient financial resources to cover expenses during registration and further work. This statement only reveals the lack of funding for development of rural tourism. At the

moment the only founding designed exclusively for rural tourism development is measure 302 (sub measures 3,0241 and 30,242) from the IPARD Programme.

Metodijeski (2012) in his research made face to face contacts and interviews with 59 entrepreneurs engaged in rural tourism from 28 rural settlements. The data reveals that the average overnight stays in rural areas in one year is 50 but the numbers depends of the premises capacities. The largest percentage of respondents (92%) indicated that they have most visits in the summer, which speaks of expressed seasonal work in rural tourism. Respondents reveal that 51% of their visitors are domestic visitors, 32% foreign and 17% both foreign and domestic tourists. The biggest motivation (70%) for tourists to stay in rural areas is the natural beauty of rural areas. The length of stay in 83% was from 1-3 days and 83% of tourists in rural areas are returnees that explain the satisfaction of the visitors. Primary additional service required by tourists was walk through the environment 49%, then 28% gastronomic specialties, 10% fun - sports, tourist information and souvenirs, agriculture - livestock activities accounted for only 4%. 56% of the respondents have no professional qualifications in the field of tourism, and the remaining 44% have professional qualifications or have acquired qualifications in tourism through training.

4. ENTREPRENEURSHIP DEVELOPMENT, THEORIES AND ECONOMIC GROWTH

4.1. Entrepreneurship theories, components and context

4.1.1. Emergence and historical development of entrepreneurship

Entrepreneurship historically has meant different things to different people (Gedeon, 2010; Nybakk & Hansen, 2008; Perelman, 1995). The world "entrepreneur" has French origin with a meaning of "person who mediates". There is enormous literature on the development of the term "entrepreneurship" and "entrepreneur". Richard Cantillon (1680-1734) is the first to incorporate this term in his work. He defines the entrepreneurs as non-fixed income earners who pays known costs of production, but earns uncertain incomes (Gedeon, 2010; Long, 1983). Latter, Jean-Baptiste Say (1767–1832) discussed that entrepreneur is economic agent who joins all resources of production as land, labor and capital to produce a product or service (Becker, 2008). Joseph A. Schumpeter (1934) develops theory in which the entrepreneur is innovator that implements new combination of currently existing inputs (Berchicci & Tucci, 2008; Bull & Willard, 1993; Perelman, 1995; Shane, 2004; M. D. Thomas, 1987). A person with a high need for achievement and a moderate risk taker states David McClelland (1961) and a *risk taker willing take risks in the name of an idea, spending time and capital for an uncertain venture* argues Peter Drucker (1964) (Bygrave & Hofer, 1991; Cunningham & Lischeron, 1991; Eckhardt & Shane, 2003; Stevenson & Jarillo, 1990). Although there is no internationally accepted definition on entrepreneurship it can be defined as capacity and willingness of a person to develop, organize and manage a venture along with any of its risks in order to make profit. Entrepreneurs can be bought venture entrepreneurs creating their own business or corporation entrepreneurs engage in entrepreneurial activities in large companies. The key economic authors that provided contribution to the development of the theory and understanding of the entrepreneurship as an economic process are described below.

Table 4.1. Key contributions of economic authors on the role of entrepreneurs

Writer	Key role of entrepreneur	Additional insights
Say	Organizer of factors of production	Catalyst for economic change
Cantillon	Organizer of factors of production	Catalyst for economic change
Kirzner	Ability to spot opportunity	Entrepreneur's key ability is "creative" alertness
Schumpeter	Innovator	Entrepreneur as "hero" figure
Knight	Risk-taker	Profit is reward for risk-taking
Casson	Organizer of resources	Key influence of the environment
Shackle	Creativity	Uncertainty creates opportunities for profit

Source: (Deakins & Freel, 2005)

It is widely accepted that there are several different theoretical roots to the definition of the term "entrepreneurship". The earliest mention of entrepreneurship was in economics although there are other fields as psychology and sociology that are researching the field of entrepreneurship (Gedeon, 2010; Sánchez, 2011).

For Kirzner, the entrepreneur is a person who is recognizing the possibility for exchange or a middleman who facilities the exchange. It is a man with some additional knowledge of the market who acts as the intermediary between suppliers and customers. In Kirzner opinion entrepreneur not compulsory own resources, he is using the advantage of the information gaps in the market. However, entrepreneur is still more then a market trader he is creative person. For Kirzner anyone could possess additional knowledge.

For Schumpeter entrepreneur is special person, he is an innovator. Only certain extraordinary people have the ability to be entrepreneurs, change the technological possibilities and develop new technology. He predicted the technology waves and creative destruction brought by new technologies. Galbrait as addition to Schumpeter ideology believed that the function of the entrepreneur would be carried out in large organizations. In his idea entrepreneur can exist and more effortlessly innovate in

large firms. An individual who is capable of initiating change in large firm was called "entrepreneur".

For Knight, the entrepreneur is a person who is prepared to undertake risk, expecting profit as a reward. The opportunity for profit for Knight arises out of the uncertainty surrounding change. If the change is perfectly predictable then no opportunity for profit would exists. Knight makes distinction between risk and uncertainty. For him risk is something that it can be predicted with certain level of probability however uncertainty cannot be predicted and entrepreneur is the person who is willing to take the risk of uncertainty.

Entrepreneur of Shackle is someone who is creative and imaginative. The entrepreneur imagines the possibilities. According to Shackle uncertainty is creating the possibility for someone to imagine possibilities for profit. The potential of creativity in Shackle opinion is important element in the process of entrepreneurship.

Casson is trying to synthetize the attributes of the entrepreneur discussed by key authors. The Casson entrepreneur possesses distinguished capabilities of management of scarce resources. He is coordinating the supply and demand under uncertain conditions and enjoys profits as a reward.

All these authors and many others has researched and developed theories of entrepreneurship. The research in the field is so vast that no one could developed one single definition that would underline every characteristic of the process and persons involved in it. Moreover, that the process it self has changed over time adapting to the conditions of the environment.

4.1.2. Entrepreneurship theories and schools

Numerous authors have researched and developed theories of entrepreneurship. They defer largely due to the approach they use in the development of the theory.

There are two theories of *entrepreneur's residual profit*: (1) the risk theory of profit; and (2) the dynamic theory of profit (Gedeon, 2010; Knight, 1921; Toms, 2010). The essential entrepreneurship concepts that emerged from the risk theory of profit are the degree of risk, presence of new venture formation, and ownership involvement. The dynamic theory of profit supports the Schumpeter's theory of

creative destruction and his definition of the entrepreneur as the individual whose function it is exploit market opportunity through technical or organizational innovation (Perelman, 1995; J. A. Schumpeter, 1934; J. Schumpeter, 2003). This dynamic theory of profit was later enlarged by Lundström and Stevenson (2005) significantly outside independent business owners to include managers, directors, financiers etc.

In the work of Stevenson and Jarillo (1990) entrepreneurship studies can be divided in three main categories: "*what happens when entrepreneurs act; why they act; and how they act"*. The researchers in the **first** group are interested in the results of the actions of the entrepreneur. The economists, such as Schumpeter, Kirzner, or Casson, develop this category. After the Schumpeter's work most economists has accepted the identification of entrepreneurship with innovation and continue the work on effects of his actions on the market. The studies of the *effects* of the entrepreneurship are focusing on the effects of the actions on the economic environment. The **second** category can be named as 'psychological/sociological approach', founded by McClelland largely to the research in achievement motivation (McClelland, 1961), Bandura (1986) work on self-efficacy, the work of Rotter (1966) on the locus of control and others psychologists and sociologist (Simpeh, 2011; Thornton, 1999). In their work human beings and their motives, goals and values are in the focus of the analysis. The center of attention in their work is the *why* of the entrepreneur's actions. Last and **third** group in the center of attention has *how entrepreneurs act*. Researchers in this category analyze the characteristics of entrepreneurial management, how entrepreneurs are able to achieve their aims. In the *how* category there are two important areas of research: the problems that entrepreneurs face in the life cycle of their companies and studies focused on identification of predictors of success for new ventures.

Table 4.2. Contributions of the disciplines to entrepreneurship

Line of inquiry	Causes	Behavior	Effects
Main question	Why	How	What
Basic discipline	Psychology, sociology	Management	Economics
Contributions	Importance of Individual		Entrepreneurship is the function by which growth is achieved (thus not only the act of starting new businesses)
	Environmental variables are relevant		Distinction between entrepreneur and manager

Source: (Stevenson & Jarillo, 1990)

Cunningham and Lischeron (1991) in their work are describing six schools of thought each with its own underlying set of beliefs. They are categorized according to the interest of studying and in regard to the thought that different entrepreneur situation of the life cycle of the venture requires different behaviors and skills. The schools of thought are divided in four subcategories as follows:

Assessing Personal Qualities

1. The "Great Person" School of Entrepreneurship
2. The Psychological Characteristics School of Entrepreneurship

Recognizing Opportunities

3. The Classical School of Entrepreneurship

Acting and Managing

4. The Management School of Entrepreneurship
5. The Leadership School of Entrepreneurship

Reassessing and Adapting

6. The Intrapreneurship School of Entrepreneurship

Table 4.3. Summary of approaches for describing entrepreneurship

Entrepreneurial Model	Central Focus or Purpose	Assumption	Behaviors and Skills	Situation
"Great Person" School	The entrepreneur has an intuitive ability-a sixth sense-and traits and instinct he/she is born with	Without this "inborn" intuition the individual would be like the rest of us mortals who "lack what it takes"	Intuition, vigor, energy, persistence and self-esteem	Start-up
Psychological Characteristic School	Entrepreneurs have unique values, attitudes and needs which drive them	People behave in accordance with their values; behavior results from attempts to satisfy needs.	Personal values, risk taking, need for achievement and others	Start-up
Classical School	The central characteristic of entrepreneurial behavior is innovation	The critical aspect of entrepreneurship is in the process of doing rather than owning	Innovation, creativity and discovery	Start-up and early growth
Management School	Entrepreneurs are organizers of an economic venture; they are people who organize, own, manage and assume the risk	Entrepreneurs can be developed or trained in the technical functions of management	Production planning, people organizing, capitalization and budgeting	Early grow and maturity
Leadership School	Entrepreneurs are leaders of people; they have the ability to adapt their style to the needs of people	An entrepreneur cannot accomplish his/her goals alone, but depends on others	Motivating, directing and leading	Early grow and maturity
Intrapreneurship School	Entrepreneurial skills can be useful in complex organizations; itrrapreneurship is the development of independent units to create market and expand services	Organizations need to adapt to service; entrepreneurial activity leads to organizational building and entrepreneurs becoming managers	Alertness to opportunities, maximizing decisions	Maturity and chang

Source: Cunningham and Lischeron (1991)

4.1.3. Context of entrepreneurship

The process of entrepreneurship can take place in diverse contexts. Different entrepreneurship types can be practiced within diverse contexts. This makes the entrepreneurship process dynamic and diverse in typology. Some of the contexts in which entrepreneurship take place are discussed below.

Ethnic minority: Entrepreneurship has been identified as "a set of connections and regular patterns of interaction among people sharing common national background or migration experience" (Volery, 2007). It can be also defined as a vehicle for achieving personal success of the members of ethnic minority groups (Morrison, Rimmington, & Williams, 1999). According to Cobas et al. (1991) ethnic entrepreneurs are effective in creating market niches which are specific for the ethnic group.

Family: Family business is the oldest and most common model of economic organization (Brockhaus, 1994; Getz, Carlsen, & Morrison, 2004; Getz & Carlsen, 2005). A large ratio of smaller firms represents family enterprises. Frequently in this kind of businesses most of the family is involved in performing different roles. The family has an important role in terms of being a supplier of resources, such as finance and labor (Morrison et al., 1999). It is an organization in which decision-making is influenced by multiple generations of a family. Family businesses are diverse in size ranging from small sole proprietors to large international companies. Depending on the definition used they 60% of the enterprises in Europe are family business (European Commission, 2009).

Life-style: A lifestyle business is a business activity created by entrepreneur primarily with the aim of ensuring a certain level of income that will provide them and their family with satisfactory amount of funds for enjoying particularly chosen lifestyle (Henderson, 2002; Marcketti, 2006). Lifestyle businesses differs from other types of businesses created in accordance to the life quality (Marcketti, 2006). In pursuing personal satisfaction and life quality, entrepreneurship can also improve the wellbeing of the community (Short, Moss, & Lumpkin, 2009). There is a large amount of research literature and case studies that suggest that lifestyle businesses are owned and managed by typical and successful entrepreneurs especially in the tourism

sector (I. Ateljevic & Doorne, 2000; Marcketti, 2006; Morrison et al., 1999; Shaw & Williams, 2004; Skokic & Morrison, 2011; Teece, 2010; R. Thomas, Shaw, & Page, 2011)

Small business and self-employment: Small firms and self-employment are dominant forms of business enterprises in factor-driven and efficiency-driven economies (Blanchflower, 2004; Gollin, 2008). This is true for almost all sectors, even manufacturing. Self-employment is the simplest kind of entrepreneurship (Blanchflower, 2000). Usually self-employed are lacking managerial and marketing skills and possess limited mobility due to the stable network of customers. Many of them use unpaid family labor (Blanchflower, 2000), and do not employ regular staff. These entrepreneurs sell to customers their personal skills, for example bed and breakfast, tour guide, or craft souvenir vendor. Their personal knowledge is their business strength (Morrison et al., 1999).

Temporary/part-time: Part-time entrepreneurs are people who hold a regular wage job part of their time and work at their own businesses the other time. Petrova (2005) hypothesis for the existence of part-time entrepreneurship is that people are credit constrained. There is evidence in GEM 2003 report that 80% of the nascent entrepreneurs also hold wage job. That is large proportion of the start-ups and it is context of entrepreneurship fined in lower economic development of the country.

Franchise: It is a business that involves leasing for a certain period of time the right to use brand name, product, service and associated support (Zoltan J. Acs & Audretsch, 2010; Gedeon, 2010; Rubin, 1978). Franchisees are supplied with a complete, proven, business concept together with the unique know-how (Zoltan J. Acs & Audretsch, 2010; Kistruck, Webb, Sutter, & Ireland, 2011; Morrison et al., 1999). It arises from the highly standardized nature of some products and services, and the strength of the brands involved. Franchising has become a dominant story in the industry sector in the recent years (Bates, 1995; Morrison et al., 1999).

Joint venture: This represents an arrangement in which the parties remain independent, but agree to develop or set-up new organization jointly owned by the parent firms. They are typically focused on a particular venture dealing with specific activity or specific project referred to consortium. Joint venture is generally used for setting-up small projects, but large corporations can also use this model to diversify (E. Anderson, 1990; Buchel & Büchel, 2000).

4.2. Entrepreneurship and economic growth

Economic growth is the increase in welfare of an economy together with changes in that economy's industrial structure; public health, literacy, and demography; and distribution of income.

It is commonly measured as increase of the percent rate of real GDP per capita. The economic growth can be *intensive growth* caused by more efficient (productively) use of inputs, the case of high-income countries as Japan or Republic of Korea. *The **productivity** with which countries use physical capital, human capital, and natural capital is widely recognized as the main indicator of their level of economic development*. Beside gross domestic product (GDP) per capita, gross national product (GNP) per capita is used as indicators for the productivity with which different countries use their resources. *GDP is calculated as the value of the total final output of all goods and services produced in a country within a year. GNP is calculated as GDP plus incomes received by residents from abroad minus incomes claimed by nonresidents*. For GNP and GDP to indicate the level of economic development they are divided to the country's population "per capita". For the purpose of comparison between countries these indicators are adjusted with purchasing power parity (PPP) conversion factor and in such cases the *nominal GNP or GDP per capita* (presented in US dollars in accordance to the market exchange rate) are converted in *real GNP of GDP per capita*. *The PPP conversion factor shows the number of units of a country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States*.

Although GNP and GDP are measuring income and can be used as indicators for economic growth in a country they show large limitations in measuring people wellbeing, which is on the other hand indicator for economic development. They do not show how equitably a country's income is distributed neither accounts for environmental degradation, and resource depletion.

Large number of factors, economic of non-economic, are influencing the economic growth. Most of the factors (see Fig. 12) evaluated in the literature are measured by the use of secondary data (Bleaney & Nishiyama, 2002). However, until emergence of the Global Entrepreneurship Monitor (GEM) little or no data was available for accounting entrepreneurship in the factors that influence economic growth. GEM is research program engaged in collecting relevant harmonized data in

the field of entrepreneurship and focus on three main objectives: (1) measuring difference in of entrepreneurial activity among countries; (2) reveal factors of entrepreneurial activity on national level; and (3) identify entrepreneurial activity improvement policy on national level. Since established in 1997 as research on 10 nations GEM has grown into a consortium of 64 national teams. GEM analyses the contribution of the entrepreneurs to the economy in accordance to the Porter's (2002) typology of the stages of economic development as "factor-driven economies", "investment-driven economies" and "innovation-driven economies" as well as Growth Competitiveness Index (GCI) and Current Competitiveness Index (CCI).

Fig. 4.1. Specification of alternative growth models

Variable	Sign of Effect on Growth	Barro	EL	SW
Initial per capita income (Y)	−	*	*	*
Square of Y	−		*	
Openness	+			*
Openness * Y	−			*
Black market premium	−		*	
Schooling	+		*	
Male schooling	+	*		
Male schooling * Y	−	*		
Financial depth	+		*	
Inflation rate	−	*		
Fertility rate	−	*		
Central government savings/GDP	+		*	*
Government consumption/GDP	−	*		
Life expectancy	+	*		*
Life expectancy squared	−			*
Rule of law index	+	*		
Institutional quality	+			*
Assassinations	−		*	
Democracy index	+	*		
Democracy index squared	−	*		
Terms of trade growth	+	*		
Primary product exports/GDP	−			*
Tropical climate	−			*
Landlockedness	−			*
Economically active minus total population growth	+			*
Ethnic diversity	−		*	

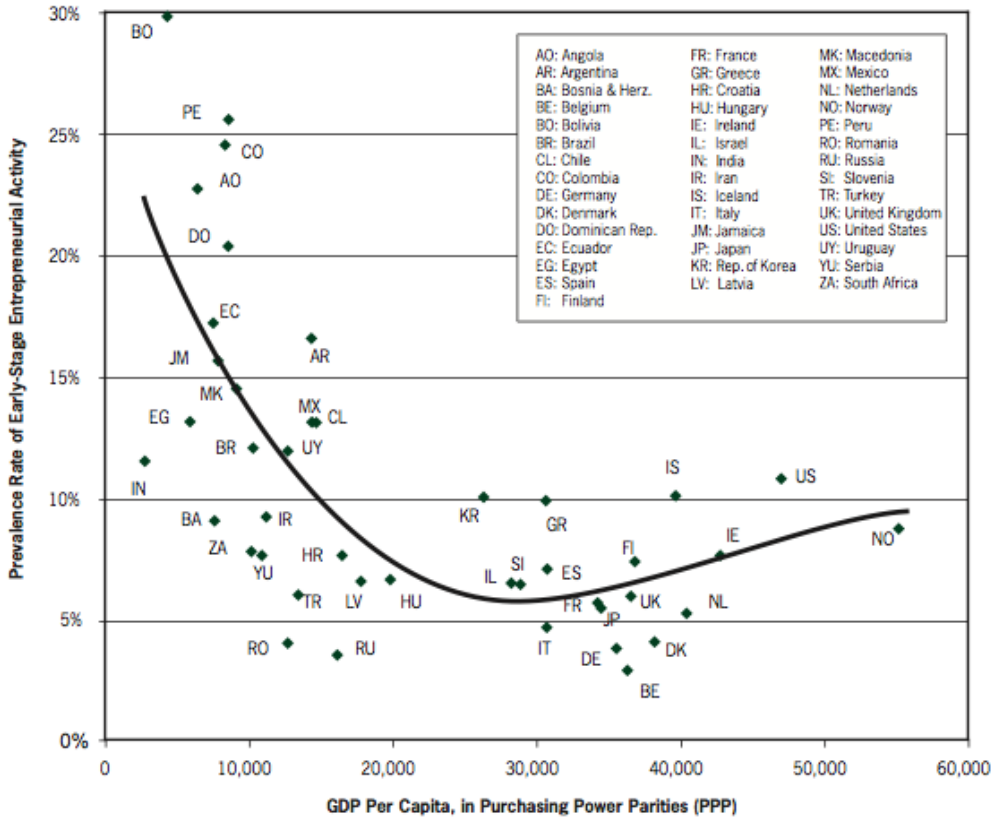
Notes: * denotes that variable is included in the model's specification. Barro: Barro (1997); EL: Easterly and Levine (1997); SW: Sachs and Warner (1997). Initial per capita income may have a positive sign if its square is included.

Source: (Bleaney & Nishiyama, 2002)

It is generally accepted that entrepreneurs with high growth provided a huge contribution to creating jobs, and sometimes entirely responsible for the total number of new jobs (Audretsch, 2009; Kritikos, 2014; Naude, 2009; Valliere & Peterson,

2009; Walker, 2004). According to general understanding, the level of self-employment "driven by necessity" is particularly noticeable in the low level of economic development, because the economy is still not able to support a high number of jobs in sectors with high productivity (Bosma et al., 2012; Parker, 2004). As the economy matures, the level of entrepreneurial activity "driven by necessity" is decreasing, while the productive sectors provide greater opportunities for employment. This is followed by rise in "opportunity driven" entrepreneurial activities (Parker, 2004; Stevenson, 2006; Williams, 2008). This change in the cause of entrepreneurial activity is called the "U - curve" hypothesis (Zoltan J. Acs et al., 2008; Bosma et al., 2008; Wennekers & Thurik, 1999; Wennekers, Van Wennekers, Thurik, & Reynolds, 2005). Although there is considerable support for the hypothesis of a U-curve, it only displays the route and does not reflect the full complexity of the cause-effect relationship between entrepreneurship and economic growth.

Fig. 4.2. Nascent entrepreneurship versus per capita income in PPP, the U-curve



Source: (Bosma et al., 2008)

Economic growth can be affected by entrepreneurship in numerous ways. There is general agreement on the importance of entrepreneurship for economic growth (Z. J. Acs & Szerb, 2007; Carree & Thurik, 2010; Larroulet & Couyoumdjian, 2009; Morrison, 2000; Stephens & Partridge, 2011; Wennekers & Thurik, 1999; Wiklund, Davidsson, & Delmar, 2003). Entrepreneurs boost innovation, accelerate structural changes in the economy and force existing businesses to improve their efficiency and thus provide an indirect contribution to increased productivity (Audretsch, 2009; Berchicci & Tucci, 2008; Bessant & Tidd, 2011; Fagerberg, Mowery, & Nelson, 2006; Parker, 2004; Studies, 2010).

4.3. Rural entrepreneurship

Although there are large socio-economic differences between urban and rural regions majority of components and the context of entrepreneurship are defined for rural regions in the same way as for urban. From entrepreneurship perspective, rural areas are distinctive from urban areas. Rural areas have unique context for small businesses that are managed in the consistent with the rural socio-cultural values. Rural areas are facing unique challenges in the start-up and grow of enterprises. These challenges are structured in three groups: characteristics of the business environment; characteristics of rural populations; and aspects of the existing economic structure (Smallbone, 2005).

1. Characteristics of the business environment in rural areas includes:

Small size of local markets - rural enterprises more often are facing small size of local markets allied with low population and per capita income. However sectors as service and retail are affected by this disadvantage due to the fact that they sell locally on the other hand manufacturing or hospitality sector makes fewer sales to local residence and it is not affected by the market size.

Rural labor market characteristics – more often access to skilled labor is constrain to rural enterprises. Occupational composition of rural labor market is small and narrow with lower level of education. As a result to the diversification and development of emerging sectors in rural areas as hospitality or IT sector skilled labor is necessity. Rural labor market in this sense is large constraint.

Transport and communication infrastructure – transportation due to the remoteness of the rural areas pose a challenge for the rural entrepreneurship.

Infrastructure in this context is particular important. It affects in large scale the ability of some region to attract people and investments and the possibility of entrepreneurship. Telecommunication as transport infrastructure is important as it helps local businesses to overcome the barrier of distance and provides development of other sectors as IT and services without full time office staff.

Access to finance – rural businesses as other small scale ventures lack sufficient access to finance. This is due to the fact that banks and investors try to avoid small firms with low growing potential, which are the most common in rural areas.

Institutional environment – local institutions or local self-governance is a crucial factor influencing entrepreneurship in rural areas. They play a major role in enabling conditions for development and grow of rural enterprises.

2. Characteristic of rural population:

Entrepreneurial culture and attitudes - Entrepreneurial culture as general set of values, is important for the development of entrepreneurial activities in a society. Even growth differences may be related to differences in entrepreneurial culture. In the rural context the set of values can largely defer from urban. Rural areas are characterized by typical socio-cultural values that in many ways affect SMEs development. Only as an example rural population has different gender roles for entrepreneurhip, co-operation manners, ways of communications etc.

Social capital – social capital in rural communities is a resource for entrepreneurship. It is characterized by long term, smaller, denser kinship relationship. It involves networking formal and informal, social trust and engagement in voluntary activities. High level of social capital assists entrepreneurs in accessing resources for their success.

In-migration – as process of migration from urban to rural areas can involve people with specific entrepreneurial or business experience. This could lead in increase of the entrepreneurial capacity of a rural region. However this is characteristic of more developed countries and rarely the case in developing countries as RM.

3. Characteristics of rural enterprises and the economic structure of rural areas:

Size – most of the studies on businesses in rural areas are suggesting that businesses in rural areas tend to be smaller, with a higher proportion of micro

entreprices. Micro businesses are largest group, although in some regions they mostly consist of solo proprietors without formal labor. This makes this businesses vary hard to reach or to help by external advisory services and in some cases vary inefficient.

Sectoral mix – in the last decade new economic activities as manufacturing and services has moved into rural areas and provided more jobs contrary to the traditional industries such as farming. But not all rural areas are at the same level of economic diversification there are still areas that are dependent on one large manufacturing plant. However agriculture in many rural areas is still important economic activity although the involvement of the rural workforce in agriculture has significantly decline. As a result of high level of market competition in agriculture and support to diversification, farmers are entering different sectors as retailing, sport and recreation, services and tourism.

Innovation - Innovation is a process of finding better solutions for meeting new or existing requirements. Entrepreneurs are key players in the innovation process and international competitiveness. Innovation can be crucial in a rural context. It can improve the productivity of existing business or encourage engagement in new ones as tourism with linkage to traditional activities such as farming.

4.4. Entrepreneurship in tourism and hospitality

Tourism is one of the largest and fastest growing industries. As Ateljevic (2009) defines it "*tourism is a social phenomenon associated with human travel for different pursuits including business, leisure, pleasure, religion, education, security and politics*". This definition later on is extended due to the activities travelers enter before, during and after the travel experience. Tourism in the work of Ateljevic (2009) is complex phenomenon or a product defined as a 'package' of five components: destination, attractions, facilities, accessibility, images and price. It is product driven by the *curiosity* of the traveler. Curiosity consequently is the main pillar of many tourism products and it is core entrepreneurial ability in the process of tourism development.

Tourism can take many forms as:

- *Nature-based tourism* attracts travelers interested in nature. It is often seen as a segment of rural tourism and usually includes variety of activities as hunting,

fishing, hiking, camping, farming etc. It is well connected to the ecotourism as an additional segment of rural tourism;

- *Spa and wellness tourism* attract travelers seeking mental, physical and spiritual restoration and recover. It uses natural and mineral waters and other natural products, sports, massage, saunas etc. in the satisfaction of customer's needs;
- *Adventure tourism* is to large extend connected to nature tourism as a result to the fact that nature abound with adventure product. This form of tourism is connected to the risk factor and can include different activities as trekking, rafting, paragliding, mountain biking, parachuting etc.;
- *Mountain and winter tourism* is connected to the winter sport activities as skiing and in recent years to summer mountain activities as hiking and mountain biking;
- *Maritime tourism* is so called "sea, sand and sun" tourism especially developed in the Mediterranean countries as a market demand of the Europeans summer holidaymakers which is the world largest tourist market. This form of tourism accounts for one third of the total tourism demand in Europe;
- *Religious tourism* is associated with spiritual and religious offering to the believers. It is a form of tourism in which travelers are offered experience of sacred places and events;
- *Urban and culture tourism* is the tourism of short trips to easily accessible cities. This tourism in the resent years is fast growing as a result to the increased transport access.

There is large list of countries in the world that economically entirely rely on tourism sector. Tourism sector has the ability to generate revenue in different ways as a result of the concept of tourism multipliers (Archer, 1982; Wanhill, 1994) and therefore has greater economic impact. Recently, in order to be measured the economic impact of the tourism industry to the GDP, new measure was introduced and statistical approved by OECD and WTO named Tourism Satellite Accounts (TSA) (Frechtling, 2010; Smeral, 2006). TSA is a statistical method employing the System of National Accounts (SNA) in measuring the size and distribution of different forms of tourism consumption and its contribution to GDP, employment,

income and other macroeconomic measures of the country's economy (Frechtling, 2010).

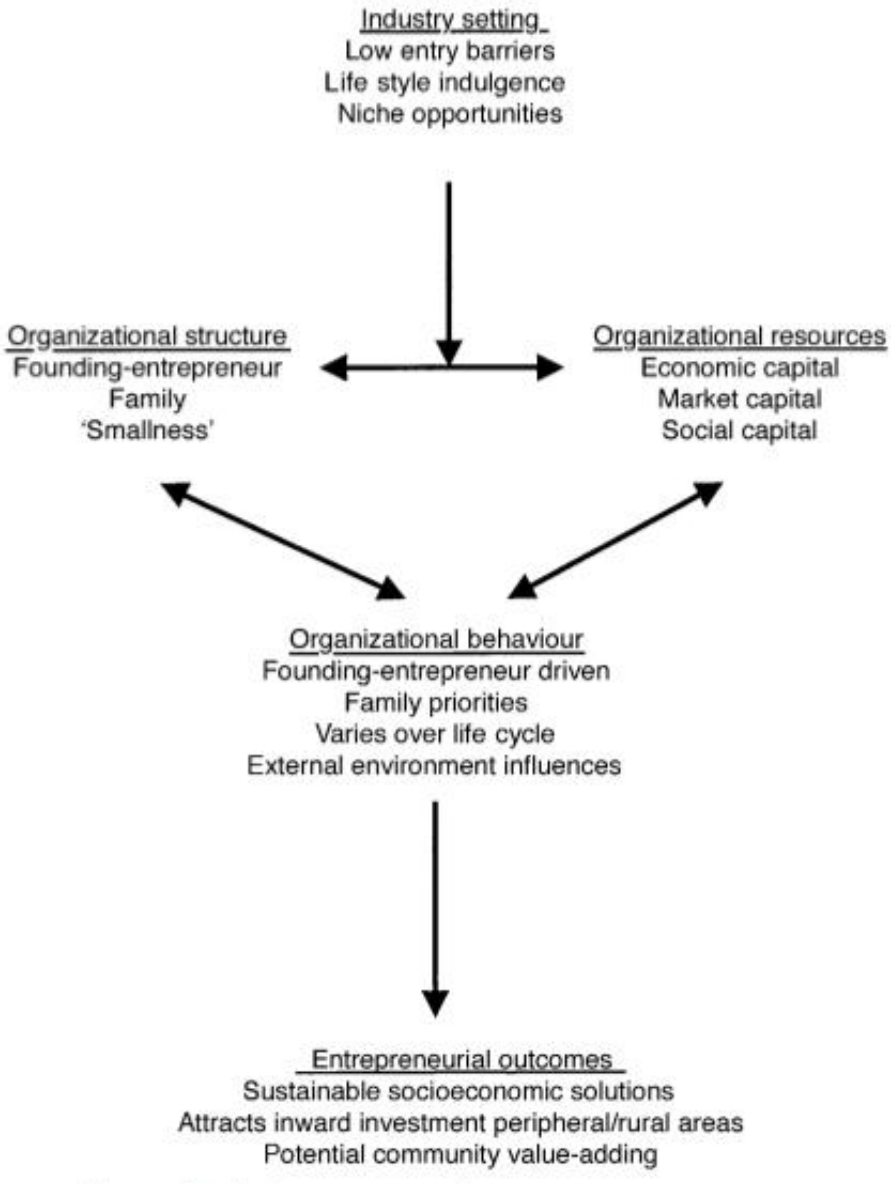
Despite the great contribution of scholars research in the tourism sector linked to the economic development of country, region or place (Andrew, 1997; Cooper, 1988; Holzner, 2011; H. J. Kim, Chen, & Jang, 2006; Place, 1991; Rogerson, 2014; Rosentraub & Joo, 2009; Sathiendrakumar & Tisdell, 1989; Vanhove, 2011; Var, Toh, & Khan, 1999) and TSA research (Ahlert, 2007; Dwyer, Forsyth, Spurr, & Van Ho, 2007; Dwyer, Forsyth, & Spurr, 2004, 2007; Frechtling, 1999, 2010; C. Jones & Munday, 2007; Libreros, 2006; Smeral, 2006) the research in the field of entrepreneurship and hospitality & travel industry is still small in size and effect. Morrison at al. (1999), Thomas & Augustyn (2006), Getz at al. (2004) Ateljevic & Page (2009) made grate contribution in the entrepreneurship and tourism research. Ateljevic (2009) in his work evaluated the research articles published in one of the seven refereed academic journals in the field of hospitality and tourism management [*Cornell Hotel and Restaurant Administration Quarterly (CHRAQ), International Journal of Hospitality Management (IJHM), Journal of Hospitality and Tourism Research (JHTR), International Journal of Contemporary Hospitality Management (IJCHM), Annals of Tourism Research (ATR), Tourism Management (TM)]* related to entrepreneurship, entrepreneur, small business, family business, emerging venture and entrepreneurship in the period between 1986 and 2006. The result was that out of the total 4,917 articles published, 97 addressed entrepreneurship, amounting to about 2%. Out of 97 published articles, 72 articles were empirical research and 25 theoretical articles. The study analysis even the used methodology and data collection. Furthermore, suggests research with combination of qualitative and quantitative methods and expanding the field of research to women and ethnical minority and entrepreneurship due to the fact that most of the previous research was in the field of 'small businesses'.

Getz at al. (2004) in their work on family business in tourism and hospitality noted the importance of family business in tourism sector referring that in Europe 95% of tourism businesses are microbusiness in family segment. Getz analyses previous research on family business from different perspectives elaborating the definition on family business, the life cycle models for the family business by Gersick at al. (1997) putting the family business in the framework of tourism and hospitality. Getz in his work makes a model of tourism and hospitality family entrepreneurship

(Fig. 14) whereas family businesses are stimulating rural and peripheral social communities and local economies.

Morrison at al. (1999) in their work link the entrepreneurship process and entrepreneurs with the specific environment of the hospitality, tourism and leisure industries.

Fig. 4.3. Tourism and hospitality family entrepreneurship model



Source: (Getz et al., 2004)

5. FACTORS INFLUENCING BUSINESS AND ENTREPRENEURSHIP SUCCESS

5.1. Defining business success

SME's in the form of family businesses, self-employment and small enterprises are most dominant forms of business in rural tourism sector in Europe (Getz et al., 2004; Lee-Ross & Lashley, 2010) and in Republic of Macedonia measured by the data on active enterprises in tourism sector situated in rural areas (Metodijeski, 2012; Taleska, 2009). Middleton (2001) indicate that micro-enterprises and most of them family businesses are accounting for 95% of active businesses in tourism sector in Europe. The success of these forms of businesses in the literature is measured by two criteria, financial and non-financial criteria, or more accurately with mix of these two criteria. Conventionally and with more literature attention, business success has been measured by financial performance of the enterprise in terms of profit, turnover or return of investment or on base of employee numbers (Barkham, Gudgin, & Hart, 2012; Jim Curran & Blackburn, 2000; Kelmar, 1991; Parker, 2009). In terms of owners' goals and needs, obtaining or sustaining profitability and increasing the value of the business are most important attributes of success (Getz et al., 2004). This financial measurement of success use the assumption that all businesses are made with intention of grow and therefore they measure the increase of profit and employees. Although most scholars use economics measures for business success measurement there is strong evidence that not all businesses are made for profit. Jennings and Beaver (1997) contribution to this statement add that using only financial criteria does not refers to all enterprise owners' goals. They defined success as "*the sustained satisfaction of principal stakeholder aspirations*".

> *Contrary to popular belief, and a great deal of economic theory, money and the pursuit of a personal financial fortune are not as significant as the desire for personal involvement, responsibility and the independent quality and style of life which many small business owner-managers strive to achieve. Consequently, the attainment of these objectives becomes one of the principal criteria for success, as defined by the entrepreneur/owner-manager".*
>
> (Jennings & Beaver, 1997, p. 63)

Ateljevic and Doorne (2000) in their study concluded that lifestyle entrepreneurs are balancing between economic performance and sustainability in sociocultural and environmental terms. They fined that lifestyle entrepreneurs are willing to diminish their profits in order to obtain sustainable development as long as they meet their goals. Further, Walker and Brown (2004) apply non-financial criteria to measure business success in small business sector. In their work they found that "*owners of small businesses measure their success using both criteria, and that the non-financial lifestyle criteria are sometimes more important*" (Walker, 2004, p. 588). The concept of success is unique to each industry group and it differs even from organization to organization in one sector due to the owners' perception of success (Beaver, 2002).

Greenbank (2001) concluded that "*micro-business owner-managers often pursued a number of diverse objectives. In the main, they tended to relate to personal rather than business criteria, and often involved both economic and non-economic objectives*" (Greenbank, 2001, p. 123)

There is strong evidence in the literature about the importance of non-financial measures of business success used by business owners. These measures presented as autonomy in the work and time, job satisfaction, obtaining certain lifestyle, community recognition are usually more subjective and consequently difficult to quantify compared to the financial measures of success. However, the non-financial measures as stated previously can exist only in mix with financial measure or presumption that there is curtain level of financial security already established within the business or the business is not primary source of income (Walker, 2004).

As elaborated, success in business, is a term that is difficult to define. In many respects it differs depending on the firm's activities, the economic sector, the environment and ultimately on the perception of success of the firm owner. Much easer way of defining and measuring business success used in extent of research is "continued activity" or firm existence with or without use of financial measures as profit, growth and employment. This definition is rather simple due to the fact that *one business might continue to exist and therefore be categorized as a success but might continue to disappoint its owners by not achieving owners goals* (Rogoff et al., 2004) on the other hand business could be closed and that may not be failure because owner meet their goals (Headd, 2003).

Metodijeski (2012) in the analysis of rural tourism in the Republic of Macedonia shows the same impression of the business success between rural tourism entrepreneurs based on owners goals and desires for starting the business. Interview respondents (rural tourism entrepreneurs) stated that main goal or reason for engaging in rural tourism was financial reasons 34%, nevertheless also significant are displayed favorable living conditions of a particular place 20%, the desire to develop the place (place identity) 32% and desire to create a family business 14%. This is just further proof that success in a variety of entrepreneurs is difficult to determine because of the different expectations among entrepreneurs.

5.2. Critical success factors

Critical Success Factors (CSF) are: "*those few things that must go well to insure the success of an organization*" (Boynton & Zmud, 1984). Among small businesses often the enterprise reflects the personal characteristics, vision and behavior of the entrepreneur although the shape and success of the enterprise can be given to large extend by external environment. Curran et al. (1986) argue that previous characteristics are mixed and that successful entrepreneur is made by shaping the personality and knowledge of the individual by outside influences of society and the environment. Many researchers has worked and tried to define the characteristics of successful entrepreneur (Beaver, 2002; James Curran et al., 1986; Jim Curran & Blackburn, 2000; Gadenne, 1998; Lundberg & Fredman, 2012; Simpson et al., 2004; Watson et al., 1998). Consequently since Bolton Report (1972) which emphasized the special role of the founder in small businesses, great amount of research has been performed to discover and measure what characteristics to what extend are conducive to small business success.

Keats and Bracker (1988) developed small business performance model (Fig. 17) based on six factors arranged in tree groups: General Environment, Task Environment and Personal Characteristics. The first group, General Environment, comprehends "Behavioral Strategic Sophistication" identified as employment of strategic management practices and "Cognitive Strategic Sophistication" identified as understanding of strategic management practices. Second group, Task Environment, includes "Task Environment Factors" identified as firm's relationship to customers, competitors, suppliers and regulatory agencies. The third group, Personal

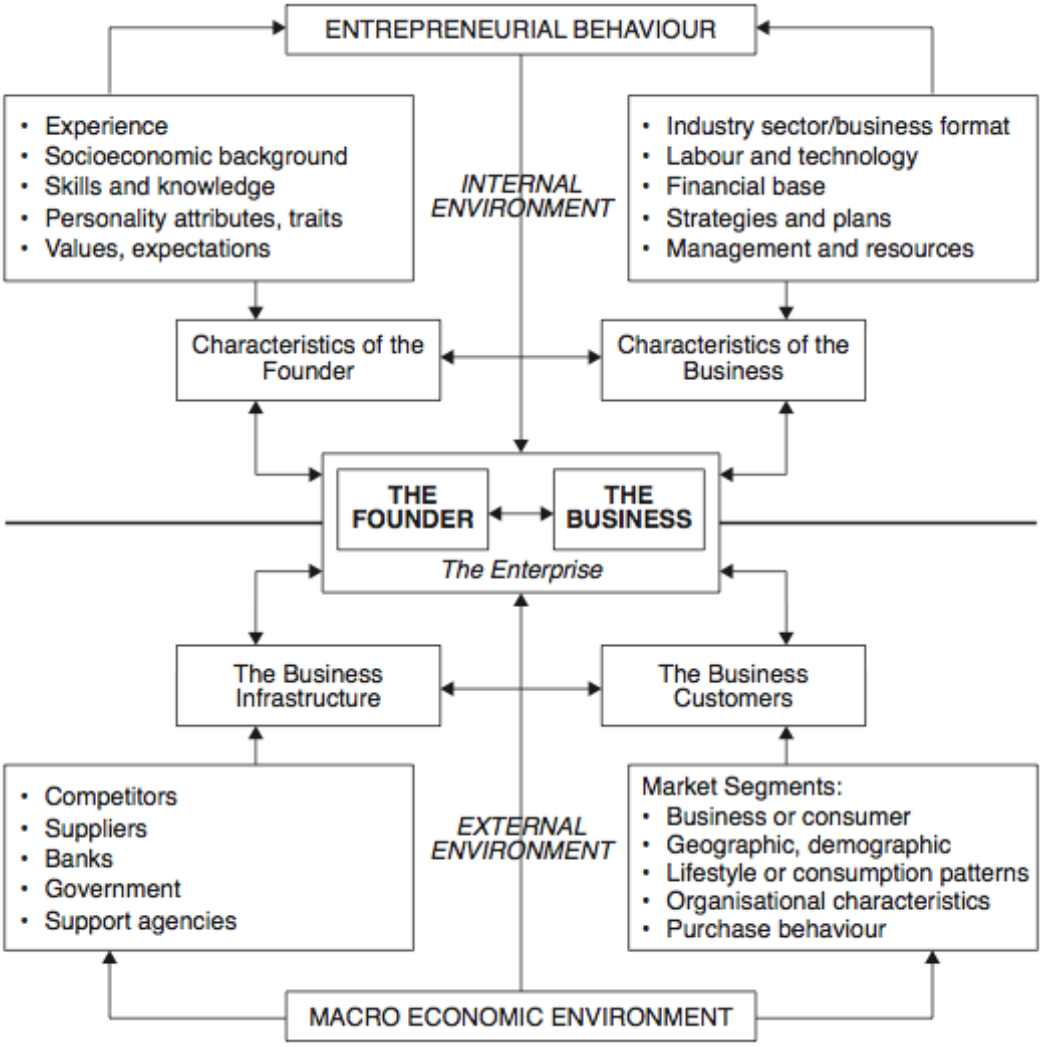
Characteristics is comprised of “Entrepreneurial Intensity” behaviors that distinguish entrepreneurs from others and “Task Motivation” composed of locus of control, need for achievement, avoiding risks, feedback of results, personal innovation and planning for the future.

Chawla et al. (1997) identified eleven critical success factors based on three categories. The first category “Task Environment” was comprised of seven factors: supplier/vendor relations, human resources, industry trend, location issues, competitor analysis and purchasing inventory control. The second category “General Environment” was related to economic environment. And the third category identified as “Personal Characteristics” presented owner experience and goal orientation. Later Chawla at al. (2010) researched CSF in different countries finding that CSFs may be different given the variation in country cultural, political and economic situation.

Gadenne (1998) compares small business success factors in different industries as retail, service and manufacturing. In his work he analyze list of owners’ characteristic in each of the industries as: leadership, risk-taking, independence, self-confidence, ambition and persistence. Owners’ characteristics and objectives Gadenne (1998) is relating to financial measurement of success and management practices.

Watson et al. (1998) undertakes empirical research of large number of personal, business and environmental characteristics of businesses and relates them to the outcome as failure, survival or growth. Watson at al. (1998) states that “*successful entrepreneurship is undoubtedly a complex phenomenon and both internal and external factors impact on business performance*”. In the research framework (Fig. 15) they developed two environments: internal and external composed of list of factors and characteristics of the founder and the business.

Fig. 5.1. Analytical framework of business characteristics



Source: (Watson et al., 1998)

Simpson at al. (2004) identified four categories of small business owners' and defined their personal characteristics. The four categories are: the Empire Builder, the Happiness Seeker, the Vision Developer and the Challenge Achiever (Fig. 16). In their work Simpson at al. (2004) define two predominant factors of business success: (1) organization unique cultures made of owners' values but supported by employees; and (2) internal communication approach inclusive decision-making.

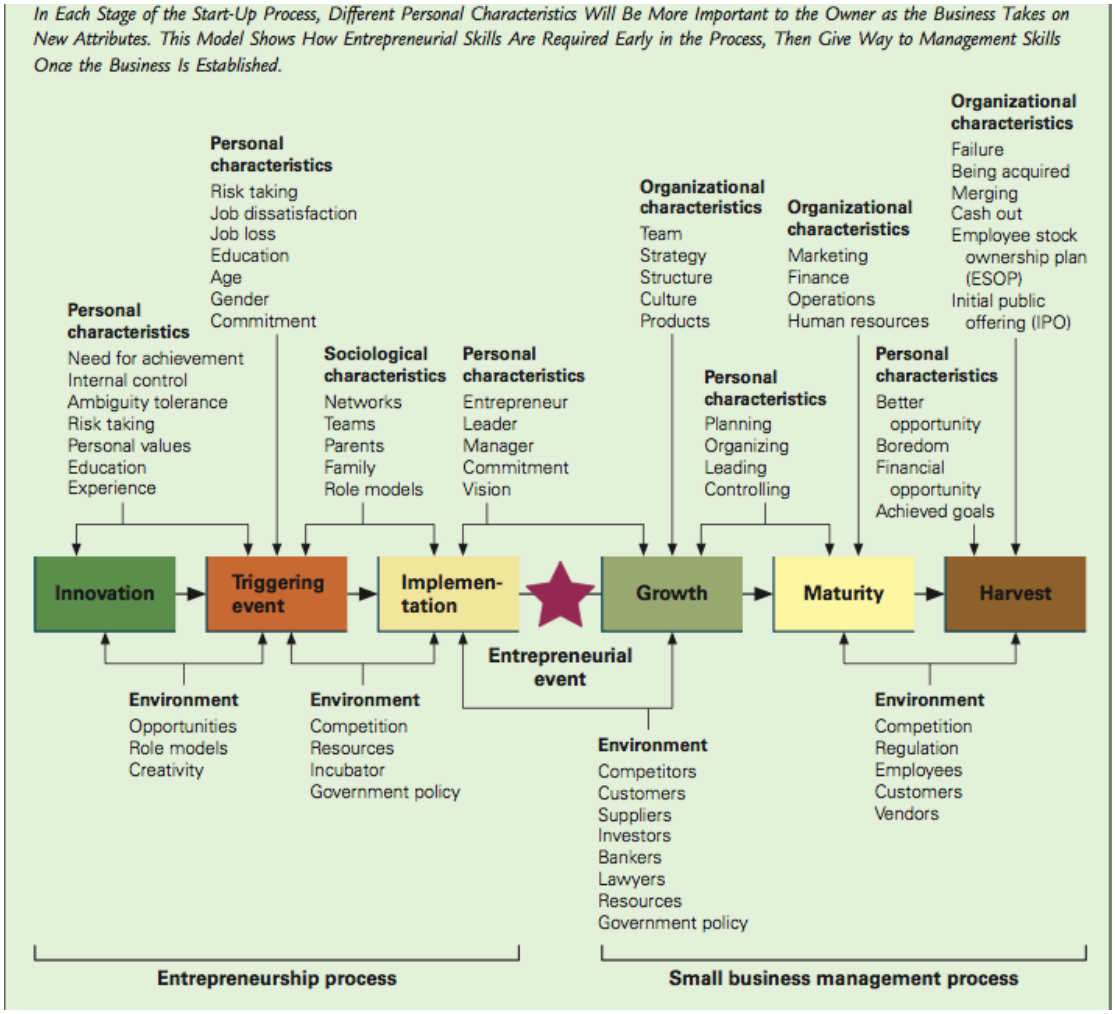
Fig.5.2. Categories of business owners

	Category			
Elements of theory	**Empire Builder**	**Happiness Seeker**	**Vision Developer**	**Challenge Achiever**
Properties of the category	Success is a combination of growth, profitability and teamwork	Success is to be happy at work	Success is the collective sense of achievement and recognition and respect from the marketplace Success is a continuum	Success is a personal sense of achievement and recognition Sit back and enjoy the achievements
Personal characteristics of the owner-manager	Commitment and loyalty to their staff and customers	Emphasises enjoying work, not taking too much out of the business and being honest with everyone	Vision, commitment and enthusiasm	Instinct and vision
Hypotheses	Teamwork and motivation will achieve results. Especially if they believe they are the best company in their market. And: Employees are highly valued	Doing your best is more important than a high salary or high profits And: Growth is not an objective. Ensure staff and customers enjoy their experiences	Shared values, vision, creativity and building on strengths will achieve success And: Seek new objectives and challenges Making a difference and adding value	Everyone, including customers, are responsible for the success But: Constant challenges are needed Hard person to work for
Effect of education, training, prior knowledge and experience	Some conflicting evidence that past experience, training and development may be equally important for success	Prior knowledge and experience was more important than training to achieve success	Experience in the business and the market was more important than training, education or prior knowledge for success	Conflicting evidence that training may be a big factor contributing to success in one company but not another

Source: (Simpson et al., 2004)

Hatten (2011) describes the entrepreneurship and small business management process in six distinct stages. The first three stages: *innovation, triggering event, implementation* are part of the entrepreneurship process and second three: *growth, maturity and harvest* are part of the management process. Hatten (2011) explains that every stage of the model of start-up business its unique by its environment and personal characteristics of the entrepreneur most significant in running a business (Fig. 18). Most prevalent personal characteristics in Hatten (2011) model are: Need for achievement, Locus of control, Risk taking, Education, Experience and Commitment associated with Sociological characteristics as: Networks, Teams, Parents, Family and Role models. The environment described in Hatten (2011) model is composed of: Competitors, Customers, Suppliers, Investors, Resources and Policy.

Fig 5.3. Personal Characteristics and Environment of Small Business Model



Source: (Hatten, 2011, p. 29)

In the process of identification of factors contributing to business success Rogoff at al. (2004) made a list of internal and external factors on the bases of relation of the factors to the entrepreneur. Internal factors were ones that are directly relate to the entrepreneur and the factors that were referring to outside conditions were identified as external. Main internal factors identified in Rogoff at al. (2004) work were individual characteristics (e.g. experience, knowledge, dedication) and marketing activities (e.g. advertising, good customer service, effective communication). From the external factors most dominant were financial and economic conditions. From the success contributing factors 92.1% were internal factors.

Examining business success factors perceived by small rural entrepreneurs Kader at al. (2009) reveals that most important external factors are government assistance in training and extension service, the external environment, market support by the government, market accessibility and networking. Internal factors included entrepreneurial quality (as most important), pricing, delivery and services and human resource.

In the last 20 years there is a large amount of research conducted in the field of success factors in small businesses. For the purpose of this study author analyze the research preformed in the field of success factors in small business using Scopus, largest abstract and citation database. The analysis was based on articles and conference papers with subject area of Life Sciences and Social Sciences & Humanities. The period of publishing was set at 20 years consequently the research analyzed articles released from 1994. The analysis was limited to use of several keywords in the field of Article title, abstract or keyword i.e. enterprise, success factors and tourism. With no limit on the publishing academic journal or industry, the analysis results shows 817 articles and conference papers published. Five most referenced academic journals were: *International Journal of Business Information Systems, Business Process Management Journal and Industry Management and Data Systems* (with 16 articles each), *Lecture Notes in Business Information Processing* (with 15 articles) and *International Journal of Enterprise Information Systems* (with 12 Articles). Compared by document type: 71.8% were articles, and 28.2% were conference papers. Dominant subject area has been Business Management with 64.6% or 528 documents; followed by Decision Sciences (29.1%) and Computer

Sciences (27.2%). The analysis of the published articles limited to tourism sector and success factors reveals 84 published articles. Although the data shows representation of over 40 academic journals most referenced are: *Tourism Management* (with 8 articles and SJR index 1.961 in 2013), *Journal of Travel Research* (with 4 articles and CJR index 1.958 for 2013), I*nternational Journal of Tourism Research, Journal of Travel and Tourism Marketing* (with 3 Articles each and SJR indexes 1.093 and 0.66 for 2013, respectably). By document type 91.7% were articles with Business management & Accounting and Social Sciences most represented subject area. Data of documents limited to "rural" reveals presence of only nine published articles.

The 84 published articles in tourism sector in extend to success factors were limited to Academic Journals with Q1 ranking in 2013 based on SJR (Scientific Journal Ranking) according to SCImago Journal and Country Rank. The result show 23 document published in 9 academic journals. Although a small number of articles (23) are fined there is great diversity in the type and aim of research. Von der Weppen & Cochrane (2012) researched success factors of social entrepreneurs in tourism sector. They find out that touristic social enterprises operate similarly to those in other sectors and that "the most likely success factors are strong leadership, clear market orientation and 103 rganizational culture, which balances financial with social/environmental aims". Getz & Brown (2006) made comparison of previous studies of critical success factors and the one's in wine tourism. Augustyn & Knowels (2000) worked on identification of critical success factors for partnership between public and private sectors at tourism destinations. Panyik at al. (2011) describes key success factors of the event-based approach to Integrated Rural Tourism (IRT) as conceptualized in Saxena at al. (2007) work. Eligh at al. (2002) suggests that leadership, external funding, support from appropriate external agencies and the existence of consumer demand are key success factors in sustainable tourism destination management. There are studies that measuring success factors and destination competitiveness (Dwyer & Kim, 2003; Mazanec, Wober, & Zins, 2007), culture and culinary tourism (Horng & Tsai, 2012; S. Wang, Yamada, & Brothers, 2011), internet and small hospitality enterprices (Hudson & Gilbert, 2006; Y. H. Kim & Kim, 2010; Mutch, 1995; Y. Wang, 2006).

Although there is a vast research of small business success factors the comparative research between different sectors and in depth research of success factors in tourism sector is still insufficient. Considering narrower branch of tourism

such as rural tourism the scarcity is even larger. Among studies based on success factors and rural tourism (A. Anderson & Law, 2012; Baum, 2011; Gramm & Tappeiner, 2009; Hammer & Siegrist, 2008; Kajanus, Kangas, & Kurttila, 2004; Kontogeorgopoulos, Churyen, & Duangsaeng, 2014; Lundberg & Fredman, 2012; Panyik et al., 2011) most relevant to rural tourism was Lundberg and Fredman (2012) research with focus on success factors and constraints among nature-based tourism entrepreneurs. They divided the success factors in two broad groups:

(1) *internal environment* that can be divided in two groups: (1) that deals with entrepreneur characteristics as: experience, socioeconomic background, skills and knowledge, personality attributes and traits, values and expectations, recruitment, training, commitment of employees and effective communication; and (2) that deals with business characteristics such as industry sector/business format, labor and technology, financial base, strategies and plans, management and resources;

(2) *external environment* that can be divided into (1) business infrastructure: competitors, suppliers, banks, government, support agencies and networking. Another group deals with; (2) customers and business segments related to geographic and demographic, and (3) life, or consumption patterns and purchase behavior.

6. DATA ANALYSIS

The research methodologically was divided in two stages. The first stage subsequently to the extended literature review of related theory involved qualitative research applying life story interviews with rural tourism entrepreneurs. The purpose of the first stage of the research was to explore and support theory findings, develop list of crucial factors that influence entrepreneurial success in rural tourism and support the development of construct measures for the second stage of the research. The second stage of the research involved quantitative research of previously defined crucial success factors. In the second stage empirically are analyzed the relations between five abstract constructs: social capital, human capital, personality, business environment and success. In the qualitative research indicators measured constructs. Indicators are variables results collected by questionnaire with rural tourism entrepreneurs.

6.1. First stage data analysis qualitative research – life story interviews

As indicated by Atkinson (1998) storytelling is a fundamental form of human interaction and communication. It is in the human nature to think and express trough stories. Storytelling is a form of giving narrative account of an event and most traditional form of learning in many human cultures for centuries. The life story as narrative form has evolved from life history. It is qualitative research method for gendering information on person's life core accomplishments. It starts as recorded life story that is later transcribed and ends as finished product that is entirely a first person narrative.

The researcher has several roles in the life story interview. In the first part after deciding who is going to be interviewed depending primarily on the research goal, which was in this research to define factors that influence entrepreneurial success in rural tourism, the role of the researcher is to explain the purpose of the research to the storyteller. Therefor all five entrepreneurs that were identified for life story interviews were well aware of the purpose and the goal of the research and interviews. Introducing the participants to the purpose of the study contribute to narrowing the scope of the life story to the events related to the purpose of the research. This process of narrowing the life story it is the second important role of the researcher in the

process of interviewing. In this regard the role of the researcher is to lead the interview and by making open-ended questions on topics concerning the research. This process should not make changes to the story that is being told on contrary it should just focus the storyteller on the topic and go deeper into the story when it is needed. Therefore the life story interview consists of an open-ended process where the researcher is never really in control of the story that is being told.

There are several risks in the life story interviews technique. Most important one is that the story told is subjective story or so-called personal truth of the storyteller. It is made of "facts and fictions" which can lead to wrong or subjective conclusions. The best solution of this risk of life story interview recommended by Atkinson (1998) was to run internal consistency of the story while interviewing. This entails that what is told in one part of the story should not be contradictory to other parts of the story.

The life story interviews as first stage of the data collection and analysis process were conducted with entrepreneurs from Macedonian rural tourism sector engaged in rural tourism accommodation business. The entrepreneurs were chosen according to the location and the level of commitment to the business sector. Concerning the location the purpose was to have as much as possible stories from different geographical and statistical regions of the country. Therefore the entrepreneurs that were interviewed had running rural tourism accommodation businesses in five (out of eight) statistical regions NUTS3 level. The regions and municipalities represented in the life story interviews were: South-West region (Municipality of Vevčani); Pelagonia region (Municipality of Kruševo); South-East region (Municipality of Gevgelia); East region (Municipality of Berovo) and Polog region (Municipality of Mavrovo-Rostuše). (see Map 1 – Life story interview municipalities location). Additionally the municipalities that were chosen were municipalities with well-established rural tourism sector and stated in the NSRT 2012-2017 as proposed rural tourism destinations.

The entrepreneurs that were interviewed were chosen according to their commitment to the businesses. All five businesses were state of the art rural tourism businesses satisfying all requirement stated by different scholars on the topic (Clark & Chabrel, 2007; D. R. Hall & Kirkpatrick, 2005; Keane, 1992; Lane, 1994; OECD, 1994; Page & Getz, 1997). Therefore they were as "representatives" of entrepreneurs involved in rural tourism accommodation sector. The actual size of the running business, gender, registration form or other important structural variables were not taken into account in

this stage however they were accounted for and analyzed in the second stage – quantitate research.

Fig 6.1. Republic of Macedonia NUTS3 regions and Life-story Interviews locations

All five life story interviews were recorded and later transcribed. The final result of the life story interviews the first person narratives were used for the analysis. The analysis of the interviews involved coding of statements, acts or facts with a same meaning related to factors that influenced the entrepreneurs in their life reaching the goal of successful entrepreneur. The coding process revealed 24 factors concerning success of the entrepreneur and the enterprise whereas some of them were more complex abstract factors intertwined and interdependent. (Table 1). Measuring the appearance of the factors in the different life stories indicated by percentage of appearance was used as indicator for involving the factors in the qualitative research. All factors that had over 50% of appearance in the life story interviews and were confirmed using the relevant theory were measured empirical in the second stage of the research.

Table 6.1. Life-Story influential success factors coding

	Int. 1	Int. 2	Int. 3	Int. 4	Int. 5	%
Interaction with the nature	x	x		x	x	80%
Strong concern for the local community		x	x	x	x	80%
Commitment to stay	x	x	x	x	x	100%
Need for networking		x	x		x	60%
Marketing of the territory	x	x	x	x	x	100%
Economic migration in the family	x		x			40%
Strong connection to the place	x	x	x	x	x	100%
High education	x	x	x	x	x	100%
Diverse business life experience	x	x		x		60%
Work experience from foreign countries	x		x			40%
Need for achieving goals	x	x	x	x	x	100%
Financial institutions influence		x		x	x	60%
Need for local governments involvement	x	x	x	x		80%
Necessity of subsidies for tourism	x	x	x		x	80%
Risk mediation ability	x		x	x	x	80%
Family support and involvement in the business	x	x	x	x	x	100%
Build social and economic local Infrastructure	x	x	x	x	x	100%
Family history in entrepreneurship	x	x				40%
Mixture of innovation and tradition	x	x	x	x	x	100%
Sensitivity to the tradition and customs	x	x	x	x	x	100%
Tourism skills	x	x	x			60%
Strategies and plans		x		x		40%
Consumer purchase behavior awareness		x				20%
Self efficacy	x			x	x	60%

6.2. Second stage data analysis quantitative research

The second stage of the research included conducting telephone questionnaire with entrepreneurs involved in rural tourism accommodation sector. The questionnaire was composed of 37 questions including the demographic data. First part of the questionnaire evaluating the success crucial influential factor was composed of 23 question: 19 question on 5-points Likert scale ("Strongly disagree", "Disagree", "Neither agree nor disagree", "Agree" and "Strongly agree") and 4 questions on 10 point scale. Second part of the questionnaire measured the grouping variables as: form of registration, size of business, gender, education, geographic position, utilized capacity, employment and included other demographic characteristics.

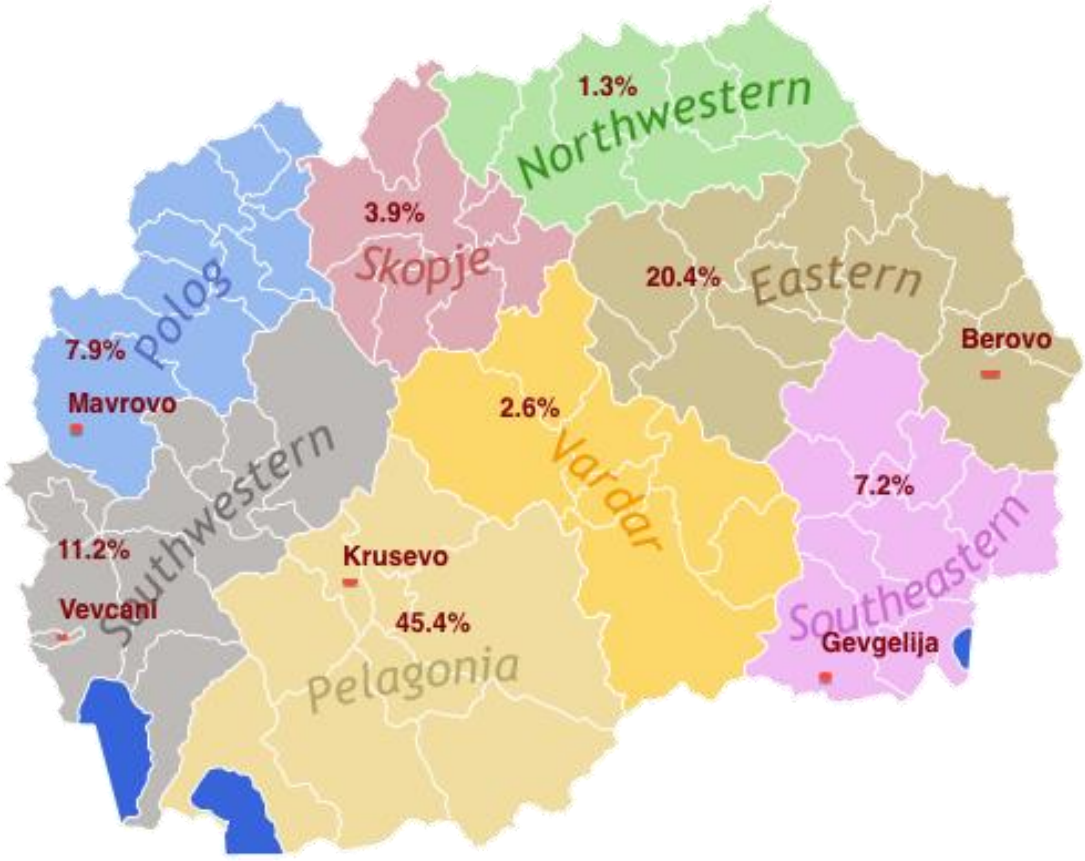
Since there is no specific register of providers of rural tourism accommodation at national level in Republic of Macedonia, the list of enterprises/participants was composed of entities registered for rural tourism in the national chamber of commerce registers, municipality registers, local web pages information's, local tour operators and National Farmers Federation. The final list included 268 enterprises and natural persons involved in rural tourism accommodation sector. All listed possible participants were contacted revealing that 23 listed participants were out of work and 152 agreed to participate in research and answered the questionnaire. The respondent rate was 62%, which was good respondent rate for social sciences telephone survey (Baruch & Holtom, 2008; Dillman, 1978; Dillman et al., 2009). The information from the questionnaire was analyzed using IBM SPSS and SmartPLS.

6.2.1. Descriptive statistics

Out of the entire estimated population that included 268 entrepreneurs 153 participated in the research, making the sample size 62% of the entire population. Large sample size compared to the population contributed to the reliability and validity of the research. The sample covered the entire geographical territory of Republic of Macedonia although the sample was not equally distributed among the NUTS3 statistical regions due to uneven distribution of the industry. Most represented

region was Pelagonia region with 45.4% participants and opposite was Northwestern region with 1.3% participants.

Fig. 6.2. Percentage of participants in the sample according to NUTS3 level



According to the registration form 60.5% participants were natural persons 1.3% were sole proprietors, 38.2% were registered as enterprises (with one or more founders). Almost half of the participants 44.7% had finished University education and additional 7.9% had 2 years University education. Only 3.3% of the participants had primary school and 44.1% had finished high school.

Table 6.2. TAA and PBB distribution

	Place of business is place of birth		Tourism as additional activity	
	Frequency	Percent	Frequency	Percent
Yes	90	59.2%	99	65.1%
No	62	40.8%	53	34.9%
Total	152	100%	152	100%

Table 6.3. Gender distribution and Age categories

Age Categories			Participant gender		
	Frequency	Percent		Frequency	Percent
Under 25	5	3.3%	Male	86	56.6%
26-35	21	13.8%	Female	66	43.4%
36-45	41	27%	Total	152	100%
46-55	55	36.2%			
Over 56	30	19.7%			
Total	152	100%			

Table 6.4. Number of beds group distribution

Number of beds		
	Frequency	Percent
1-10 beds	75	49.3%
11-20 beds	49	32.2%
21 or more beds	28	18.4%
Total	152	100%

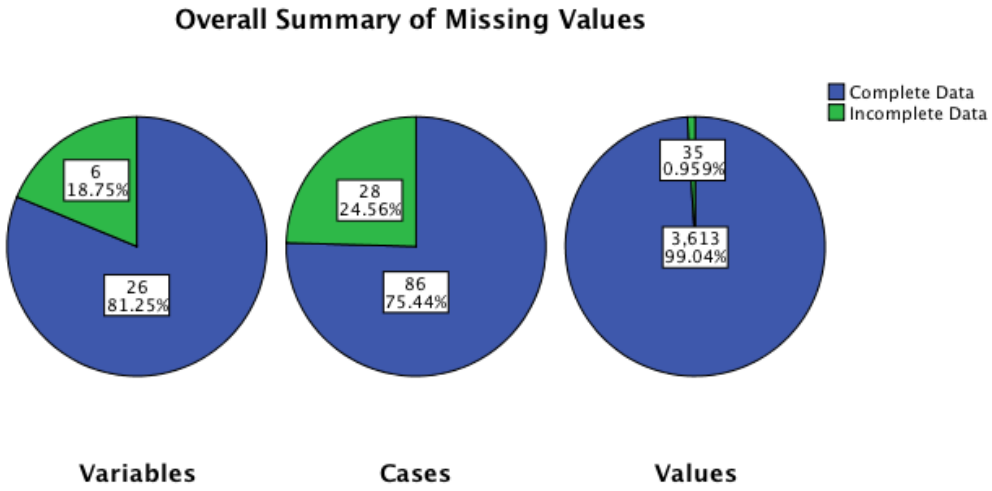
Table 6.5. Number of rooms group distribution

Number of rooms		
	Frequency	Percent
1-5 rooms	99	65.1%
6-10 rooms	38	25%
11-15 rooms	9	5.9%
15 and more rooms	6	3.9%
Total	152	100%

Missing data

Missing data was tested for patterns of missing values. The test did not reveal any patterns of missing values and there were no cases with more than 10% missing values. As a rule of thumb, median value replacement was used for indicators with less than 5% missing values. Years in business indicator and Number of gests last year had 5.3% and 14%, missing value respectably and due to the large amount of missing data more complex procedure was conducted. For computing of the missing data of these variable expectation maximization algorithm was used with 10 imputations on the bases of construct indicators. The values that were inserted presented the average of the ten imputations.

Fig. 6.3. Missing values summary



The data was analyzed for any suspicions response patterns that are described as straight lining. Straight lining is when a respondent marks the same response for a high proportion of the questions. This analysis of standard deviation was performed on all 5-point Likert scale indicators (variables) for each case. The test for suspicious responses patterns reveals that there was just one case with standard deviation less than 0,5. The case was less involved in the survey but it had standard deviation of 0,36, which was evaluated as sufficient involvement and the case was left in the data.

6.2.2. Partial Least Squares – Structural Equation Modeling

Given the multivariate nature of the proposed model and the need of exploratory analysis in both the measurement model of the constructs and the relationship between them a second-generation statistical method, Structural Equation Modeling (SEM), was used for the analysis of the data. Structural Equation Modeling (SEM) involves multivariate analysis, a statistical method that simultaneously analyzes multiple variables. SEM is a technique for analysis of unobserved variables measured indirectly by indicators (independent variables). It is multivariate technique that combines aspects of factor analysis and regression allowing simultaneously examination of relationship among measured variables and latent variables as well as between latent variables in the model. SEM as a second-generation statistical method widely used in the past 20 years by social science researchers for confirmatory as well

as exploratory research. SEM advantage over first generation methods is in the possibility of measurement of the unobserved variables.

SEM as a multivariate analysis uses the **variance,** linear combination of several variables, as fundamental building block. It is particularly useful technic in measuring abstract, complex and not directly observable phenomenon. This kind of phenomenon that is measured by SEM refers to latent (unobservable) variable or **construct**. Constructs in SEM are large abstract concepts that are measured indirectly by indicators or manifestations each representing a single separate aspect of the concept. In other words constructs in SEM are measured indirectly by combining several items. Combining several item for measurement of the construct makes the measure more accurate taking into account different aspects of the concept which reduces measurement error.

There are two types of Structural Equation Modeling (SEM). Covariance-Based SEM (CB-SEM) is primarily used for confirmatory theory analysis based on systematic relationships between multiple variables that can be tested empirically. CB-SEM determines how well the proposed theoretical model can estimate the covariance matrix for a sample data set. The second type of SEM is Partial Least Squares SEM (PLS-SEM) a method that is focusing on explaining the variance in the dependent variables and by that primarily used for development of theories in exploratory research. This type of SEM is more useful in situations where theory is less developed. The variance based PLS-SEM algorithm was developed by Herman Wold (1975; 1982; 1985) and later extended by Lohmoler (1989) Its statistical properties are determent by OLS regression based estimation.

For the analysis of the data in this study PLS-SEM was used applying SmartPLS 3.1.6. SmartPLS 3 was chosen as much more advanced and sophisticated PLS-SEM software than others on the market at the moment.

PLS-SEM (also called **PLS path model**) involves creating path models that are diagrams used to visually display the hypotheses and variable relationships. Constructs (latent exogenous and endogenous variables) in the path model are represented as circles and indicators (items or manifest variables) are represented as rectangles. The PLS path model consists of two elements. The first element is the **measurement model** of the constructs or the **outer model** that represent the relationship between the constructs and the indicators. The second element is the **structural model** or **inner model** that represent the relationship between the

constructs. In the PLS path model constructs can be either exogenous latent variables (constructs that explain other constructs in the model) or endogenous latent variables (constructs that are being explained in the model). Although PLS-SEM is primary exploratory technic the path model in PLS-SEM is still developed based on measurement and structural theory referring to the measurement of the constructs and relationship between the constructs respectably. In respect to the measurement theory the grate advantage of PLS-SEM over CB-SEM is that PLS-SEM allows easy use of both measurement ways, reflective and formative, where indicators can be either effects (reflective measurement) or causes (formative measurement) of the constructs.
The estimation procedure for PLS-SEM is an ordinary least squares (OLS) regression based method. PLS-SEM estimates path relationship in the model with the objective to minimize the residual variance of the endogenous constructs and maximizing R^2 values. Therefor it is favored method for prediction of constructs and theory development (Hair Jr et al., 2013).
PLS-SEM generally achieves high levels of statistical power (renders specific relationship significant when it is in fact significant in the population) with small sample size although there are minimum requirements in sample size considering different level of statistical power (Cohen 1992). PLS-SEM makes no distributional assumptions and uses data that have normal and non-normal distributional properties. This condition however should be taken into account with attention because outliers and collinearity influence OLS regressions in PLS-SEM. The PLS-SEM measurement model generally requires metric data but also works well with ordinal scales (Likert scale) and binary coded data (dummy variables) as ones used in this research.

6.2.2.1. Structural model

The structural (inner) model of the research hypothesis illustrates the relationship between the constructs that will be examined in this research. The sequence of the constructs in the structural model is based on the theory previously examined and developed through literature review, logic, experiences and partially concluded by the use of qualitative research (first step of the research applied life story interviews with rural tourism entrepreneurs). Fig 1 illustrates the basic diagram of the hypothesized constructs that influence entrepreneurial success in rural tourism. Going from the left to the right side of the diagram there are two predictors or exogenous latent variables

(constructs) referring to the Human Capital and Social Capital and three endogenous latent variables (constructs) Personality, Business Environment and Success as dependent variable (construct).

Based on the review of the literatures on tourism, rural development, rural tourism, entrepreneurship, social and human psychology this research examines the theoretical relationship among human capital, social capital, personality and business environment and their effect on entrepreneurial success in rural tourism. The key relationships in the structural model are expressed in the following **null hypotheses**:

H1. Human Capital of the rural tourism entrepreneur is positively related to his/her entrepreneurial success.

H2. Personality of the rural tourism entrepreneur is positively related to his/her entrepreneurial success.

H3. Social Capital of the rural tourism entrepreneur is positively related to his/her entrepreneurial success.

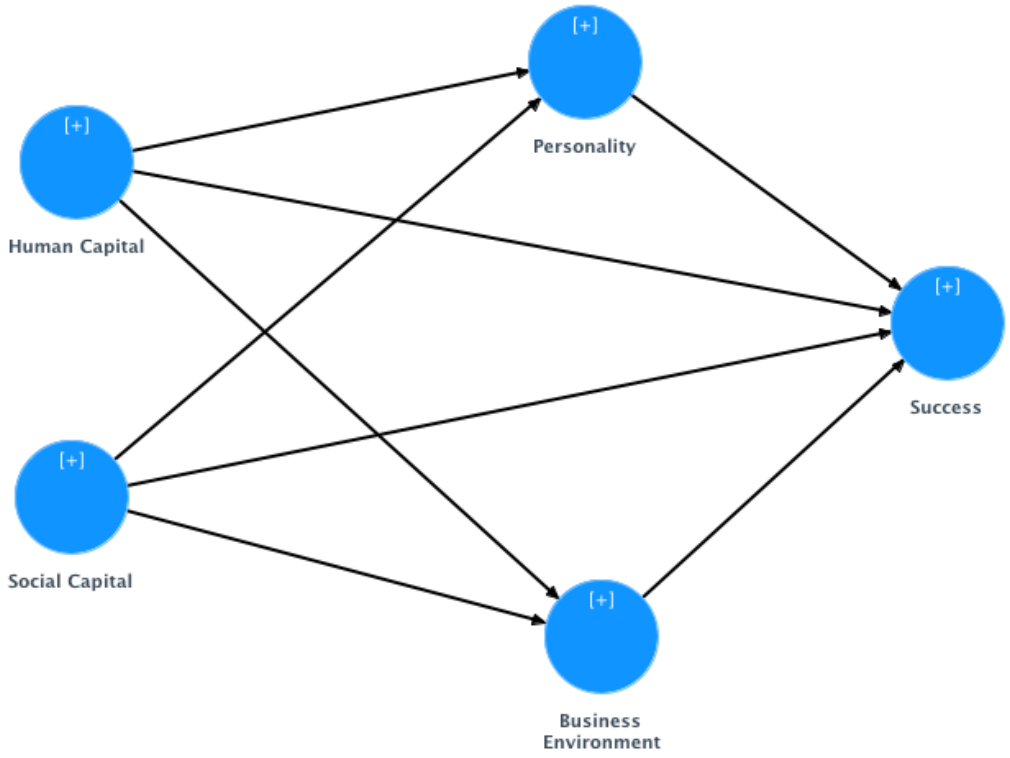
H4. External financial environment is positively related to his/her entrepreneurial success.

H5. Personality of the rural tourism entrepreneur mediates the positive effect of Human Capital and Social Capital on entrepreneurial success

H6. Financial environment mediates the positive effect of Human Capital and Social Capital on entrepreneurial success

H7. Human Capital moderates the positive effect of Social Capital on entrepreneurial success

Fig. 6.4. Hypothesis Structural Model



Furthermore the structural model will be tested for mediation and categorical moderation or multigroup analysis, splitting the data into subsamples based on age, gender, education, registration form, place of business and tourism activity preference. The objective will be to reveal any statistically significant differences between individual group models.

6.2.2.2. Constructs development and measures

The structural model involves five constructs out of which two are exogenous latent constructs referring to Human Capital and Social Capital and three are endogenous latent constructs: Business Environment, Personality and Business Success.

Human Capital

The concept of human capital was primarily established in the work of economist as Adam Smith, JS Mill and Alfred Marshal. They recognized the social capital, although not referring to the exact phrase, as one of the four factors of production: land, labor, capital and enterprise. However, human capital as a factor in the economic research came to importance in the 1960s with the work of Schultz (1961) and Becker (1964). Theodore Schultz (1961) in his work expressed that *individuals intentionally invest in themselves to improve their own, personal economic returns and that modern economy can't grow without an educated workforce*. Human capital theory is based on the principle that the more workers invest in education and training the higher their earnings will be. Gary Becker (1962) separates the human capital in two categories: general human capital (basic literacy and numeracy) and specific human capital relevant to company or specific sector. Becker pointed that human capital is the knowledge and skills acquired through formal and informal learning closely related to generational transmission of previous family knowledge (Keeley, 2007). Sociologists on the other hand referring to human capital tend to focus on socialization influences on educational achievements. Consequently, there has been growing interest in examining learning in a wider context including formal education, employee training as well as the role of family and community groups (Eraut and Hirsh, 2007). This more social view of human capital led to links with work on social capital (Swedberg and Granovetter, 2001).

Many researchers have argued that the entrepreneurship is dependent on the entrepreneurs abilities created through their education and experience (O. Jones, Macpherson, & Thorpe, 2010; Mincer, 1958; Mosey & Wright, 2007; Rae & Carswell, 2001; Schultz, 1971; Shrader & Siegel, 2007; Thorpe, Jones, Macpherson,

& Holt, 2007). These abilities often are related to early experiences in life (Fairlie & Robb, 2007) and interconnected with family involvement in entrepreneurship (Athayde, 2009). Therefore the focus of the research was on measuring human capital effect on entrepreneurship by measuring the effect of education and experience as the principal form human capital (Olson & Bokor, 1995; Shrader & Siegel, 2007; van Praag, 2006; Wiklund et al., 2003).

Human capital has strong connection to social capital referring to capabilities of entrepreneurs to interact with others, share ideas and provide access to valuable resources.. Jones et al. (2010) argues that entrepreneurial knowledge and experience is crucial in developing absorptive capacity, social capital and firm performance.

People on bases of family transferred knowledge have initial human capital which is supplemented with obtaining additional human capital by investing in education and experience. As Fairlie & Robb (2007) indicated in their study on the relationship between human capital and entrepreneurship, having a family business background strongly affects small business outcomes. Further, Van Der Sluis, Van Praag and Vijverberg (2007) analysing the relationship between education and entrepreneurship has concluded that even though education doesn't plays significant role in the decision whether people become entrepreneurs the relationship between education and entrepreneurial outcomes is explicitly positive and significant. This is evident in the result of his study showing that the returns to education for entrepreneurs are a significant 37 percent higher than the comparable returns for employees. Ucbasaran, Westhead and Wright (2008) researched specific in contrast to general work experience, schooling and skills. Their findings on general human capital (i.e., education and work experience) and specific human capital (i.e., business ownership experience, managerial capabilities, entrepreneurial capabilities and technical capabilities) suggested that both forms of human capital have large effect on opportunity identification and pursuit.

This study investigates the effect of general human capital expressed through education, life experience and specific work experience on entrepreneurial success. It tends to capture broader concept of human capital and describe its effect on business success in narrow development industry, as it is rural tourism. The abstract construct of human capital in this research was measured as formative measurement construct composed of three causes (indicators): previous life experience, previous specific tourism work experience and education.

Social Capital

Social Capital is relatively new term used for the first time in the literature in the work of Hanifan (1916) referring to people noticeable assets as: goodwill, fellowship, sympathy and social interaction among individuals and families. A century latter there is no single definition that meets all criteria of social capital (Castiglione, Deth, & Wolleb, 2008; Keeley, 2007) however it can be described as simple as Keeley (2007) described the concept "Human capital is links, shared values and understanding in society that enable individuals and groups to trust each other and so work together". This definition was mainly consequent of the essential work on concept of social capital by Putnam (1995, 2000) and Coleman (1994; 1988). As a result of deference between the individual and collective aspects of the term social capital, Castiglione at al. (2008) furthermore describes two forms of social capital. On the basis of resources Castiglione at al. (2008) describes *relational capital* as "valued number of resources an actor can employ and use through direct or indirect personal relations with other actors who control those resources" and *system capital* as "functioning social control, system trust, and a comprehensive system morality, between individuals or within a group, organization, community, region, or society". The latter describes collective attitude toward the social system as a whole distinguishing it from the individual relations.

Coleman (1994) in his large influence on the development of social capital theory defined social capital as:

> *The set of resources that inhere in family relations and in community social organization and that are useful for the cognitive or social development of a child or young person. These resources differ for different persons and can constitute an important advantage for children and adolescents in the development of their human capital*.
>
> (Coleman 1994: 300)

In the Coleman's work there is strong relationship and causality between social and human capital. The two concepts are linked in complex ways and in some extend they promote each other. Education and experience are contributing on large extend to the

formation of social capital and vice versa. However this relationship can be either positive or negative. Although "communities with high levels of social capital tend to achieve better school outcomes than communities which face social fragmentation and isolation" (OECD 2001) social capital in some term can obstruct education in sense of communities who see little value in education (Keeley, 2007).

As an important concept, majority of scholars theoretically and empirically supported the impact of the social capital on entrepreneurship (Blumberg & Pfann, 2001; Bosma, Van Praag, Thurik, & De Wit, 2004; Brüderl & Preisendörfer, 1998; Cope, Jack, & Rose, 2007; Gedajlovic, Honig, Moore, Payne, & Wright, 2013; Greve & Salaff, 2003; Kim and Howard E. Aldrich, 2005; Kwon, Heflin, & Ruef, 2013; Pennings, Lee, & Van Witteloostuijn, 1998; Roxas & Azmat, 2014; Simpson et al., 2004; Westlund & Bolton, 2003). They all emphasized that higher levels of social capital and investment in relational and system capital, are associated with greater returns and performance of ventures. Considering the strong link between human and social capital and their connection to entrepreneurship in form of nascent venturing and firm grow it is meaningful to consider all their aspects in analysis of business success. Moreover it is necessary to empirically support the connection and causality between social and human capital and rural tourism venture success.

As first empirical study on rural tourism success in Republic of Macedonia this study try's to capture wider picture of industry-specific success. The social capital in the study is measured in terms of networking, family support, community bonds and place identity. The relevance of these indicators toward measurement of social capital importance in entrepreneurial success considering the relevant theory seems indisputable. The abstract construct of social capital in this research was measured as formative higher-order component (HOC) measurement construct composed of five indicators divided in two lower-order components (LOC): (1) social capital linked to the **people** measured formative with two indicators: family support and networking and (2) social capital linked to the **place** measured formative with three indicators: nature, place identity and community bound.

Personality

As emphasized in the entrepreneurial theory small ventures are reflects of entrepreneur personality (Getz & Carlsen, 2005). The personality of the venture builder is highlighted as the main core in every research on SME's and characteristic of business success. Hatten (2011) analyzed that most prevalent personal characteristics of entrepreneur are: Need for achievement, Locus of control, Commitment, Self-efficacy and Risk taking. Gadenne (1998) identifies entrepreneur characteristic that contribute to success as: leadership, risk-taking, independence, self-confidence, ambition and persistence. Watson et al. (1998) undertakes empirical research of large number of personal, business and environmental characteristics of businesses and relates them to the outcome as failure, survival or growth. In his work as one of the internal factors he underlined personality attributes. In the recent studies the three most frequently studied entrepreneur's characteristics are motivation, self-efficacy, and risk attitudes (Tyszka, Cieślik, Domurat, & Macko, 2011).

Entrepreneur personality is complex construct (Begley & Boyd, 1987; Brandstätter, 1997, 2011). The physiological theory underline need for achievement, locus of control, risk-taking propensity, tolerance of ambiguity and self-efficacy as leading components of the entrepreneurial personality (Begley & Boyd, 1987). McClelland as founder of 'psychological/sociological approach' to entrepreneurship has indicated in his research that achievement motivation is the main factor influencing entrepreneurial success (McClelland, 1961). His work was progressed by Bandura (1986) who worked on self-efficacy, the work of Rotter (1966) on the locus of control and others psychologists and sociologist (Simpeh, 2011; Thornton, 1999).

This study measures the entrepreneur's personality theory effects on the venture success mainly by exploring the effect of the McClelland's needs theory and Bandura's theory of self-efficacy (social cognitive theory). The David McClelland Needs theory, also known as Three Needs Theory, is a motivational model used in entrepreneurship research that attempts to explain how the need for achievement, need for power, and need for affiliation affect the actions of people. In his work McClelland (1961) discuss that all people poses these three types of motivations. However the personality of the entrepreneur is characterized by higher level of need for achievement and need for power.

Albert Bandura has defined self-efficacy as "one's belief in one's ability to succeed in specific situations". Self-efficacy in Bandura's theory can play a major role in how people approach goals, tasks, and challenges. In his theory Bandura highlights the role of "observational learning" and social experience in the development of personality. According to this theory entrepreneurs with high self-efficacy are more likely to view difficult tasks as something to be mastered rather than something to be avoided (Acharya, Rajan, & Schoar, 2006; Bandura, 1977, 1986).

Two reflective indicators that were incorporated in the measurement of the personality construct measured the concepts of need for achievement and need for power. In addition other three reflective indicators addressed the Bandura's self-efficacy and locus of control measured in the personality construct.

Business environment

Business environment is the sum of all factors that can influence one business. Although it is a sum of external and internal organizational factors most of the term refers to the external environment that is influencing the operations of the business. The external environment is also consisted of different factors as: macroeconomic, microeconomic, political, technological factors etc. Generally speaking business environment is an ambient which improves the growth potential of enterprises. Good business environment ensures easier access for entrepreneurs to funding as a part of good financial environment, creates legislation clear and more effective reducing the administrative cost and burdens on businesses, takes care and support businesses in different stages of their development, supports creation of business networks and entrepreneurial culture. Business environment is large concept enclosing financial environment, government and policies.

In this study business environment is measured by main factors that were recognized in the qualitative research – life story interviews. The principal indicators for measurement of business environment construct were financial as: access to financial instruments (Loans and Credits), investment in local infrastructure, external financial support (subsidies and grants) and marketing of the destination. Additionally the business environment construct incorporated two internal business indicators that are part of most of the businesses and have large influence in the success of one business

referring to Schumpeter's *innovation* as the leading actions of entrepreneurs in creation of the enterprise and catalyst of growth and *business risk* as uncertainty of profit or threat of loses. The construct of business environment in this study is representing the general environment of doing business in rural tourism accommodation sector created by the entrepreneurs that are doing business in the sector.

Entrepreneurial success

The success of rural tourism businesses in the literature is measured by two criteria, financial and non-financial criteria, or more accurately with a mix of both criteria. Conventionally and with more literature attention, business success has been measured by financial performance of the enterprise in terms of profit, turnover or return of investment or on base of employee numbers (Barkham et al., 2012; Jim Curran & Blackburn, 2000; Kelmar, 1991; Parker, 2009). In terms of owners' goals and needs, obtaining or sustaining profitability and increasing the value of the business are most important attributes of success (Getz et al., 2004). This financial measurement of success use the assumptions that all businesses are made with intention of grow and therefore they measure the increase of profit and employees as base indicators of success. Although most scholars use economics measures for business success measurement there is strong evidence that not all businesses are made for profit. Jennings and Beaver (1997) contribution to this statement add that using only financial criteria does not refers to all enterprise owners' goals. They defined success as "*the sustained satisfaction of principal stakeholder aspirations*". This theory of enterprise success was supported by Ateljevic & Doorne (2000) in their study on lifestyle entrepreneurs that are balancing between economic performance and sustainability in sociocultural and environmental terms. Business success in small business sector can be measured by non-financial criteria (Walker & Brown, 2004). Owners' perception of success is the most important concept in defining and measuring enterprise success (Beaver, 2002).

There is strong evidence in the literature about the importance of non-financial measures of business success used by business owners. These measures presented as autonomy in the work and time, job satisfaction, obtaining certain lifestyle,

community recognition are usually more subjective and consequently difficult to quantify compared to the financial measures of success. However, the non-financial measures as stated previously can exist only in mix with financial measure or presumption that there is curtain level of financial security already established within the business or the business is not primary source of income (Walker, 2004).

Metodijeski (2012) in the analysis of rural tourism in the Republic of Macedonia shows the same impression of the business success between rural tourism entrepreneurs based on owners goals and desires for starting the business. Interview respondents (rural tourism entrepreneurs) stated that main goal or reason for engaging in rural tourism was financial reasons 34%, nevertheless also significant are displayed favorable living conditions of a particular place 20%, the desire to develop the place (place identity) 32% and desire to create a family business 14%. This is just further proof that success in a variety of entrepreneurs is difficult to determine as a result of the different expectations among entrepreneurs.

As elaborated, success in business is a term that is difficult to define. In many respects it differs depending on the firm's activities, the economic sector, the environment and ultimately on the perception of success of the firm owner. However, there is also clear distinction between two forms of success: nonfinancial personal perception of success and financial success. This study uses both forms for measuring success construct. The personal perception of success is measured by the self-evaluation of the entrepreneurs. This measurement of success could be biased, overestimated or subjective (Hienerth & Kessler, 2006) and therefore was corrected with the index of utilized capacity. The utilized capacity of the enterprise is taking into account the size of the business activity and the number of tourist in one fiscal year. It represents the amount of the capacity of the enterprise referring to the number of beds of the accommodation facility and the number of tourist in one year. This index estimates the financial success of the enterprise and together with the number of employees and perceived personal success are used to measure the abstract construct of entrepreneurial success.

6.2.2.3. Model fit – measurement models

The purpose of model estimation (model fit) is to empirically measure the relationship between indicators and corresponding constructs supporting the theoretical relationship between them. In other words by evaluation of the measurement model it can be determine how well the theory fits the data and evaluate the reliability and validity of the construct measures.

Assessment of reflective measurement model

The assessment of reflective measurement model in PLS-SEM includes internal consistency reliability, convergent validity and discriminant validity.

(1) For measuring the *internal consistency reliability* were used: (1) the traditional measure for internal consistency – Cronbach's alpha (which is sensitive to the number of items and tends to underestimate the internal consistency reliability) and (2) composite reliability (p_c) which takes into account the outer loadings of the indicators. The calculation of the composite reliability uses the formula:

$$\rho_c = \frac{\left(\sum_i l_i\right)^2}{\left(\sum_i l_i\right)^2 + \sum_i \mathrm{var}(e_i)},$$

l_i = standardized outer loadings

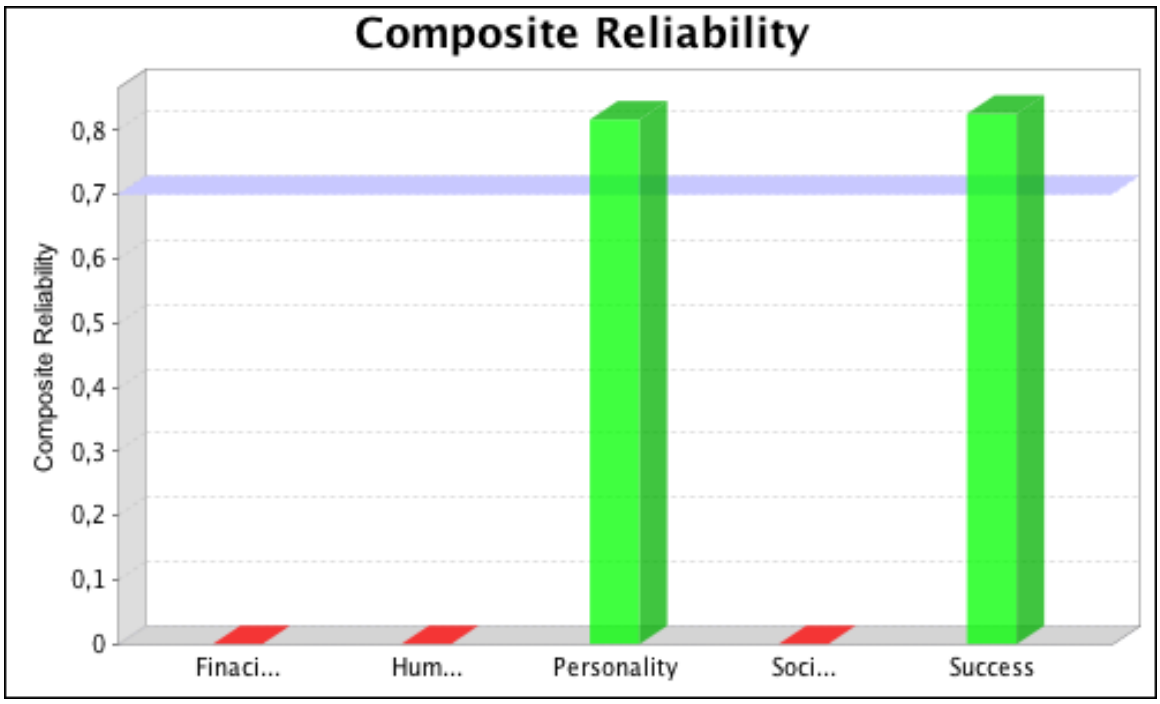
e_i = measurement error of indicators

$var(e_i)$ = variance of the measurement error

Composite reliability values of the reflective constructs (personality and success) were between indicated values of 0,70 and 0,90 (Esposito Vinzi, Chin, Henseler, & Wang, 2010; Hair, Ringle, & Sarstedt, 2011; Hair Jr et al., 2013; Nunnally & Bernstein, 1994) The p_c value for personality was 0.817 and for success was 0.826. Therefore, composite reliability values validate the internal consistency reliability of

the reflective constructs. Additionally the internal consistency reliability was tested using **Cronbach's alpha**. Cronbach's alpha value for personality construct reached the threshold of 0,70 (0,7 to 0,9 good scores). However success construct Cronbach's alpha score was 0,626. Due to the population limitations Cronbach's alpha scores between 0,6 and 0,7 are taken as acceptable scores (Bland & Altman, 1997; Cortina, 1993; Cronbach, 1951; Gliem & Gliem, 2003). Consequently the internal consistency reliability for all constructs considering both measures was meet.

Fig 6.5. Composite reliability



(2) *Convergent validity* is the extent of indicators positive correlation on the construct. Convergent validity was examined considering the *outer loadings* of the indicators (indicator reliability) and the *average variance extracted* (AVE). For testing the **indicator reliability** the common rule of thumb that the outer loadings should be 0,708 or higher was applied. This rule indicates that latent variable should explain at least 50% of each indicator's variance. Although in exploratory research indicators with loadings between 0,4 and 0,7 should be considered for deleting this should be the case only if their excluding from the constructs lead to increase in AVE (Esposito Vinzi et al., 2010; Hair Jr et al., 2013) In the initial analysis due to the lower outer loadings one indicator was excluded from further analysis. The indicator excluded

from the analysis was Internal Locus of Control (ILC) indicator on the Personality construct with loading 0,365. Excluding ILC indicator lead to increase in AVE of the personality construct (from 0.437 to 0.528 AVE) thus confirming it exemption. The **AVE**, which is sum of squared loadings divided by the number of indicators in the construct as in indicator reliability should be greater than 0.50 and thereby explain more than 50% of the variance of its indicators. The AVE for both constructs was above 0,50 threshold confirming the convergent validity of the measurement model. Personality AVE 0.528; Success AVE 0.707.

Table 6.6. Initial Analysis Outer loadings

	Personality	Success	Business Environment	Human Capital	Social Capital
Ach_mot	0.743				
Cap_Utili		0.721			
Comm_Bound					0.244
Dest_mark			0.298		
Education				0.350	
Fam_supp					0.256
Finan_Inst			0.363		
Innovation			-0.019		
Int_LC	**0.365**				
Life_Exp				0.797	
Loc_Ifra			0.523		
Nature					0.086
Need_dom	0.660				
Networking					0.106
Per_Succ		0.945			
Plc_iden					0.592
Risk			-0.182		
Self_eff1	0.703				
Self_eff2	0.754				
Subsidies			-0.011		
Work_Exp				0.029	

(3) *Discriminant validity* is the third measure used for evaluation of the validity and reliability of the reflective measurement model. It represent the extent to which a construct is capturing phenomena not represented by other constructs. The discriminant validity was examined using the **Fornell-Larcker criterion**. Fornell-Larcker criterion indicates that the square root of each construct's AVE should be

grater than its highest correlation with any other construct. This criterion for the measurement model was meet for both reflective constructs (Table 4).

Table 6.7. Fornell-Larcker criterion analysis

	Business Environment	Human Capital	Personality	Social Capital	Success
Business Environment					
Human Capital	0.043				
Personality	0.334	0.381	**0.726**		
Social Capital	0.648	0.157	0.551		
Success	0.478	0.259	0.525	0.597	**0.841**

Additionally the indicators were tested for **cross-loadings** to examine if the indicators have outer loading on associated construct greater then all of its loadings on other constructs (Table 5) and **Heterotrait-Monotrait ratio** (HTMT$^{.85}$ criterion) for personality on success that was 0.706. Both tests confirmed no discriminant validity issues.

Table 6.8. Indicators cross-loadings

	Business Environment	Human Capital	Personality	Social Capital	Success
Innovation	**0.108**	0.030	0.061	0.062	0.066
Risk	**-0.236**	-0.051	-0.087	-0.157	-0.112
Subsidies	**0.647**	0.128	0.189	0.412	0.332
Dest_mark	**0.783**	0.002	0.342	0.516	0.358
Finan_Inst	**0.747**	0.001	0.234	0.489	0.346
Loc_Ifra	**0.884**	0.065	0.257	0.562	0.440
Work_Exp	0.093	**0.491**	0.156	0.062	0.161
Education	0.072	**0.665**	0.263	0.221	0.150
Life_Exp	0.017	**0.944**	0.357	0.099	0.252
Ach_mot	0.202	0.341	**0.758**	0.336	0.306
Need_dom	0.263	0.237	**0.664**	0.396	0.369
Self_eff1	0.145	0.167	**0.719**	0.415	0.368
Self_eff2	0.336	0.348	**0.760**	0.441	0.461
Nature	0.360	0.120	0.354	**0.561**	0.297
Networking	0.378	0.245	0.414	**0.637**	0.360
Plc_iden	0.545	0.046	0.488	**0.893**	0.573
Comm_Bound	0.466	0.172	0.360	**0.682**	0.396
Fam_supp	0.546	0.199	0.387	**0.736**	0.381
Cap_Utili	0.205	0.117	0.252	0.325	**0.722**
Per_Succ	0.518	0.278	0.556	0.614	**0.945**

Assessment of formative measurement model

The assessment of formative measurement model in PLS-SEM includes assessment of convergent validity, assessment of collinearity issues and assessment of the significance and relevance of the indicators. Ex-ante analysis of the formative constructs focused on establishing content validity.

(1) Content validity or the extent to which measures are capturing all aspects of a given construct. For measurement of the content validity in this study it was used Lawshe (1975) and Haynes at al. (1995) methodological quantitative approach to content validity involving subject matter expert raters (SMEs). SMEs involved in this study were experts from the University of Bologna, University of East Sarajevo, Ss. Cyril and Methodius University, Belgrade University and Pakistan Institute of Development Economics with total number of eight SMEs. Content validity ratio (CVR) for all indicators on the formative constructs had sufficient CRV values does confirming content validity of the constructs. The calculation of CVR was done by the following formula where positive values indicate that at least half the SMEs rated the item as essential:

$$CVR = (n_e - N/2)/(N/2)$$

$CVR =$ content validity ratio,

$n_e =$ number of SME panelists indicating "essential",

$N =$ total number of SME panelists.

Table 6.9. CVR indicator values

Construct	Indicators	CVR
Human Capital	Education	1
	Life Experience	0.5
	Work Experience	0.75
Social Capital	Community Bound	0.5
	Family support	0.5
	Nature	0.75
	Networking	1
	Commitment to stay	0.5
Business environment	Destination marketing	0.75
	Financial Institution	0.75
	Innovation	0.25
	Local Infrastructure	1
	Risk	0.25
	Subsidies	0.25

(2) *Convergent validity* indicates the positive correlations of indicators on the same construct. It is examine by **redundancy analysis**, which stands for evaluation of correlation of the formative measurement construct with a reflective measure of the same construct. In the redundancy analysis the formative measurement construct is evaluated as exogenous latent variable predicting and endogenous construct with reflective measurement measuring the same concept. Convergent validity of the formative measurement construct is confirmed if the R^2 value of the reflective construct in the redundancy analysis is at least 0.64. The reflective measurement constructs for the redundancy analysis of the formative constructs in this study were constructed as single item measurement constructs that summarize the essence of the construct.

Table 6.10. Redundancy analysis scores

Indicators	Outer weights	Path coefficient	R^2 value
Human Capital			
Education	0.428	0.883	0.780
Life_Exp	0.474		
Work_Exp	0.400		
Social Capital			
Comm_Bound	0.225	0.917	0.840
Fam_supp	0.267		
Nature	0.315		
Networking	0.284		
Plc_iden	0.264		
Business environment			
Dest_mark	0.344	0.829	0.687
Finan_Inst	0.400		
Innovation	0.297		
Loc_Ifra	0.188		
Risk	0.377		
Subsidies	0.152		

(3) Assessment of *collinearity or multicollinearity* issues in formative measurement constructs is essential because they can have an impact on the estimation of weights and their statistical significance. Collinearity boosts the standard errors and thereby the significance of the weights are incorrectly estimated and with reversed signs.

The collinearity is measured by variance inflation factor (VIF), which is defined as the reciprocal of the tolerance (TOLy). (VIFy=1/TOLy and TOL=1-R^2y). In the context of PLS-SEM, VIF values lover than 0,20 and grater then 5 indicate a potential collinearity problem (Hair et al., 2011). The VIF values in this study were evaluated using IBM SPSS and are presented in Table 8.

Table 6.11. Variance Inflation Factor results

Human Capital		**Social Capital**		**Business environment**	
Idicator	*VIF*	*Idicator*	*VIF*	*Idicator*	*VIF*
Life_Exp	1.259	Networking	1.401	Finan_Inst	1.428
Education	1.524	Nature	1.473	Innovation	1.397
Work_Exp	1.603	Fam_supp	1.395	Loc_Ifra	1.022
		Comm_Bound	1.036	Subsidies	1.295
		Plc_iden	1.550	Dest_mark	1.299
				Risk	1.268

(4) Assessment of the *significance and relevance* of the indicators. The assessment of the relevance of specific indicator and its contribution to the formative constructs is done by his outer weight. The outer weight is the result of a multiple regression (Hair Jr et al., 2013) where dependent variable is latent variable score and independent is the indicator. For testing the significance of the indicators weights the bootstrapping procedure was used with 5.000 samples. For evaluating the significance of the weights t values and p values were used. When the t value is larger than the critical value the coefficient is significant at a certain error probability. For a two-tailed test critical value is 1.65 with significance level 10%; 1.96 with significance level 5% or 2.57 with significance level 1%. The bootstrapping procedure allows testing the hypothesis that w_1 is 0 in the population (H0: $w_1=0$; H1: $w_1 \neq 0$) and is calculated by the following formula:

$$t = \frac{w_1}{se^*_{w_1}},$$

where w_1 is the other weight and se^*_{w1} is the standard bootstrapping error.

The construct of social capital in the model was represented as hierarchical component model (HCM) build using the two-stage approach for formative-formative HCM. In the first stage the repeated indicator approach was used for obtaining latent variable scores for Lower-order components (LOC) (People and Place), which were later in the second stage used as indicators on the higher-order components (HOC).

Fig 3 HOC Social capital LOC People and Place – first stage

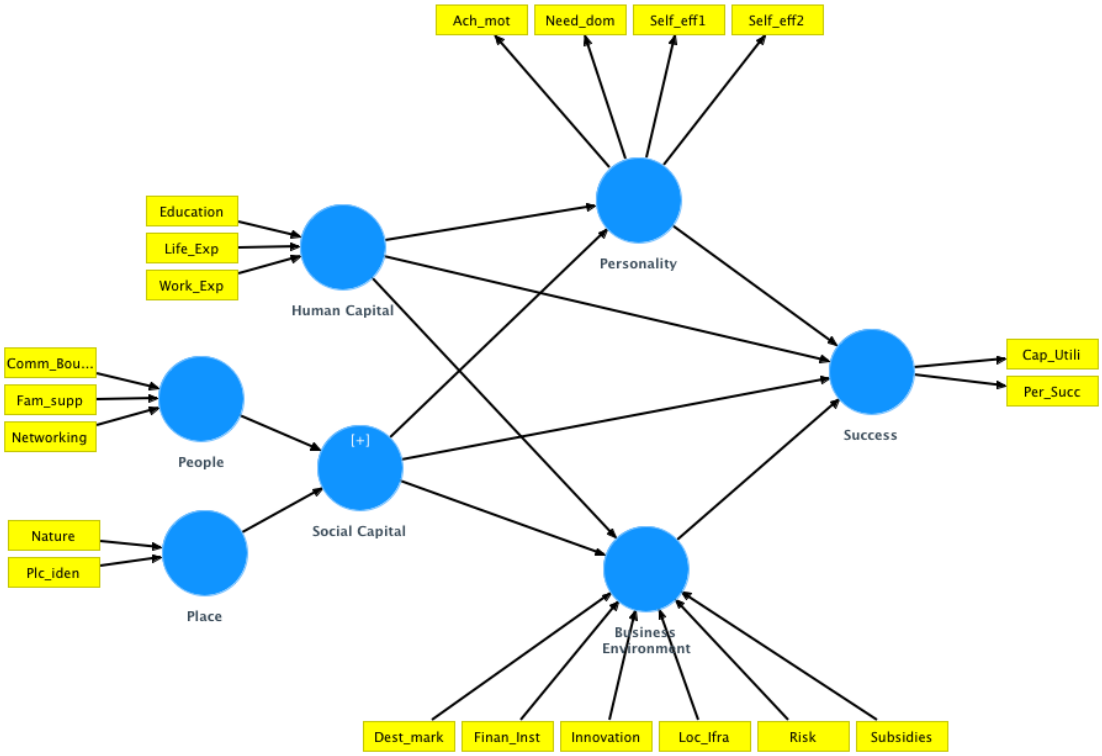


Fig 4 HOC Social capital LOC People and Place – second stage

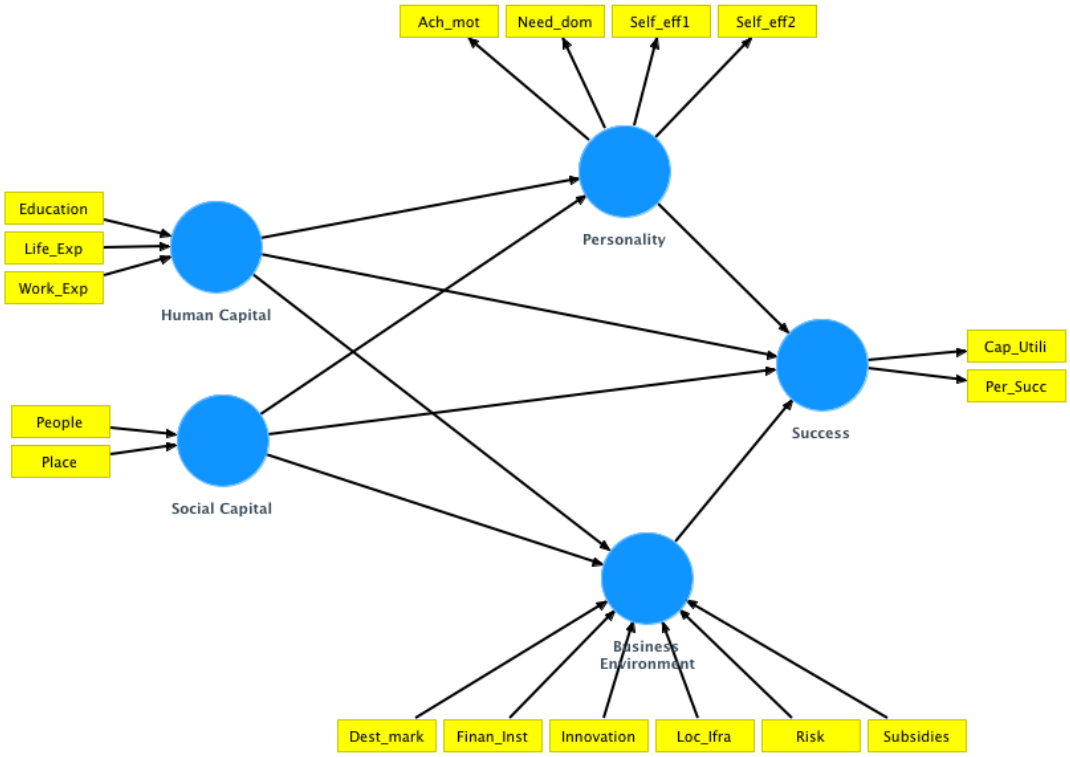


Table 6.12. Significance and relevance of the indicators of formative constructs

Formative construct	Formative indicators	Outer Weights (Loadings)	t Value	Significance level	p Value	Confidence Intervals [a] (low; up)	
Human Capital	Life_Exp	0.793 (0.944)	3.387	***	0.001	0.226	1.035
	Education	0.342 (0.665)	1.661	*	0.097	-0.142	0.665
	Work_Exp	0.049 (0.489)	0.147	NS	0.883	-0.531	0.819
Social Capital	Networking	0.340 (0.744)	3.231	***	0.001	0.140	0.541
	Fam_supp	0.562 (0.858)	5.649	***	0.000	0.349	0.738
	Comm_Bound	0.352 (0.753)	3.230	***	0.001	0.136	0.558
	Nature	0.382 (0.659)	4.385	***	0.000	0.211	0.553
	Plc_iden	0.801 (0.933)	11.586	***	0.000	0.660	0.916
Business Environment	Finan_Inst	0.361 (0.746)	2.345	**	0.019	0.062	0.676
	Innovation	-0.021 (0.107)	0.189	NS	0.850	-0.235	0.206
	Loc_Ifra	0.510 (0.877)	3.719	***	0.000	0.243	0.772
	Subsidies	-0.018 (0.640)	0.142	NS	0.887	-0.277	0.243
	Dest_mark	0.315 (0.786)	2.145	**	0.032	0.016	0.580
	Risk	-0.199 (-0.250)	1.864	*	0.062	-0.387	0.020

Note: NS = non significant

[a] Bootstrap confidence intervals for 5% probability error

*$p < .1$;**$p < .05$;***$p < .01$

Due to the theoretical importance of all non significant indicators in the formative constructs and their absolute importance (the information an indicator provides without considering any other indicators – outer loading) that is ≈ 0.5 for Working experience indicator and > 0.5 for subsidies indicator, all indicators were left in the formative constructs. As contribution to this decision is the fact that contrary to reflective measures where can substitute each other in formative measurement constructs deleting indicators can changed the nature of the construct.

6.2.2.4. Model fit – structural model

After confirming the reliability and validity of construct measures the full structural model results were assessed. The full structural model fit examines the model's predictive capabilities and relationship between constructs. Assessment procedure for structural model involves: (1) assessment for collinearity issues (2) assessment of significance and relevance of the structural model relationships (3) assessment of the R^2 values (4) assessment of the effect sizes f^2 and (5) assessment of the predictive relevance Q^2 and the q^2 effect sizes.

(1) *Collinearity assessment* indicates collinearity between predictor constructs in the structural model. The collinearity is measured by variance inflation factor (VIF), which is defined as the reciprocal of the tolerance (TOLy). (VIFy=1/TOLy where TOL=1-R^2y). In the context of PLS-SEM, as for the formative measurement constructs VIF values lover than 0,20 and grater then 5 indicate a potential collinearity problem (Hair et al., 2011). The VIF values of all constructs in the structural model were in the range of tolerance (between 0,20 and 5) (Table 10) and therefore the structural model had no issues with collinearity.

Table 6.13. Structural model Inner VIF values

	Business Environment	Human Capital	Personality	Social Capital	Success
Business Environment					1.705
Human Capital	1.029		1.029		1.182
Personality					1.649
Social Capital	1.029		1.029		2.170
Success					

(2) In the structural model the *path coefficients* represent the relationship among the constructs. The pat coefficients can be presented as unstandardized values and frequently used standardized values rating between -1 and +1. The significant of the relationship depends on the standard error obtained by

process of bootstrapping. The PLS-SEM does not assume that the data is normally distributed and therefore is not relying on parametric significance tests. To test the significance of the coefficients PLS-SEM relies on nonparametric bootstrapping procedure (Anthony C Davison & Hinkley, 1997; Anthony Christopher Davison, 1997; Efron & Tibshirani, 1986, 1994). Bootstrapping procedure implies drowning large number of subsamples from original sample with replacement. The number of cases in each subsample and the number of subsamples should be at least equal to the number of valid observations. For large confidence the number of subsamples should be 5.000 bootstrap samples (Anthony Christopher Davison, 1997; Hair Jr et al., 2013). The bootstrapping procedure allows estimation of the standard error (se*) and the standard deviation of the estimated coefficients. The bootstrapped distribution is seen as reasonable approximation of the estimated distribution in the population. The empirical *t* value is computed using the bootstrap standard error. When the t value is larger than the critical value the coefficient is significant at a certain error probability. For different error probability using two-tailed test critical value is 1.65 at significance level 10%; 1,96 at significance level 5% or 2.57 at significance level 1%). Running the bootstrapping procedure with 5.000 samples on the structural model reveals the significance of the path coefficient presented in Table 11. The test of significance indicates that two paths in the structural model are non-significant referring to Human Capital -> Business Environment and Human Capital -> Success. However, as can be seen in the later analysis the path of Human Capital -> Success is showing non-significant results due to it high level of partial mediation through Personality as mediator and indirect effects. Does confirming that human capital although not directly has positive effect on success of the ventures.

Table 6.14. Significance testing results of the structural model path coefficients

	Path Coefficients	*t* values	Significance level	*p* values	95% Confidence intervals	
					Low	Up
Business Environment -> Success	0.199	2.003	**	0.045	0.004	0.411
Human Capital -> Business Environment	-0.069	0.686	NS	0.493	-0.247	0.150
Human Capital -> Personality	0.296	3.434	***	0.001	0.123	0.457
Human Capital -> Success	0.104	1.415	NS	0.157	-0.048	0.245
Personality -> Success	0.256	3.294	***	0.001	0.094	0.399
Social Capital -> Business Environment	0.651	9.108	***	0.000	0.503	0.782
Social Capital -> Personality	0.506	6.656	***	0.000	0.340	0.639
Social Capital -> Success	0.296	3.015	***	0.003	0.098	0.482

Note: NS = not significant

*$p < .1$;**$p < .05$;***$p < .01$

(3) Coefficient of determination (R^2 Value) or a model predictive accuracy. This coefficient is representing the combined effect of exogenous variables on endogenous variables and the amount of variance in the endogenous construct explained by it exogenous constructs. Therefore the R^2 value is indicating the predictive accuracy of the model. In order to avoid bias toward complex model the model is constrained on fewer exogenous constructs (four for the proposed model) and evaluated by the adjusted R^2 value, which is criterion modified according to the number of exogenous constructs relative to the sample size.

$$R^2_{\text{adj}} = 1 - (1 - R^2) \cdot \frac{n-1}{n-k-1},$$

n – sample size; *k* – number of exogenous latent variables

Table 6.15. R square Mean, STDEV, T-Values, P-Values

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (|O/STERR|)	P Values
Business Environment	0.413	0.440	0.080	5.189	0.000
Personality	0.393	0.409	0.069	5.679	0.000
Success	0.429	0.448	0.052	8.269	0.000

Table 6.16. R square Adjusted Mean, STDEV, T-Values, P-Values

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (|O/STERR|)	P Values
Business Environment	0.406	0.433	0.081	5.023	0.000
Personality	0.385	0.401	0.070	5.488	0.000
Success	0.414	0.433	0.053	7.759	0.000

(4) Effect sizes f^2 is the measure for evaluating the impact of the exogenous construct on the endogenous construct. This measure is calculated by evaluating the R^2 value of the endogenous construct with and without indicating exogenous construct, using the following formula:

$$f^2 = \frac{R^2_{\text{included}} - R^2_{\text{excluded}}}{1 - R^2_{\text{included}}},$$

The effect size f^2 and q^2 is assessed as following: 0,02 – small effect, 0,15 – medium effect and 0,3 large effect of the exogenous construct on endogenous construct (Cohen, 1992; Hair Jr et al., 2013)

Table 6.16. Effect sizes f^2 and q^2

	Success		
	Path coefficients	Effect sizes f^2	Effect size q^2
Human Capital	0.104	0.014	0.003
Social Capital	0.296	0.051	0.048
Personality	0.256	0.070	0.036
Business environment	0.199	0.039	0.007
	Personality		
	Path coefficients	Effect sizes f^2	Effect size q^2
Human Capital	0.255	0.136	0.048
Social Capital	0.496	0.403	0.144
	Financial environment		
	Path coefficients	Effect sizes f^2	Effect size q^2
Human Capital	-0.055	0.009	F.C.
Social Capital	0.617	0.696	F.C.

(5) Assessment of the *predictive relevance* Q^2 and the q^2 effect sizes. Besides evaluating the magnitude of the R^2 values as a criterion of predictive accuracy, as indicator of the model predictive relevance was used Stone-Geisser's Q^2 value (Geisser, 1974; Stone, 1974). The Q^2 value indicates the path model predictive relevance for reflective endogen latent variables. In PLS-SEM the predictive relevance of the specific reflective endogen latent variable is obtained by using the blindfolding procedure with certain omission distance. Blindfolding is a procedure by which points on endogenous construct's indicator are omitted on same distance and then considered as missing values and treated as so. The results estimates are then used to predict the omitted data points. The difference between the two values (true and predicted ones) is used as input for the Q^2 measure. This procedure is applicable only to endogenous reflective constructs. The procedure is repeated until every point is omitted. (Esposito Vinzi et al., 2010; Hair Jr et al., 2013; Tenenhaus, Vinzi, Chatelin, & Lauro, 2005). The difference between predicted and original (true) value is prediction error. Smaller values of prediction error indicate high predictive accuracy of the model. The prediction error and trivial prediction

error (mean of the remaining data after omission) are used to estimate Q^2 value.

The predictive relevance Q^2 in the model is estimated by omission distance D=7 (for this model estimation) and cross-validate redundancy that uses both the structural model estimates and measurement model.

The q^2 effect size is estimated similar to f^2 effect size with the following formula:

$$q^2 = \frac{Q^2_{\text{included}} - Q^2_{\text{excluded}}}{1 - Q^2_{\text{included}}}.$$

Table 6.17. R^2 and Q^2 values

Endogen Latent Variables	R^2 values	Q^2 values
Business Environment	0.369	0.226
Personality	0.364	0.171
Success	0.414	0.247

Table 6.18. Blindfolding and Assessment of the predictive relevance Q^2

	SSO	**SSE**	**1-SSE/SSO**
Business Environment	912.000	784.230	0.140
Human Capital	456.000	456.000	
Personality	608.000	495.690	0.185
Social Capital	304.000	304.000	
Success	304.000	227.027	0.253

6.2.2.5. Evaluation of unobserved heterogeneity

Additionally the structural model was evaluated for unobserved heterogeneity in order to test the validity of the PLS-SEM results. The unobserved heterogeneity in the study was tested using FIMIX-PLS procedure with two subsamples as indicated by several scholars (Hair Jr et al., 2013; Ringle, Sarstedt, & Straub, 2012; Sarstedt, Becker, Ringle, & Schwaiger, 2011; Sarstedt & Ringle, 2010). The results were divided as specified in the test in two segments revealing one large segment 74% of the original sample differing from whole sample by the negative path coefficient of Business Environment -> Success (-0.146) and significant path Human capital -> Success. Second segment although significantly smaller than the first segment representing 26% of the original sample had significantly different path coefficients of Social capital -> Success and Business environment -> Success. R square of business environment for the second segment was 0,755 with path coefficient Human capital -> Business environment score -0,430 that is large difference from the whole data. R square of the Success was 0,915 revealing that exogenous constructs are explaining almost all variance in the success construct for this segment.

Table 6.19. Unobserved heterogeneity with two segments – FIMIX-PLS

FIMIX	**Segment 1**	**Segment 2**
Segment size %	0.743	0.257
Standardized Path Coefficients		
	Success	Success
Business Environment	-0.146	1.044
Human Capital	0.242	0.166
Personality	0.242	0.283
Social Capital	0.419	-0.182
Success		
Residual Variances		
Business Environment	0.399	0.509
Personality	0.501	0.722
Success	0.613	0.075
R Square Values		

Business Environment	0.362	0.755
Personality	0.523	0.157
Success	0.410	0.915

Table 6.20. Fit Indices FIMIX-PLS

Akaike's Information Criterion - AIC	1,046.83
Bayesian Information Criteria - BIC	1,116.38
Consistent AIC - CAIC	1,139.38
Modified AIC (Factor 3) - AIC_(3)	1,069.83
Hannan Quinn Criterion - HQ	1,075.08

Fig 6.6. Segment 1 Structural Model, Standardized Path Coeficients, R Square Values

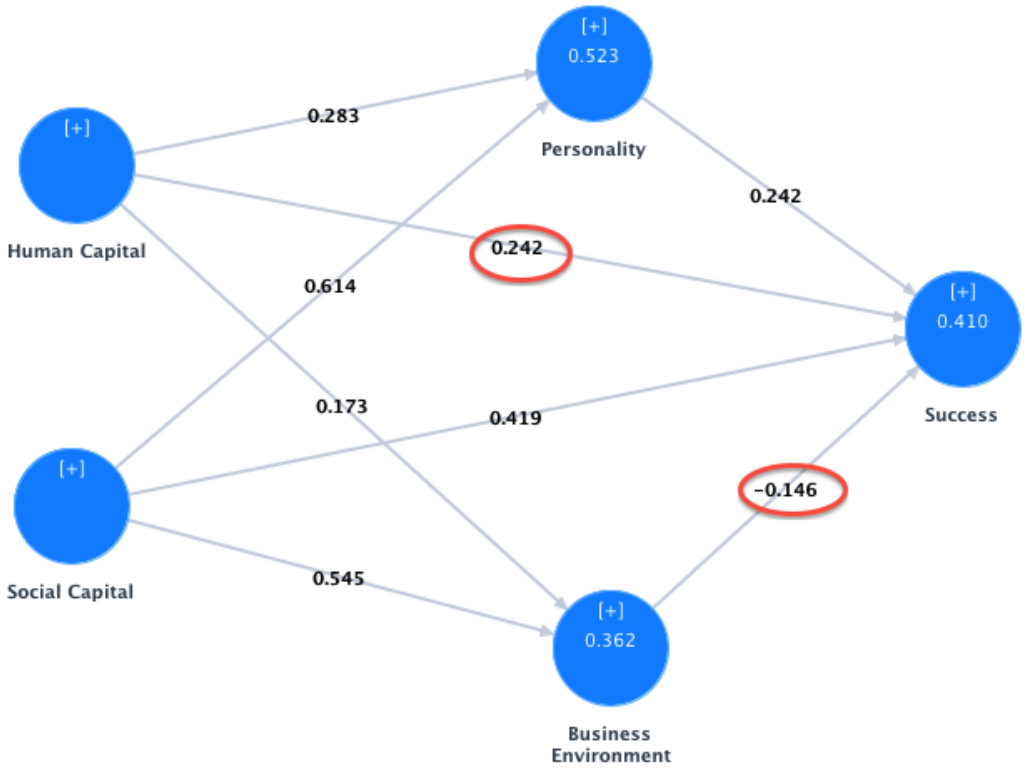
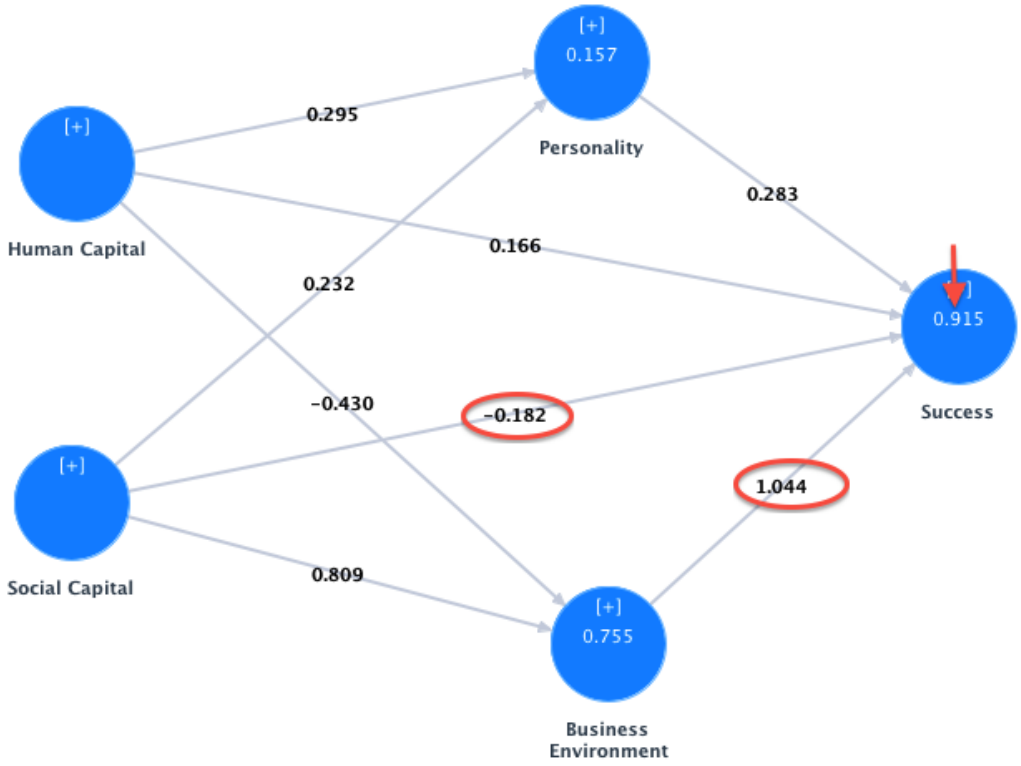


Fig 6.7. Segment 2 Structural Model, Standardized Path Coeficients, R Square Values

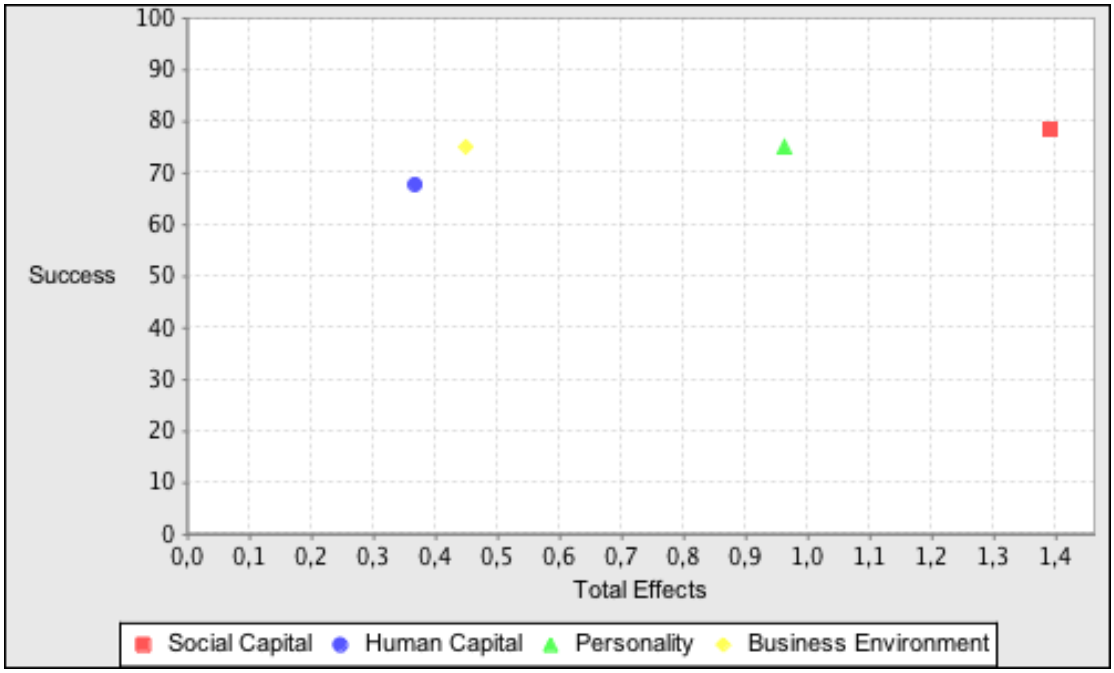


6.2.2.6. Importance-Performance Matrix Analysis

In order to draw conclusions about the importance of the constructs in the structural model and moreover the indicators in the measurement model and their performance on entrepreneurial success Importance-Performance Matrix Analysis (IPMA) was run on path model. The target IPMA construct was set on entrepreneurial success. The IPMA uses total effects of the relationships to measure importance and rescaled variable scores to obtain index values for the performance. Therefore IPMA takes into account direct as well as indirect effects of the constructs on the target and by that involves mediation in the process of analysis. IPMA gives clear picture of the importance of the constructs or indicators as well as how are they preforming in explaining the endogen construct. Rescaling of the latent variables to obtain index values is done by the following formula:

$$Y_i^{rescaled} = \frac{(Y_i - \text{Minscale}[Y])}{(\text{Maxscale}[Y] - \text{Minscale}[Y])} \cdot 100$$

Fig. 6.8. IPMA of constructs – target construct Success

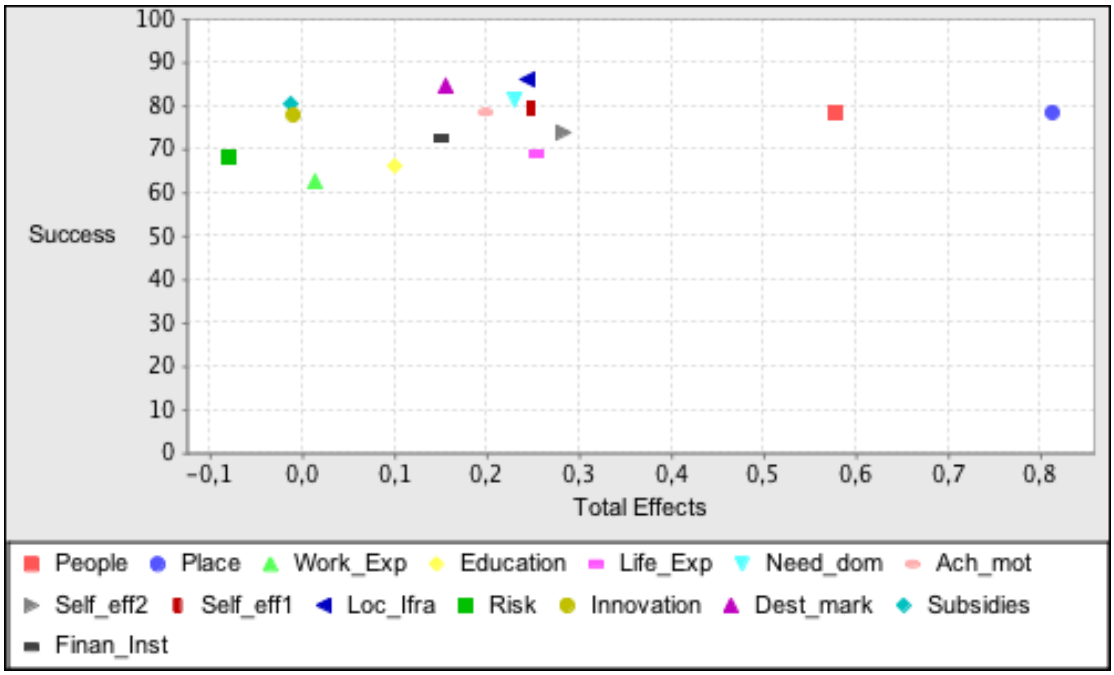


The IPMA on constructs indicated that all constructs have narrow range of performance on the target construct (success). Their performance ranged from 67,680 for Human Capital to 78,265 for Social Capital representing highest performance in the structural model. However, on the importance axis (total effects) there is significant difference between the constructs indicating that the importance of the Social Capital construct (1.392) is almost 10 times more important then the Human Capital (0.368) and Business Environment (0,451) constructs. The Personality construct had total effect of 0,963 and together with Social Capital are constructs with highest importance in the path model focusing the attention on them in order to improve the success of the ventures.

The IPMA of the indicators largely supported the IPMA of the constructs since they both build up on the same blocks of data. However, IPMA of the indicators reveals more in-depth results of the importance and performance of the indicators. As can be seen in Fig 6 Place indicator (build on two indicators Commitment to stay and Nature) had highest importance with total effect of 0,813. Successively People indicator (build on three indicators: Community bound, Family support and Networking) had 0,579 total effect or importance. The group of indicators with 0,2 – 0,3 importance include all indicators on Personality construct (Self efficacy, Achievement motivation and Need for dominance) together with Life experience, and

Location infrastructure. It is important to mention that Risk indicator had negative effect on the success indicating that higher Risk is contributing lower venture success.

Fig. 6.9. IPMA of Indicators – target construct Success



6.2.2.7. Mediation analysis

Mediation in the structural model analyzes the theoretically established direct path relationship between the Social Capital and Human Capital constructs effect on entrepreneurial success compered to their indirect effect through mediators – Personality and Financial environment. Therefore the mediation evaluates the direct and indirect (mediated) effects of social and human capital. In mediation analysis the size of the indirect effect in relation to the total effect is determined by variance accounted for (VAF). Evaluating the mediation VAF can indicate full mediation (over 80%), partial mediation (20% to 80%) and no mediation (less than 20%).

The appearance of mediation in the structural model is preconditioned by three situations:

(1) existence of significant path coefficient between the independent variable and dependent variable when mediator is excluded

(2) positive relationship between the variation in the independent variable and mediator as well as positive relationship between the variation in the dependent variable and mediator

(3) significant change in the value of the path coefficient between the independent variable and dependent variable when mediator is included

Data analysis of the structural model reveals that path coefficients of human capital and social capital on success are significant with less then 0.05 *p* value that indicated possible mediation effect of personality and financial environment. In the second phase after a separate bootstrapping procedure with both the independent variables and mediators VAF values were been estimated. According to the VAF values there is no mediation between social capital and success considering business environment as mediator (VAF 19%) and low partial mediation in case of personality as mediator (VAF 28%). Business environment show no mediation effect on the relationship between human capital and success (7% VAF) and in the same time Personality accounts for 73% of the total effect of human capital on success indicating high partial mediation.

Table 6.21. Significance analyses of path coefficients without the mediators

	Path coefficient	T statistics	P Values
Human Capital -> Success	0.199	2.902	0.004
Social Capital -> Success	0.560	9.939	0.000

0.05 Significance level

Table 6.22. VAF values for Mediation analysis

	Path coefficient	Indirect effect	Total effect	VAF
Social Capital -> Success (Business Environment Mediator)	0.468	0.114	0.582	19%
Social Capital -> Success (Personality Mediator)	0.419	0.163	0.582	28%
Human Capital -> Success (Business Environment Mediator)	0.240	0.019	0.260	7%
Human Capital -> Success (Personality Mediator)	0.069	0.191	0.260	73%

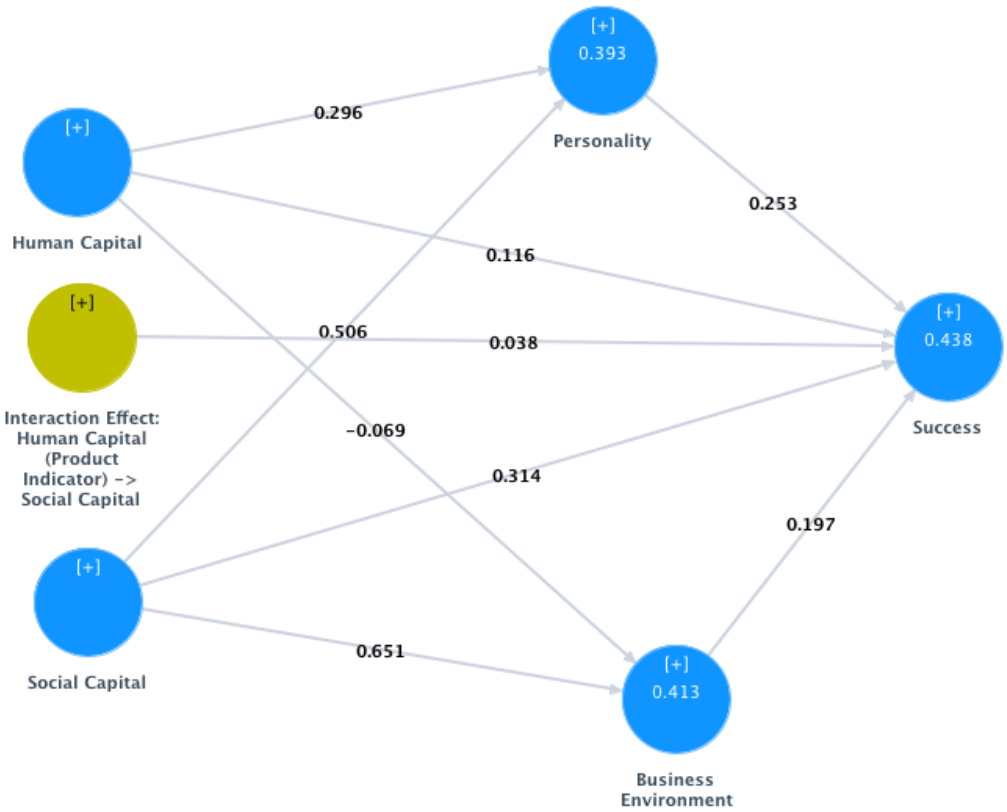
6.2.2.8. Continuous moderator analyses

According to the theory of human and social capital many researchers indicated strong connection in the development of both capitals and their influence on business success (Bosma et al., 2004; Coleman, 1988; Davidsson & Honig, 2003; Dinda, 2008; Field, 2003; Hartog & van den Brink, 2007; Keeley, 2007; Lin, Cook, & Burt, 2001; Pennings et al., 1998; Putnam, 1995; Schultz, 1961; Westlund & Bolton, 2003).

Analyzing how theory of capitals fits the data the model was subjected to continuous moderator effects of interaction between social capital (product indicator) and human capital (moderator).

For modeling continuous moderating effects the technic of interaction teams with product indicator approach was used. This technic involves creating interaction teams between exogenous latent variables by multiplying each indicator of the exogenous latent variable (mean-centered) by each indicator on the moderator variable (mean-centered). By doing so the product indicators are becoming indicators of the interaction team.

Fig. 6.10. Interaction Model Social capital (Indicator) -> Human capital



The interaction analysis of Social and Human capital constructs on Success construct revealed as opposite to the theory that there is no interaction of social and human capital effect on entrepreneurial success. Since the path coefficient of the interaction team was not significant the first condition for mediation was not reached and the model was not further tested for possible mediation effect.

The interaction of human and social capital was supplementary tested on both the personality construct and business environment construct. The results as in the previous interaction analyses showed no significant interaction effect in both cases. The conclusion from the interaction analysis for the path model was that opposite to the theory in case of rural tourism accommodation business in Republic of Macedonia there is no interaction between human and social capital and that their effect on the success of ventures and entrepreneurs is separated.

Fig. 6.11. Interaction effect of Social and Human Capital on Business Environment

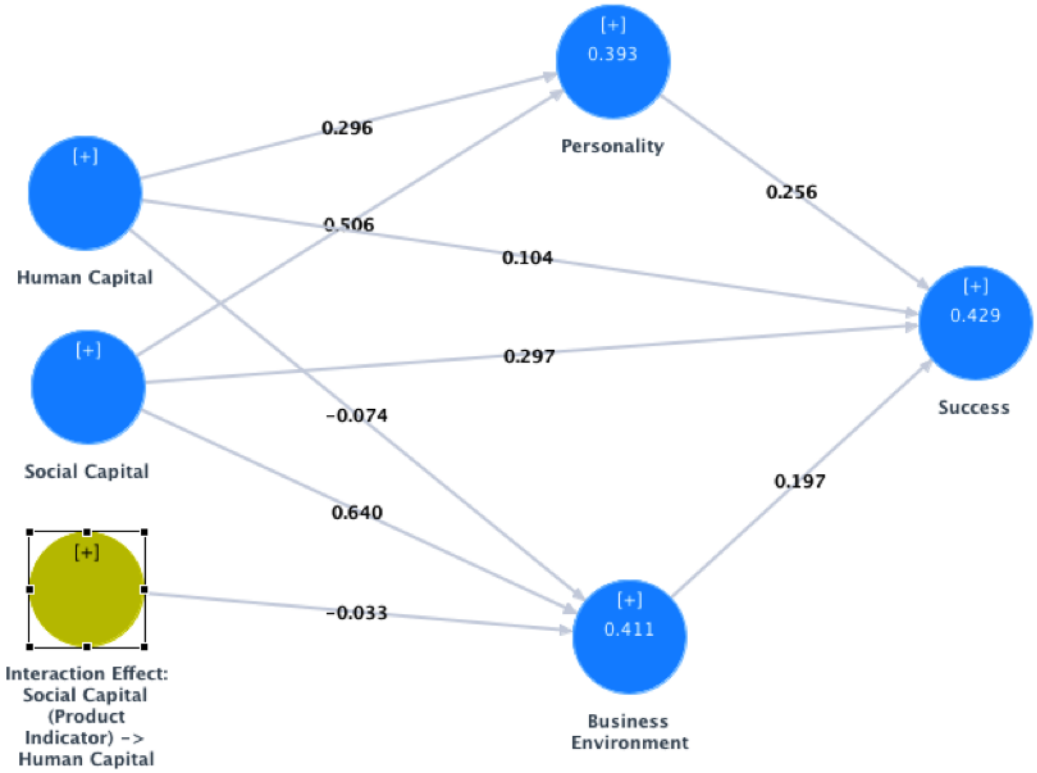
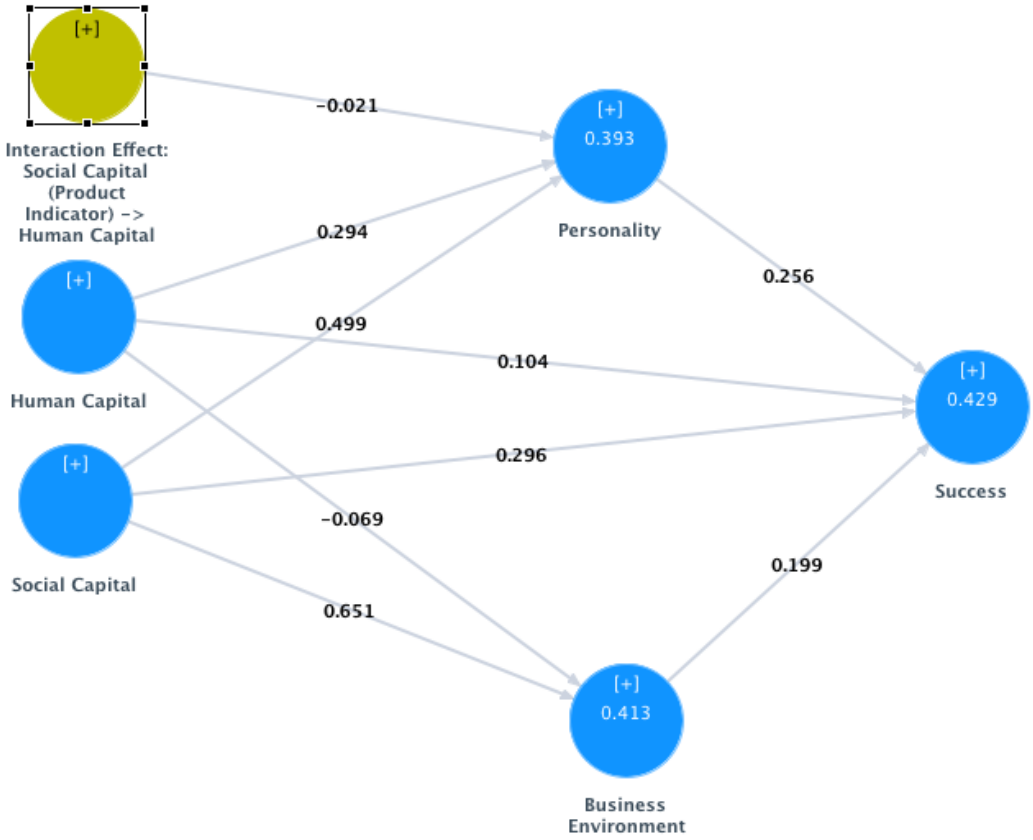


Fig. 6.12. Interaction effect of Social and Human Capital on Personality



6.2.2.9. Categorical moderators analysis

Usually the data in the social research consists of several groups or categories. Therefore the data is frequently heterogenic and measured in PLS-SEM can yield consequently different results in the path model. As a result to this heterogeneity in the data the interpretation of the result from the model should be always interpreted with caution. The path coefficients using the full set of heterogenic data as a result of the heterogeneity could be substantially biased. The data is considered to be heterogenic if two or more groups of respondents exhibit significant differences in their model relationship (usually construct relationship).

In order to explore observed heterogeneity in the data, avoid biased results and incorrect conclusions the path model was analyzed for three categorical moderators: registration form, education, age of participants, and three binominal variables moderators: gender, place of business is place of birth, tourism as additional activity.

The null hypotheses Ho tested in every consequently multigroup analysis are that the path coefficients are significantly different. Two methods have been used for multigroup analysis:

(1) Henseler's Multi-Group Analysis (MGA) for PLS-SEM. This method is a non-parametric significance test for the difference of group-specific results that builds on PLS-SEM bootstrapping results. A result is significant at the 5% probability of error level, if the p-value is smaller than 0.05 or larger than 0.95 for a certain difference of group-specific path coefficients (Hair Jr et al., 2013; Sarstedt, Henseler, & Ringle, 2011).
(2) Welch-Satterthwait Test - method based on parametric significance test for the difference of group-specific PLS-SEM results that assumes unequal variances across groups.

Gender as grouping variable

The data was divided in two groups based on the gender of the respondent (group 1 = males and group 2 = females) and the structural model was tested with two sets of data. Group 1 consisted of 86 respondents whereas group 2 was counting 66 respondents. The path coefficients of the two groups were compared for significant differences. The results revealed that although Henseler's MGA confirmed the Ho hypothesis only for the path coefficient of Social Capital -> Success there are two paths Business Environment -> Success and Human Capital -> Success that have large differences between groups showing close to significant results, p values 0,909 and 0,914 respectably. Welch-Satterthwait Test confirmed the Ho hypotheses on two path coefficients (Human Capital -> Success and Social Capital -> Success) confirming significant difference between two groups. The difference was as a result to the low pat coefficient (0.064) of Human Capital -> Success for group 1 (males) and low pat coefficient (-0.010) of Social Capital -> Success for group 2 (females).
Concerning the results from the multigroup analysis on gender as moderator obviously males and females have significantly different opinions on the effect of human and social capital on the success of the rural tourism success.

Table 6.23. Henseler's Multi-Group Analysis test results

	Path Coefficients-diff (| Gender(1.0) - Gender(2.0) |)	p-Value (Gender(1.0) vs Gender(2.0))
Business Environment -> Success	0.287	0.909
Human Capital -> Business Environment	0.251	0.804
Human Capital -> Personality	0.164	0.812
Human Capital -> Success	**0.216**	**0.914**
Personality -> Success	0.014	0.465
Social Capital -> Business Environment	0.161	0.895
Social Capital -> Personality	0.033	0.595
Social Capital -> Success	**0.435**	**0.010**

Table 6.24. Path Coefficients, t values and p values for males and females

	Path Coefficients Original (Gender(1.0))	Path Coefficients Original (Gender(2.0))	t-Values (Gender(1.0))	t-Values (Gender(2.0))	p-Values (Gender(1.0))	p-Values (Gender(2.0))
Business Environment -> Success	0.134	0.421	1.062	2.419	0.288	0.016
Human Capital -> Business Environment	-0.232	0.019	0.893	0.165	0.372	0.869
Human Capital -> Personality	0.213	0.377	1.350	3.199	0.177	0.001
Human Capital -> Success	0.064	0.280	0.521	2.692	0.602	0.007
Personality -> Success	0.253	0.239	2.626	1.737	0.009	0.082
Social Capital -> Business Environment	0.584	0.745	5.510	8.719	0.000	0.000
Social Capital -> Personality	0.478	0.511	4.471	4.331	0.000	0.000
Social Capital -> Success	0.424	-0.010	3.787	0.067	0.000	0.947

Table 6.25. Welch-Satterthwait Test results

	Path Coefficients-diff (| Gender(1.0) - Gender(2.0) |)	t-Value (Gender(1.0) vs Gender(2.0))	p-Value (Gender(1.0) vs Gender(2.0))
Business Environment -> Success	0.196	0.999	0.321
Human Capital -> Business Environment	0.205	1.307	0.195
Human Capital -> Personality	0.127	0.812	0.419
Human Capital -> Success	**0.306**	**2.317**	**0.023**
Personality -> Success	0.054	0.343	0.732
Social Capital -> Business Environment	0.173	1.373	0.174
Social Capital -> Personality	0.079	0.518	0.606
Social Capital -> Success	**0.314**	**1.923**	**0.058**

Place of business as place of birth (PBB)

Place of business as place of birth is considered to have strong connection to the perception of the rural tourism business and perception of success. The qualitative analysis with the life story interviews indicated that there is tight connection between place of the business and place of birth influencing the place identity and building the social capital. As a result to this observation and conclusion from the life story interviews a binominal categorical variable was included in the qualitative research. The data, whether the place where the business is situated was the place of birth of the entrepreneur, was used as groping variable.

According to this binominal variable the data was split in two groups. Group 1 indicated that the participant's place of business was place of birth accounting for 90 respondents and group 2 that the place of business is not the place of birth accounting for 62 respondents.

Conducting the Henseler's MGA and Welch-Satterthwait Test all Ho hypotheses that the path coefficients are significantly different among groups were rejected showing no significant difference between the two groups. The results of group's path coefficients, t values and p values are presented in Table 24. The only large difference in path coefficient was in the path of Human Capital -> Personality. This path was significant with t value of 2,196 for the first group indicating that Human capital has positive effect and it's predicting the presence of entrepreneurial personality for entrepreneurs that have strong place connection. For group 2 the same path Human Capital -> Personality was not significant with t value of 0,619.

Tourism as additional activity (TAA)

According to the theory of rural tourism, the emergence and development of rural tourism is often associated with small family businesses and diversification of rural activities. As a diversified rural activity the rural tourism frequently appears as an additional on farm activity that contributes to additional farm income. More recently rural tourism as a result of the rapid growth of the industry, the great economic potential and growing demand is increasingly appearing as a main activity unrelated

to agricultural production. Its development in this cases is based on the local natural resources such as nature, tradition, food etc.

This condition can be observed from the data itself in the research where a large majority of respondents indicated that for them rural tourism is additional activity and they perform the rural tourism business as natural persons. Without exception these entrepreneurs are using family labor without hiring additional people and have small-scale activities.

According to the previous, the data clearly distinguish two groups of participants: (1) participants that implement rural tourism as additional activity and (2) participants that perform rural tourism as their primary activity. The groups were directly examined by the binomial variable. Group 1 is determined as a group in which participants performed rural tourism as additional activity and group 2 where participants perform rural tourism as the main activity. Group 1 consisted of 99 respondents group 2 consisted of 53 respondents

Conducting the Henseler's MGA and Welch-Satterthwait Test all Ho hypotheses that the path coefficients are significantly different among groups were rejected showing no significant difference between the two groups. Nevertheless, analyzing the path coefficient of the groups indicated that there are two path with strong differences between the groups. The first path Human Capital -> Personality had t value of 3,382 and 0,01 level of significance for the group 1 TAA whereas for the group 2 TAA had 0.764 indicating that Personality for the small businesses is strongly predicted and influenced by the Human Capital which is not the case for the entrepreneurs with larger business and rural tourism as main activity. This effect is also present in the path of Personality -> Success. This path has significance level of 0,01 for the first group and in the same time is not significant for the second group.

Table 6.26. Path Coefficients, t values and p values for PBB and TAA

	Path Coefficients Original		**t-Values**		**p-Values**	
	PBB (1.0)	**PBB (2.0)**	**PBB (1.0)**	**PBB (2.0)**	**PBB (1.0)**	**PBB (2.0)**
Business Environment -> Success	0.181	0.175	1.326	0.924	0.185	0.356
Human Capital -> Business Environment	-0.082	0.119	0.578	0.494	0.563	0.621
Human Capital -> Personality	**0.290**	**0.120**	**2.196**	**0.619**	**0.028**	**0.536**
Human Capital -> Success	0.159	0.101	1.334	0.647	0.182	0.518
Personality -> Success	0.269	0.226	2.807	1.589	0.005	0.112
Social Capital -> Business Environment	0.632	0.656	6.534	4.775	0.000	0.000
Social Capital -> Personality	0.417	0.685	3.626	6.245	0.000	0.000
Social Capital -> Success	0.352	0.279	3.027	1.315	0.002	0.189
	TAA (1)	**TAA (2)**	**TAA (1)**	**TAA (2)**	**TAA (1)**	**TAA (2)**
Business Environment -> Success	0.206	0.210	1.581	1.049	0.114	0.294
Human Capital -> Business Environment	-0.056	0.137	0.370	0.550	0.711	0.582
Human Capital -> Personality	**0.348**	**0.185**	**3.382**	**0.764**	**0.001**	**0.445**
Human Capital -> Success	0.071	-0.218	0.677	0.870	0.498	0.384
Personality -> Success	**0.290**	**0.239**	**2.998**	**1.497**	**0.003**	**0.135**
Social Capital -> Business Environment	0.620	0.722	6.155	3.397	0.000	0.001
Social Capital -> Personality	0.488	0.432	6.110	2.247	0.000	0.025
Social Capital -> Success	0.206	0.475	1.798	2.450	0.072	0.014

Age and education of participants

Although age of participants was gathered as continuous variable as a result of the small sample size (152) the data could not be divided in more than two categories. Therefore the data was divided in close to median (47) two categories. The first category range was 18 to 45 years old entrepreneurs and the second category was 46 to oldest participant that was 76 years old. (Group1= 67 participants, Group2=85 participants)

Education of the participants was gathered as categorical variable with five categories but as a result to the size limitation for the data analysis this variable was rescaled in binominal variable. Group 1 had lower education: primary school, high school and two years faculty education whereas group 2 had higher education: 4 yeas faculty. (Group1= 84 participants, Group2=68 participants)

Conducting the Henseler's MGA and Welch-Satterthwait test for both grouping variables indicated that all Ho hypotheses that the path coefficients are significantly different among groups were rejected showing no significant difference between the two groups.

The results of group's path coefficients, t values and p values are presented in Table 25. The only large difference in path coefficient was in the path of Human Capital -> Success. This path was significant with t value of 2,594 for the first group of education variable indicating that Human capital has positive effect and it's predicting the entrepreneurial success for the group with lower education. For group 2 the same path Human Capital -> Success was not significant with t value of 0,046.

Table 6.27. Path Coefficients, t values and p values for Age and Education

	Path Coefficients Original		**t-Values**		**p-Values**	
	AGE (1.0)	**AGE (2.0)**	**AGE (1.0)**	**AGE (2.0)**	**AGE (1.0)**	**AGE (2.0)**
Business Environment -> Success	0.275	0.259	1.632	2.197	0.103	0.028
Human Capital -> Business Environment	-0.198	-0.031	1.090	0.177	0.276	0.859
Human Capital -> Personality	0.397	0.213	2.666	1.669	0.008	0.095
Human Capital -> Success	0.126	0.126	1.227	0.980	0.220	0.327
Personality -> Success	0.250	0.273	2.317	2.391	0.021	0.017
Social Capital -> Business Environment	0.797	0.559	7.091	5.493	0.000	0.000
Social Capital -> Personality	0.470	0.534	4.807	4.286	0.000	0.000
Social Capital -> Success	0.272	0.211	1.929	1.446	0.054	0.148
	EDU (1)	**EDU (2)**	**EDU (1)**	**EDU (2)**	**EDU (1)**	**EDU (2)**
Business Environment -> Success	0.254	0.197	1.720	1.304	0.085	0.192
Human Capital -> Business Environment	-0.123	-0.053	1.018	0.235	0.309	0.814
Human Capital -> Personality	0.298	0.298	3.259	1.422	0.001	0.155
Human Capital -> Success	**0.227**	**0.008**	**2.594**	**0.046**	**0.010**	**0.963**
Personality -> Success	0.270	0.231	2.464	1.838	0.014	0.066
Social Capital -> Business Environment	0.718	0.618	7.951	4.220	0.000	0.000
Social Capital -> Personality	0.498	0.527	5.578	3.613	0.000	0.000
Social Capital -> Success	0.184	0.370	1.240	2.761	0.215	0.006

Registration form

The last variable that was used as groping variable was the registration form of the business. Although there ware seven option in the survey for the form of registration according to the national legislative most of the participants as indicated previously were natural persons performing rural tourism as additional activity. Due to the sample size limitations the data set was divided in two categories. The first category (group1) had natural person as form of registration and second category (group2) had registered firms (enterprises) according to the national legislation. The first group had 92 items (participants) and the second group had 60 items.

Henseler's Multi-Group Analysis discovered significant difference between the two groups in three paths' of the model although the model was had large differences for two additional paths. The Ho hypothesis that the path coefficients are significantly different among groups was confirmed for the following paths: Business Environment -> Success; Human Capital -> Personality and Social Capital -> Business Environment. The additional paths with great differences were: Human Capital -> Business Environment and Human Capital -> Success.

Business environment had significant influence on success only for the group of natural persons. Human capital had positive effect on Personality and in the same time human capital had negative effect on the Business environment only in case of the second group (registered enterprises)

Table 6.28. Henseler's Multi-Group Analysis

	Path Coefficients-diff (| RF(1.0) - RF(2.0) |)	p-Value (RF(1.0) vs RF(2.0))
Business Environment -> Success	0.383	**0.036**
Human Capital -> Business Environment	0.270	0.067
Human Capital -> Personality	0.271	**0.956**
Human Capital -> Success	0.218	0.074
Personality -> Success	0.118	0.744
Social Capital -> Business Environment	0.356	**0.997**
Social Capital -> Personality	0.005	0.488
Social Capital -> Success	0.199	0.848

Table 6.29. Path Coefficients, t values and p values for males and females

	Path Coefficients Original (RF(1.0))	Path Coefficients Original (RF(2.0))	t-Values (RF(1.0))	t-Values (RF(2.0))	p-Values (RF(1.0))	p-Values (RF(2.0))
Business Environment -> Success	0.298	-0.084	3.046	0.461	0.002	0.645
Human Capital -> Business Environment	0.060	-0.210	0.447	1.902	0.655	0.057
Human Capital -> Personality	0.133	0.404	1.198	3.601	0.231	0.000
Human Capital -> Success	0.116	-0.102	1.441	0.788	0.150	0.431
Personality -> Success	0.258	0.376	2.839	2.279	0.005	0.023
Social Capital -> Business Environment	0.487	0.843	6.158	11.955	0.000	0.000
Social Capital -> Personality	0.509	0.504	4.946	4.436	0.000	0.000
Social Capital -> Success	0.252	0.451	2.634	2.620	0.008	0.009

Table 6.30. Welch-Satterthwait Test – Registration form as grouping variable

	Path Coefficients-diff (| RF(1.0) - RF(2.0) |)	t-Value (RF(1.0) vs RF(2.0))	p-Value (RF(1.0) vs RF(2.0))
Business Environment -> Success	0.383	1.857	0.068
Human Capital -> Business Environment	0.270	1.568	0.121
Human Capital -> Personality	0.271	1.724	0.089
Human Capital -> Success	0.218	1.440	0.155
Personality -> Success	0.118	0.629	0.532
Social Capital ->Business Environment	**0.356**	**3.386**	**0.001**
Social Capital -> Personality	0.005	0.034	0.973
Social Capital -> Success	0.199	1.017	0.313

6.2.3. Results of hypothesis tests

This study tested seven null hypotheses with additional categorical analysis. The following are the results of the hypothesis tests:

H1. **Human Capital of the rural tourism entrepreneur is positively related to his/her entrepreneurial success.**

This hypothesis of direct positive relation of human capital and entrepreneurial success was **rejected.** The analysis of the data has revealed that the path coefficient was -0.069 is with *t* value 0.686 *p* value 0.493 which was non significant level. Also the effect size of human capital on success f^2 0.014 and q^2 0.003 was below the boundary of small effect confirming the rejection of this hypothesis. However this hypothesis captures only the direct effect of the human capital, as can be seen in the later analysis the effect of human capital on success is showing non-significant results due to the high level of partial mediation through entrepreneurial personality as mediator. Does confirming that human capital although not directly has positive effect on entrepreneurial success.

H2. **Personality of the rural tourism entrepreneur is positively related to his/her entrepreneurial success.**

This hypothesis of the direct positive effect of the entrepreneurial personality on the entrepreneurial success was **accepted**. The path coefficient of personality on success has value of 0.256 with *t* value 3.294 and *p* value 0.001 does confirming the hypothesis. As an additional value of the conformation of the hypothesis and evaluation of the impact of personality on success was the effect size which was between small and medium effect with values f^2 0.070 and q^2 0.036.

H3. **Social Capital of the rural tourism entrepreneur is positively related to his/her entrepreneurial success.**

This hypothesis was **accepted** with high statistical significance. The path coefficient of social capital on success was 0.296 with *t* value 3.015 and *p* value 0.003. The effect size of social capital as exogenous construct on success as endogenous construct was between small and medium effect with values f^2 0.051 and q^2 0.048. Although this was not the largest effect on success in the IPMA of constructs as well as IPMA of Indicators is obvious that social capital is the most important (1.392) and best performing (78.269) construct in the structural model.

H4. External business environment is positively related to his/her entrepreneurial success.

The path coefficient of the business environment on success was 0.199 with *t* value 2.003 and *p* value 0.045 does confirming the positive relation between the constructs and therefore the null hypothesis was **accepted**. The effect size of financial environment as exogenous construct on success as endogenous construct revealed small effect with values f^2 0.039 and small predictive relevance with effect size scoring q^2 0.007.

H5. Personality of the rural tourism entrepreneur mediates the positive effect of Human Capital and Social Capital on entrepreneurial success

In the evaluation of H2 it was accepted that personality has positive effect on success, however measuring the direct positive effect of human capital on success H1 was rejected and for social capital H3 was accepted. This hypothesis evaluated the indirect effect of social and human capital on success *via* personality. As indicated in the mediation analysis there is low partial mediation through personality of the effect of social capital on success with VAF 28% and high partial mediation of the effect of human capital on success with VAF 73%. Therefore this hypothesis was **accepted** does confirming that personality is mediating the positive effect of human and social capital on entrepreneurial success.

H6. Business environment mediates the positive effect of Human Capital and Social Capital on entrepreneurial success

The evaluation of the mediation effect of business environment on the positive effect of human and social capital on success showed opposite results compared to H5. As indicated in the mediation analysis, business environment demonstrate no mediation effect on the relationship between human capital and success with VAF 7% and also no mediation between social capital and success with VAF 19%. Considering the mediation analysis this hypothesis was **rejected**.

H7. Human Capital moderates the positive effect of Social Capital on entrepreneurial success

The interaction analysis of social and human capital on success revealed as opposite to the theory that there is no interaction effect. The path coefficient 0,038 of the interaction team was not significant and therefore the hypothesis was **rejected**.

The interaction of human and social capital was supplementary tested on both the personality construct and business environment construct. The results as in the

previous interaction analyses showed no significant interaction effect in both cases (path coefficient -0.033 on business environment and -0.021 on personality). The conclusion from the interaction analysis for the path model was that opposite to the theory. Therefore in case of rural tourism accommodation business in Republic of Macedonia there is no interaction between human and social capital and their effect on the success of entrepreneurs is independent of one another.

In addition to these null hypotheses, the study analyzed the primary data with two supplementary tests: test for unobserved heterogeneity and categorical moderator analysis.

The FIMIX procedure for unobserved heterogeneity evaluation with two segments revealed existence of one large segment 74% with negative path coefficient of Business Environment -> Success (-0.146) and significant path coefficient on Human capital -> Success. Second segment was smaller than the first segment representing 26% of the original sample and had significantly different path coefficients of Social capital -> Success (-0,182) and Business environment -> Success (1.044). R square of business environment and success for the second segment was 0.755 and 0.915 respectably, revealing that exogenous constructs are explaining almost all variance in the success construct for this segment. It can therefore be concluded that one quarter of the entrepreneurs declare that social capital have negative effect on their success and in the same time business environment as external factor has significant positive effect on their success.

The path model was analyzed for three categorical moderators: registration form, education, age of participants, and three binominal variables moderators: gender, place of business is place of birth, tourism as additional activity.

Considering the gender the analysis revealed that there is deference between path coefficients of human and social capital on success. The female entrepreneurs consider that human capital has significant positive effect on success and social capital doesn't opposite to the male entrepreneurs that revealed strong positive effect of social capital on success and no direct effect of the human capital.

The analysis revealed no significant difference between path coefficients for the groping variables: PBB and TAA. Age and education analyzed as binominal categorical variable showed no significant differences between the groups with exception of the path coefficient between the low and high education groups. The low

education group considered that human capital has significant direct effect on success opposite to the high education group.

The analysis for the last categorical variable, registration form, revealed that the groups as expected are exceedingly different. The group of natural persons revealed that business environment has strong positive correlation to the success compared to the group of legal entities. Whereas the second group, legal entities, revealed that for them human capital has more solid positive effect on personality and also social capital has stronger positive effect on business environment compared to the first group.

6.3. Discussion

This study analyzed the rural tourism in Republic of Macedonia as economic activity from entrepreneurs' point of view. Analyzing the entrepreneurs the study define and measure the factors that affect the success of entrepreneurs dealing with rural tourism in the country. Given that the matter of entrepreneurship is complex one and requires holistic approach the study establishes links and brings together the existing theories of entrepreneurship, rural development and tourism.

The starting point for the study was the place where rural tourism is performed – the rural area. As indicated in the analysis based on the national definition 1,733 out of 1,762 settlements in RM are rural. Measured in population rural settlements had 1,258,625 inhabitants or approximately 62% of the total population of the country invading almost 79% of the territory. Working age population (15-64 years) share in rural areas was 56% with almost 85% working full time or part time in agriculture. According to the available data the business sector in rural areas is significantly less developed compared to the urban with 22 enterprises on 1,000 inhabitants or 12 less then in urban areas. Out of 71,290 registered enterprises in the country only 28% are based in rural municipalities. Analyzing the structure of the enterprises registered in rural municipalities almost 75% of the enterprises are micro enterprises with 1-9 employees. Briefly, rurality in RM includes large portion of the country resources that, with small exceptions, still produces only food, feed and fiber.

The location is a factor that limits but also creates opportunities. It is the most important thing in the business and as data analysis indicates important influential success factor in rural tourism in RM. The rural areas are often distant, inaccessible and with infrastructure and financial limitations. On the other hand partially as a result to this inaccessibility combined with the natural resources they present huge potential for authentic rural tourism development. This potential is also an opportunity for the rural areas. However, rural tourism is a relatively new term introduced in the tourism terminology in the Republic of Macedonia compared to the EU. The legal framework for rural tourism is relatively young and still in development but with adoption of the National Strategy for Rural Tourism 2012 – 2017 it is evident positive approach toward implementation of EU standards. Important initial problem in the development of rural tourism that faced this study and that will be obstacle to future studies and even to the development of rural tourism is the lack of database on premises and entities involved in the sector. This database could also be used for measuring the tourist and overnight stays in rural tourism sector. Lacking official statistics on rural tourism market, such as: number of tourists, revenue from rural tourism, the number of premises and accommodation, seasonal use of the facilities for accommodation and food etc., is causing lack of research in this area. The lack of such statistics greatly complicates the analysis and opportunities to make objective analysis and forecasts for the development of rural tourism. According to the available data only 3.7% of the total catering facilities with accommodation are located in rural areas and they have only 1.15% of the total bed capacity of the country.

The theory of rural entrepreneurship emphasized that rural enterprises more often are facing small size of local markets allied with low population and per capita income; low access to skilled labor; poor infrastructure, access to finance and institutional environment.

Many see rural tourism as one of the principal forms of preservation of the characteristics of rural areas, the landscape and the culture. In this sense rural areas are shaping or influencing the form in which rural tourism emerges. Therefore the form and size is also important characteristic of rural tourism. Rural tourism is an activity that is usually opposite to the conventional tourism small in scale and size in order to fit in the area and in the landscape and also to satisfy the expectations of the

consumers. Consequently we often think of rural tourism as small village house with local architecture preserving the nature and culture located in sparsely populated areas with much open space owned by local people or family. It is a niche market in which customers expect pleasant, kind and worm atmosphere associated with personal guest relations. Many times this experience could be supplemented with agriculture or other outdoor activities: hunting, fishing, hiking etc.

Preconditioned form and size of the businesses together with the lack of funding and insufficient financial resources are affecting the form of registration. Registration is very rare among households that are starting a rural tourism business. In this study 65% of the respondents are preforming tourism as additional activity. This group of respondents were involved in rural tourism as natural persons. According to the Low on tourism they should have been registered in local government registry although this was very rare situation.

The theory of entrepreneurship emphasis that the success on the family businesses depends on entrepreneurs ability to manage available resources. Success, seen as personal economic and non-economic objectives of the entrepreneur, in rural tourism is influenced by a number of factors. Scholars commonly divide these factors on external and internal factors. Internal factors are related to the *characteristics of the entrepreneur* as: experience, socioeconomic background, skills, knowledge, personality, values and expectations and *characteristics of the business* as: sector, labor, financial base, strategies. External factors are related to *business infrastructure* as: competitors, suppliers, banks, government, support and *business customers* as: consumers, demographic, lifestyle, purchase behavior. In this study the theory of entrepreneurship and tourism was confirmed through conducting qualitative analysis and life stories interviews with rural tourism entrepreneurs in Republic of Macedonia. The qualitative analysis was used to strengthen the theoretical knowledge with its regional, local and individual factors affecting entrepreneurs in rural tourism. It confirmed that influential factors are internal and external. Internal factors that were identified by the qualitative analysis are structured in *personality characteristics* of the entrepreneur as: need for achievement, self-efficacy, need for dominance and locus of control and *human capital* as: education and experience. Identified external factors were *social capital* linked to the place and to the people as: community bounds, family bonds and support and local networking and *business environment*

identified through: financial institutions, infrastructure, destination marketing, business risk, innovation and subsidies.

The analysis of life story interviews with the entrepreneurs in rural tourism revealed whole range of factors that affect in some way the decision-making and consequently the success of the enterprise. The interviews revealed that without exceptions all entrepreneurs felt connection to the nature, local community, territory in their words *…..''I am born in the house where the gest house is located and I feel emotional biding to this house"* …. "*My first memories are from this mountains" ……"I have always felt strong connection with this place".* They were all strongly committed to stay and make families in "their places" although they all lived some period in life far from these places *…."I was economic emigrant in Germany for 10 years"…." Long period I had lived in the capital – Skopje where I finished my studies".* Interviewed entrepreneurs, although some of them not completely aware, felt that they are small part of the local community. Without exception they were not "*pushed"* into rural tourism, which is characteristic for low per capita income economies but contrary they were *"puled"* by the opportunity.

Important characteristic of the interviewed entrepreneurs was that they all had previous business experience, personal or as a part of the family business, but with wary small experience in tourism and leisure business. This was similar evident in the qualitative research.

Striking was the fact that all interviewed entrepreneurs had finished high educated which was supported as obvious characteristic in the qualitative research with 52.6% of the respondents having university education. It was obvious and expected that entrepreneurs with economic education felt necessity of strategies and plans for their businesses and had more customer oriented behaviour opposite to the ones without economic education.

All businesses were family business; engaging family members in the business and depending on the size very rarely employing other persons. All interviewed entrepreneurs felt commitment to the family … *"something that brings happiness to me is the willingness of my two daughters to help me in the business"…*

Innovation for the entrepreneurs, although important part of entrepreneurship theory, was mixed with the traditions and customs. Most of them didn't see opportunity in innovation.

Life story interviews have revealed as expected from the literature review and three needs theory that all entrepreneurs share some common personal characteristics. Most obviously expressed were the need for achievement and the need for power although the need for affiliation was also present in the entrepreneurs personality. Self-efficacy played extremely important role in the entrepreneurs' personality.

All factors that emerged from the literature review and qualitative research were summarised in four factors that are most influential in the success of entrepreneurs in rural tourism: the personality of entrepreneurs and human capital as internal factors and social capital and business environment as external factors.

Appearance of rural tourism is closely linked to the territory and certain basic conditions necessary for tourism development. As presented in the quantitative research the distribution of the population of rural entrepreneurs is unequal throughout the country's territory. Most represented region was Pelagonia region with 45.4% participants followed by Eastern region with 20.4% of the participants as a result of long continuous development of rural tourism in some places as: Krusevo, Prespa and Berovo.

According to the registration form 60.5% participants were natural persons 1.3% were sole proprietors, 38.2% were registered as enterprises. In addition 65% of the respondents were preforming rural tourism as additional activity with almost 50% of the participants ranging from 1 to 10 beds and 65% of the participants operating with 1-5 rooms. Most certainly by this data it is clear that most of the rural tourism business are very small in size and hardly undependable activity which contribute to the theory that rural tourism in most likely to be economic activity created by diversification of rural economy undertaken by all age and gender categories with almost even distribution between categories.

In the analysis of the factors and indicators forming the factors most interesting facts were that respondents didn't find that previous working experience in tourism is

necessary for success of rural tourism business and education has 0.1 significance level opposite to the previous life experience with 0.01 significance level. Another important consideration opposite to the expectations was that in the development of the business environment respondents find that innovation and subsidies have non-significant level.

Most useful and simplest presentation of the importance of the factors and moreover the indicators in the measurement model and their performance on entrepreneurial success is the Importance-Performance Matrix Analysis (section 6.2.2.6). The highest importance for success of entrepreneurs is the social capital build on the (1) place - commitment to stay in the place of their business incorporated with the nature as they identify that the surrounding nature is part of their business and (2) people - community bound, family support and networking. The importance of the personality was also high in the success of the rural tourism businesses. Therefore the personality of the entrepreneur played critical role in the success of the enterprise. Human capital on the other hand didn't have direct importance on the success however was very important in the creation of personality and thereby indict in more complex way affecting the success. Business environment indicated by the respondents had lowest importance in the success of the rural tourism enterprises.

7. CONCLUSIONS

7.1. Main findings

The study was set out to explore the concept of rural tourism as diversified rural economic activity in Republic of Macedonia, to identify the entrepreneurs behind rural tourism, reasons and motivation for their involvement in rural tourism and most of all identify factors that are influencing their success and measure the importance and performance of identified factors. The study has also sought to know if there are interactions between identified influential success factors, extend of their influence on success and the existence of substantially different groups of entrepreneur on bases of influential factors. The theoretical literature on entrepreneurship and rural tourism related to Republic of Macedonia is unsatisfying in some fundamental questions that this study required to answer:

7. Is rural tourism recognized and supported by the existing policies in RM?
8. What is the position of entrepreneur in the development of rural tourism?
9. What are the crucial factors that are influencing rural tourism entrepreneur success?
10. To what extend they are influencing the success?
11. Are there interactions between the influential factors?
12. Are there any groups that are substantially different based on success factors?

The main empirical findings are stated in different sections of chapter 6 this chapter will only combine and wrap the empirical findings in order to answer the research questions.

1. Is rural tourism recognized and supported by the existing policies in RM?
    a. Extended literature review indicates that rural tourism is well established and recognized as existing economic activity in rural areas in RM. It contribution to the local economy as diversified economic activity in recent years is well known and recognized by policy makers which is evident in the appropriate laws and national programs.
2. What is the position of entrepreneur in the development of rural tourism?
    a. Rural tourism is based on small family business entrepreneurs that are the milestones of the activity. Almost without exclusion these businesses are created on the individual capabilities of the entrepreneurs and the development of the sector is based on this

individuals. Therefore, entrepreneurs with their abilities and willingness to identify the opportunity, take the risk and invest in rural tourism are in the core of the development.

3. What are the crucial factors that are influencing rural tourism entrepreneur success?
    a. **Internal factors** that were identified by the qualitative analysis structured as *personality characteristics* of the entrepreneur are: need for achievement, self-efficacy, need for dominance and locus of control and *human capital* as: education and experience in form of previous life experience and previous work experience.
    b. **External factors** that were identified by the qualitative analysis structured as *social capital* presented as links to the place and to the people as: community bounds, family support and local networking and *business environment* identified as: financial institutions, infrastructure, destination marketing, business risk, innovation and subsidies.
4. To what extend they are influencing the success?
    a. Personality characteristics, social capital, human capital and business environment have positive effect on the success of rural tourism entrepreneurs although human capital does not show direct positive effect but indirect effect that is mediated by personality. Social capital on the other hand not only that has strong direct effect on the success but also has indirect effect that shapes it as most important factor with best performance in the model.
5. Are there interactions between the influential factors?
    a. Empirical findings are implying that business environment, as influential success factor does not interact with other factors. In contrast social and human capital are positively mediated by the personality factor.
    b. Social and human capital opposite to the theory findings empirically doesn't show continuous interaction effect on the success or on other factors in the model.
6. Are there any groups that are substantially different based on success factors?

a. The empirical findings indicate that the path model has some substantial differences between the groups that were analyzed. First, considering the gender, the female entrepreneurs consider that human capital has significant positive effect on success and social capital opposite to the human capital doesn't whereas the male entrepreneurs indicated strong positive effect of social capital on success and no direct effect of the human capital. Second, in education groups, there were differences in the path coefficient between the low and high education groups. The low education group considered that human capital has significant direct effect on success opposite to the high education group. Lastly, in registration form groups, indicating that the groups are exceedingly different. The group of natural persons revealed that business environment has strong positive correlation to the success compared to the group of legal entities. Whereas the second group, legal entities, revealed that for them human capital has more solid positive effect on personality and also social capital has stronger positive effect on business environment compared to the first group.

The theory of entrepreneurship and rural tourism in case of Republic of Macedonia needs to be reevaluated in order to strengthen the role of entrepreneur in the development of rural tourism and incorporate the factors that are prevalent for entrepreneurial success.

7.2. Policy implications

- Unified conceptual approach to the development of rural tourism has a need for unification of the legislation and its full compliance within the national legislation.
- Implementation of one unique register for registration of all premises for rural tourism accommodation that will contain all necessary data for evaluation of policies and further research.
- Encouragement of joint tourism offer and marketing of destinations and their presentation of the major tourism fairs to increase the demand for rural tourism what will substantially increase the supply in quality and quantity.
- Increased support of the social capital in form of creation of rural tourism entrepreneur regional and national networks as well as inducement of membership in international networks as EUROGITES membership.
- Support to the communities in identification and protection of natural resources and local cultural heritage.
- Establishment of LAG's as best practice in creation of bottom up policies
- Encouraging the financial institutions in development of new more targeted products for rural tourism businesses
- Extensive investment in local infrastructure as investment in transport, energy, water, communications, as well as social, cultural, sport and recreational infrastructure.
- Subsidies are not necessity and they will not influence the success of the businesses in rural tourism

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ANNEXES

ANNEX 1 QUESTIONNAIRE

1. Life experience is factor that influence successes of rural tourism business.

   1 2 3 4 5
   |---------|---------|---------|---------|

2. Education level is important for starting and running a rural tourism business.

   1 2 3 4 5
   |---------|---------|---------|---------|

3. Rural tourism is a sector with high risk potential.

   1 2 3 4 5
   |---------|---------|---------|---------|

4. Sectorial associations are influencing the business success in rural tourism.

   1 2 3 4 5
   |---------|---------|---------|---------|

5. Previous experience of work in tourism sector is necessary for starting a business in rural tourism sector.

   1 2 3 4 5
   |---------|---------|---------|---------|

6. Untouched natural beauties are part of my business and without them my business will not exist.

   1 2 3 4 5
   |---------|---------|---------|---------|

7. Access to financial instruments (Loans and Credits) is influencing the success of rural accommodation business.

   1 2 3 4 5
   |---------|---------|---------|---------|

8. The bound with the local community is important when making decisions in my business.

   1 2 3 4 5
   |---------|---------|---------|---------|

9. Innovative new services and products are influencing the success of rural tourism accommodation capacities.

1 2 3 4 5
|---------|---------|---------|---------|

10. Investment in local infrastructure is requirement for the development of rural tourism.

1 2 3 4 5
|---------|---------|---------|---------|

11. Family support (financial and non-financial) is important for success of rural tourism business.

1 2 3 4 5
|---------|---------|---------|---------|

12. External financial support (subsidies and grants) is important for initiation and success of rural tourism.

1 2 3 4 5
|---------|---------|---------|---------|

13. Marketing of the destination influence the success and development of my rural tourism business.

1 2 3 4 5
|---------|---------|---------|---------|

14. I feel capable to deal with unforeseen problems.

1 2 3 4 5
|---------|---------|---------|---------|

15. I have commitment to stay in the place of my business.

1 2 3 4 5
|---------|---------|---------|---------|

16. When participating in group I would take the position of leader.

1 2 3 4 5
|---------|---------|---------|---------|

17. It is usually easy for me to coup with and to achieve the set goals.

1 2 3 4 5
|---------|---------|---------|---------|

18. I always set high goals in what I do.

1 2 3 4 5
|---------|---------|---------|---------|

19. Large proportion of entrepreneurs achieve their success by good lack and fortune.

1 2 3 4 5
|---------|---------|---------|---------|

20. How successful you consider your business on a scale from 1 not successful to 10 successful?
21. On the scale from 1 to 10 how important in human capital for success of rural tourism entrepreneur?
22. On the scale from 1 to 10 how important in social capital for success of rural tourism entrepreneur?
23. On the scale from 1 to 10 how important in business environment for success of rural tourism entrepreneur?

Demographic Data

1. Name natural person or legal entity:
2. Settlement:
3. Registration form: natural person, legal entity,
4. Sex: ☐Male ☐Female
5. Age:
6. Education: ☐primary ☐high school ☐university degree ☐master or >
7. Number of rooms:
8. Number of beds:
9. Number of years in business:
10. Number of full time employed persons:
11. Place of rural tourism is your birth place: Yes No
12. Rural tourism is additional occupation (not main income) Yes No
13. Number of gests in the last year:
14. Annual turnover from rural tourism in MKD:

ANNEX 2 TABLES

Table 1 Active enterprises by sectors and category, number of employed persons, SSO 2013

Sectors of activity	Entities No	%	Number of business entities by number of persons employed						No of Employed persons	%
			0[21]	1-9	10-19	20-49	50-249	250 +		
Total	**71 290**	**100.0**	**4 415**	**60 599**	**2 989**	**1 787**	**1 291**	**209**	**678 838**	**100.0**
Agriculture, forestry and fishing	2 866	4.0	158	2 608	35	30	33	2	127 186	18.74
Mining and quarrying	164	0.2	9	106	25	16	4	4	7 085	1.04
Manufacturing	7 918	11.1	371	6 004	666	468	347	62	131 542	19.38
Electricity, gas, steam and air conditioning supply	132	0.2	21	93	4	4	7	3	10 602	1.56
Water supply, sewerage, waste management and remediation activities	306	0.4	16	211	21	22	27	9	10 076	1.48
Construction	4 322	6.1	191	3 595	287	166	78	5	46 955	6.92
Wholesale and retail trade; repair of motor vehicles and motorcycles	25 429	35.7	765	23 373	820	341	115	15	91 696	13.51
Transportation and storage	6 095	8.5	80	5 623	241	100	44	7	37 636	5.54

[21] Unascertained number of persons employed or no data on persons employed

Accommodation and food service activities	4 482	6.3	138	3 918	300	102	23	1	23 986	3.53
Information and communication	1 446	2.0	209	1 081	87	37	25	7	11 039	1.63
Financial and insurance activities	390	0.5	58	273	11	19	17	12	9 274	1.37
Real estate activities	485	0.7	88	357	20	14	5	1	945	0.14
Professional, scientific and technical activities	5 817	8.2	297	5 292	159	53	14	2	13 611	2.01
Administrative and support service activities	1 514	2.1	443	931	56	42	25	17	11 500	1.69
Public administration and defence; compulsory social security	258	0.4	8	30	34	78	77	31	45 066	6.64
Education	1 025	1.4	53	468	44	159	296	5	41 467	6.11
Human health and social work activities	3 315	4.7	36	2 978	85	78	116	22	37 912	5.58
Arts, entertainment and recreation	1 179	1.7	397	656	46	42	34	4	9 579	1.41
Other service activities	4 147	5.8	1 077	3 002	48	16	4	0	9 979	1.47

Source: SSO of RM

Table 2 Number of employed persons by economic activity

	2005	2006	2007	2008	2009	2010	2011	2012	2013	**Index 2005/2013**
Total	545 253	570 404	590 234	609 015	629 901	637 855	645 085	650 554	678 838	**1.24**
Employed	391 651	403 564	426 662	437 475	453 031	456 037	463 075	475 909	488 110	**1.25**
Employer	31 276	33 853	32 655	30 084	32 469	34 395	36 754	31 147	31 656	**1.01**
Self Employed	65 487	70 789	71 245	78 824	80 053	83 312	83 551	88 162	98 182	**1.50**
Unpaid Family worker	56 840	62 199	59 672	62 632	64 349	64 111	61 705	55 336	60 889	**1.07**

Source: SSO of RM

Table 3 Descriptive statistics and data distribution

	Valid	Missing	Mean	Median	Std. Dev.	Min	Max
Previous Life Experience	152	0	3.74	4	1.20	1	5
Level of Education	152	0	3.64	4	1.31	1	5
Previous experience of work in tourism	152	0	3.50	4	1.29	1	5
Sectorial associations aspiration	152	0	4.07	4	0.87	1	5
Natural resources	152	0	4.07	4	1.19	1	5
Family support (financial and non-financial)	152	0	4.57	5	0.82	2	5
Bound with the local community	152	0	3.95	4	1.13	1	5
Commitment to stay	152	0	4.16	5	1.08	1	5
Access to financial instruments	152	0	3.89	4	1.09	1	5
Innovative new services and products	152	0	4.11	4	1.15	1	5
Investment in local infrastructure	152	0	4.43	5	0.93	1	5
External financial support (subsidies and grants)	152	0	4.21	4	0.95	1	5
Marketing of the destination	152	0	4.38	5	0.97	1	5
Level of Risk taking	152	0	3.72	4	1.23	1	5
Self-Efficacy 1	152	0	4.38	5	0.78	2	5
Self-Efficacy 2	152	0	4.22	4	0.85	2	5
Need for Dominance	152	0	4.25	4	0.83	1	5
Achievement Motivation	152	0	4.13	4	0.93	1	5
Internal Locus of Control	152	0	3.37	3	1.28	1	5
General importance of Human Capital	152	0	7.56	8	2.28	1	10
General importance of Social Capital	152	0	8.22	9	1.87	1	10
General importance of Business Environment	152	0	7.71	8	1.42	2	10
Perceived Success	152	0	6.43	7	1.98	1	10

Annual number of gests	131	21	317.96	250	253.76	30	1500
Number of rooms	152	0	5.58	4	4.16	2	30
Number of beds	152	0	14.49	12	10.44	4	80
Number of years in business	144	8	8.03	6	6.88	1	37
Number of employed persons	148	4	1.09	0	2.84	0	20
Participant age at interview	146	6	46.98	47	11.30	21	76
Place of business is place of birth	151	1	1.41	1	0.49	1	2
Tourism as additional activity	150	2	1.35	1	0.48	1	2

Table 4 Share to GDP by sectors

Sector	Distribution %		Index 2010/2011
	2010	2011	
Agriculture, forestry and fishing	10.1	9.5	94.3
Mining and quarrying	1.5	1.5	97.7
Manufacturing	12.6	13.5	107.0
Electricity, gas, steam and air conditioning supply	3.7	3.0	81.3
Water supply; sewerage, waste management and remediation activities	1.0	1.0	99.5
Construction	5.5	6.5	118.1
Wholesale and retail trade; repair of motor vehicles and motorcycles	13.1	13.5	102.8
Transport and storage	3.5	3.5	99.8
Accommodation and food service activities	1.1	1.2	105.5
Information and communication	4.2	4.1	96.6
Financial and insurance activities	2.3	2.5	110.3
Real estate activities	0.4	0.4	90.1
Professional, scientific and technical activities	2.3	2.3	98.7
Administrative and support service activities	1.3	1.0	77.1
Public administration and defense; compulsory social security	8.3	7.9	95.5
Education	3.5	3.3	93.5
Human health and social work activities	3.6	3.5	97.9
Arts, entertainment and recreation	2.2	2.1	95.7
Other service activities	0.8	0.8	102.6

Source: (SSO of RM, 2011a)