

PLACE AND THE ROLE OF ACTIVITIES OF TOURISM AND HOSPITALITY IN THE SERVICE SECTOR OF THE REPUBLIC OF MACEDONIA

*Risto Gogoski*¹;

Abstract

The aim of the paper is to show the place and the role of the activities of tourism and hospitality in the service sector of the Republic of Macedonia. Quantitative and qualitative changes among the activities are also present within the service sector, both structurally and temporally. Besides the participation in the GDP structure for the economic policy makers, a number of other economic indicators is also important: employees in the service activities; capacities in service activities; number of business units in service activities; turnover in service activities; employee's earnings in service activities. Accommodation and food service activities in relation to other service activities will provide a critical overview of the thesis whether it is tourism or some other activities that hold a special place in the strategy for future development in the Republic of Macedonia.

Key Words: *service sector, accommodation and food service activities, capacity and labor force, earnings, turnover*

JEL classification: *E01, E24, J21, J31, Z32*

Introduction

As a result of structural changes caused by several technological revolutions, the tertiary sector or services sector has turned into the dominant area of economic activity worldwide. The structural changes in the economy of each country occur continuously, mainly in the direction of the transition from secondary to tertiary activities. At the same time, tertiary activities increase their participation in the creation of gross domestic product (GDP). Such tendencies contribute to increasing the

¹ Risto Gogoski PhD, full professor, Faculty of tourism and hospitality Ohrid, Kej Makedonija 95, 6000 Ohrid, ristogogoski@gmail.com

interest of the economic policy-makers on the situation and the events in the service activities.

Besides the participation in the GDP structure, for the economic policy makers, a number of other economic indicators are also important: employees in the service activities; capacities in service activities; number of business units in service activities; turnover in service activities; employee's earnings in service activities. They can be used to create instruments for achieving the goals of macroeconomic policies towards accelerated economic development.

The aim of the paper is to show the place and the role of the activities of tourism and hospitality in the service sector of the Republic of Macedonia. This is done by analyzing data on certain economic indicators. The conditions and dynamics of them in accommodation and food service activities in relation to other service activities will provide a critical overview of the thesis whether it is tourism or some other activities that hold a special place in the strategy for future development in the Republic of Macedonia.

Activities from tourism and hospitality are complex and quite difficult for statistical monitoring. Due to a series of methodological problems and simplification of the analysis, the paper only deals with activities such as providing accommodation and food service, for which there are direct and immediate data in the official statistics of the Republic of Macedonia. Also, the author made an arbitrary selection of some of the activities in the service sector that he considers important for the tertiary sector in the Republic of Macedonia, i.e. for the economic development of the country. For these reasons, only those activities are presented statistically in the paper.

Creation of GDP in service activities

Creation of the gross domestic product (GDP) of the companies in the service sectors is shown in table no.1.

The data on the gross domestic product in service activities shows that accommodation and food service activities account for 1.3% of the total gross domestic product for the Republic of Macedonia, while they participated with 2.89% in 2016 in the activities of service sector, presented in Table 1. It is worth mentioning the large share of the real

estate activities, and in 2016 it had almost ten times higher share of GDP in tourism and hospitality.

Table 1: *Gross domestic product (GDP) in some activities of the service sector in the Republic of Macedonia (In millions of denars)*

	Amount				Structure (%)			
	2013	2014	2015	2016	2013	2014	2015	2016
Wholesale and retail trade	60 098	70 725	73 793	80 385	13.6	13.4	13.2	13.5
Transport and storage	17 896	18 408	21 958	23 470	3.6	3.5	3.9	3.8
Accommodation and food service activities	6 409	6 868	7 106	9 195	1.3	1.3	1.3	1.3
Information and communications	16 177	15 992	16 478	18 165	3.2	3.0	2.9	3.1
Financial and insurance activities	13 863	15 418	17 045	17 582	2.8	2.9	3.0	3.0
Real estate activities	60 259	59 933	61 518	59 635	12.0	11.4	11.0	10.2
Total service sector	207 068	283 875	300 123	318 389	41.3	53.8	53.7	53.5
Total Republic of Macedonia	501 891	527 631	558 954	594 795	100	100	100	100

Source: *State Statistical Office, Statistical review No 3.4.17.02/885, <http://www.stat.gov.mk/Publikacii/3.4.17.02.pdf>, Statistical yearbook of the Republic of Macedonia, 2018, <http://www.stat.gov.mk/Publikacii/SG2018/09-NacEk-NatEc.pdf>*

Generally speaking, it can be said that the role of service activities in the structure of GDP growth in the Republic of Macedonia is stable and that it has not changed structurally in the observed period. Wholesale and retail trade, together with transport and storage, does not exceed 20% of the total GDP in the Republic of Macedonia. Even activities such as information and communications, or financial activities and insurance are stagnating when it comes to GDP growth. Travel agencies contribute to GDP growth with transport and storage. In the future, the increase in the share of GDP in accommodation and food service activities would create multiplicative effects in both transport and trade, and vice versa.

The dominant participation of the services sector in GDP growth in the Republic of Macedonia is confirmed. The participation of the

representative service activities in the total GDP of the Republic of Macedonia has been constantly higher than 40% for the whole period, and in 2014 it reached up to 53.8%. If other service activities such as culture, education, entertainment and recreation, public administration and defense are taken, the percentage increases to over 60%. However, the participation of the activities directly and indirectly related to tourism and hospitality is far from being the main driving force of the economic growth in the Republic of Macedonia.

Capacity and labor force in service activities

The number of enterprises, the turnover they carry out, the number of employees and the average earning (wage) can be used to determine the quantitative significance of service activities in the economy of the Republic of Macedonia.

A review of the enterprises (the number of active business entities) and turnover in the service sectors in the Republic of Macedonia is given in table 2.

Table 2: *Number of enterprises and turnover in some of the activities of the service sector in the Republic of Macedonia*

	Number of enterprises				Amount in millions of denars		
	2014	2015	2016	2017	2014	2015	2016
Total in all activities in R Macedonia	70 659	70 139	71 519	71 419	1 012 301	1 075 007	1 121 017
Total Enterprise Service Sector	55 164	54 623	55 431	55 489	601 686	618 807	645 402
Wholesale and retail trade	24 674	23 843	23 716	23 337	442 253	456 112	479 382
Transport and storage	5 919	5 820	5 829	5 732	64 515	65 681	66 273
Accommodation and food service activities	4 493	4 535	4 627	4 559	14 211	15 685	16 930
Information and communications	1 475	1 524	1 618	1 689	37 556	36 063	39 804
Real estate activities	507	516	552	566	4 791	5 795	5 202

Source: *State Statistical Office, Македонија во бројки за 2016*, http://www.stat.gov.mk/Publikacii/MakedonijaVoBrojki2016_mk.pdf, *Statistical yearbook of the Republic of Macedonia 2018*,

<http://www.stat.gov.mk/Publikacii/SG2018/16-StrukturDelovniStat-StructBusStat.pdf>, Македонија во бројки 2018,
http://www.stat.gov.mk/PrikaziPublikacija_1.aspx?rbr=722

It can be concluded from the table that accommodation and food service activities in 2016 participated with 6.5% in the total number of enterprises and only 1.51% in the total turnover in the Republic of Macedonia. In comparison, information and communication activities with a share of 2.26% in the number of companies made a turnover of 3.55% of the total turnover in the Republic of Macedonia. The participation of the wholesale and retail trade activity is dominant, which, together with transport and storage, participates in the number of enterprises with 41.3% and in the total turnover with 46.5%. The total service sector in the number of enterprises participates with 77.5% and in the total turnover with 57.6%.

In the accommodation and food service activities, the fact that the number of enterprises is almost five times higher than the share in the total turnover shows that the dominant business entities are from the area of small business. This is not a major handicap given that the underdeveloped economies and small firms are the bearers of growth, owing to their flexibility in times of crisis and financial insolvency. So, small firms are not the problem, but the fact that they are not active enough (seasonal character).

Table 3 shows the number of employees in the service activities in the Republic of Macedonia.

According to the macroeconomic model, resources labor force is important not only because of its qualifications and the impact on productivity, but also because of the dominant share of the component – personal consumption in GDP, national income and so on. (Sloman & Garratt, 2016)

The total service sector in the total number of employees in the Republic of Macedonia participates with 40.1%. Employment in the trade and transport activities is dominant (42.3% of the total employees in the service sector), while in other activities there is no significant structural increase. Information and communication activity had some dynamics in relation to the entire service sector, from 5.5% in 2015 to 6.4% in 2017. Trade and transport activities employment is associated with low level of qualifications, so their large share can be considered to be a negative

factor that slows down the productivity of the service sector, and indirectly influence the economic growth of the Republic of Macedonia.

Accommodation and food service activities in 2017 participated with 4.2% in the total number of employees and with 10.5% in the total number of employees in the service sector. Accommodation and food service activities with dominant employees participation also has food preparation and servicing, which participated with 78.2% in 2017. Tourist agencies and tour operators accounted for 5.7% only in accommodation and food service activities in 2017. Employment in travel agencies requires a higher degree of qualifications in terms of employment in food preparation and servicing. Qualifications affect productivity in an activity that is least represented (tourist agencies and tour operators). It has indirect consequences toward weaker influence of the economic growth in R Macedonia.

Table 3: *Employees in some of the activities in the service sector in the Republic of Macedonia*

	2013	2014	2015	2016	2017
Total employees in all activities in the Republic of Macedonia	483 447	501 788	519 031	534 200	548 681
Total employee only service sector	-	195 800	205 971	215 929	220 037
Wholesale and retail trade	82 428	85 025	87 725	92 359	92 990
Transport and storage	28 536	29 529	31 188	32 841	33 066
Accommodation and food service activities	18 225	20 076	21 468	23 050	23 073
Only accommodation	-	4 138	4 476	4 466	5 025
Only preparing and serving food	-	15 938	16 992	18 584	18 048
Travel agencies and tour operators	-	1 186	1 254	1 267	1 318
Information and communications	10 087	10 744	12 388	13 401	14 060
Financial and insurance activities	9 266	9 391	9 150	9 421	10 811
Real estate activities	2 039	2 135	2 334	2 442	2 465

Source: *State Statistical Office, Statistical yearbook of the Republic of Macedonia 2017*, <http://www.stat.gov.mk/Publikacii/SG2017/07->

PazarNaTrudot-LabourMarket.pdf, Statistical yearbook of the Republic of Macedonia 2018, <http://www.stat.gov.mk/Publikacii/SG2018/07-PazarNaTrudot-LabourMarket.pdf>

From Table 3 it can be concluded that accommodation and food service activities employ a significant number of workers in relation to all employees in the service sector. It confirms the labor intensive nature of the activities of tourism and hospitality.

The ratio of employees / enterprises shows that there is an average of 5,08 employees per company in accommodation and food service activities. The average for the Republic of Macedonia is 9.48 employees per enterprise. All service activities presented in table 3 have a lower average employee per enterprise than the level of the Republic of Macedonia. This is confirmed by the fact that, from the point of view of the number of employees, the dominant part of service enterprises are small business firms.

Table 4: *Average net wage per employee in some of the activities of the service sector in the Republic of Macedonia (In Denars)*

	2013	2014	2015	2016	2017
Total for all activities in the Republic of Macedonia	21 145	21 394	21 906	22 342	22 928
Total service sector	-	24 364	24 872	25 145	25 931
Wholesale and retail trade	19 263	19 794	20 024	20 313	21 273
Transport and storage	22 399	22 923	22 296	22 907	23 912
Accommodation and food service activities	15 293	15 015	15 096	15 423	16 070
Only accommodation	-	16 621	17 107	16 999	17 444
Only preparing and serving food	-	13 161	13 266	13 851	14 678
Travel agencies and tour operators	-	16 122	17 375	17 743	18 520
Information and communications	35 214	34 692	35 241	36 489	38 398
Financial and insurance activities	37 583	38 791	39 789	39 701	40 350
Real estate activities	25 183	26 489	24 550	23 969	24 213

Source: *State Statistical Office, Statistical yearbook of the Republic of Macedonia 2017*, <http://www.stat.gov.mk/Publikacii/SG2017/07-PazarNaTrudot-LabourMarket.pdf>, *Statistical yearbook of the Republic of Macedonia 2018*, <http://www.stat.gov.mk/Publikacii/SG2018/07-PazarNaTrudot-LabourMarket.pdf>

Table 4 shows the amounts of the average wage per employee in the service sectors in the country.

The conclusions about the low qualification of the main activities of the service sector, and especially tourism activities, presented after the analysis of the table 3 can only be confirmed by the data from table 4. Trade and transport are activities with relatively low wages in the Republic of Macedonia. Information and communication activities, as well as financial and insurance activities, are relatively low in the employee structure in the Republic of Macedonia, so they cannot significantly influence the aggregate personal consumption of the GDP structure.

As regards accommodation and food service activities, it can be concluded that these are activities with the lowest wages in the segment of the service sector. In 2017, the average wage in tourism and hospitality was 62.0% of the average wage of the entire service sector, i.e. 70.1% of the average wage of the whole economy of the Republic of Macedonia. The average wage of tourist agencies and tour operators is not much higher (106.2%) compared to the average of accommodation and food service activities.

It can be concluded from table 4 that the average paid wage per employee in accommodation and food service activities is the lowest for all service activities. The average wage is lower than the average of the Republic of Macedonia. Except for wholesale and retail trade activities, all other service activities have higher average paid wage than the level for the Republic of Macedonia.

Earnings data in the service sector show that the labor force is directed more towards other service activities than towards accommodation and food service activities. Considering the great importance of human capital, this situation may have serious consequences in the long run stemming from the lack of quality professional labor force in tourism and hospitality, and thus a further stagnation of this activity within the service

sector. The other service activities, above all, information and communications, financial activities and insurance, and even the activities related to real estate will be more significant for the development of the Republic of Macedonia, as they will absorb the skilled labor force.

Technical condition of service activities

In accordance with the microeconomic theory, in determining the factors of the amount of investment, firms follow a certain procedure at the level of capital (investment) they desire. Similar to other factors of production (labor, land), capital demand in tourism and hospitality firms will depend on the marginal capital productivity of that firm, that is, on the marginal product's output of the last unit of the engaged capital. Managers determine the level of maximizing capital gains by comparing the costs and revenues from the use of supplementary capital, in any form - buildings, equipment, etc. (Gogoski, 2012)

The state of direct investments in service activities in the Republic of Macedonia is given in table 5. The data show that the share of accommodation and food service activities has a relatively small share in the total investments and in the total investments for the services sector. Thus, the share of investments in tourism and hospitality ranges from 0.8% to 1.7% of total investments in the economy of the Republic of Macedonia. So, the information and communication activities have four times higher amount of investments than the tourism and hospitality firms. Even the real estate activities have twice as much direct investment as tourism and hospitality.

Service activities have greater participation in the investments than production activities, that is, the entire service sector constantly participates with more than 50% in the total direct investments in the Republic of Macedonia. This trend is positive and confirms the structural changes in the economy of the Republic of Macedonia from the secondary to the tertiary sector. The share of the activities in the production sector is only one third (Gogoski & Naumov, 2018r).

However, there is no significant increase in the relative share of accommodation and food service activities in the total amount of investments in the services sector. This shows that the investments did not contribute to a more intensive improvement of the capital foundation of

the companies from tourism and hospitality, and thus accelerating their development in relation to other service activities.

In the case of the Republic of Macedonia, it is positive that the service sector is dominant in the investments, but within that, the companies from the tourism and hospitality activities are marginalized. This means that the technological capability of the other service activities is increasing, and potentially in the future will have a greater significance for the development of these companies as well as in the GDP growth in the Republic of Macedonia. This will also affect the direction of the already limited financial resources available to the financial intermediaries in the economy of the Republic of Macedonia to other service activities, and not to the activities in tourism and hospitality. (Gogoski-Miloshevic et al., 2018)

Table 5: *Condition of direct investments in some of the activities of the service sector in the Republic of Macedonia (In millions of euros)*

	2013	2014	2015	2016
Wholesale and retail trade	489.4	505.3	706.4	666.0
Transport and storage	41.0	39.6	39,4	34.5
Accommodation and food service activities	35.4	32.8	43.9	42.0
Information and communications	171.9	165.8	174.4	158.4
Financial and insurance activities	73.6	80.6	86.2	88.2
Real estate activities	78.3	76.0	65.2	67.7
Total service sector	1 885.5	1 830.6	2 109.3	2 100.3
Total for all activities in the Republic of Macedonia	3 980.0	4 023.6	4 400.1	4 657.3

Source: *National Bank of the Republic of Macedonia (NBRM). Banking system Reports, annex, different years http://www.nbrm.mk/izvieshtai_za_bankarskiot_sistiem_na_riepublika_makiedonija7b8cb632.nsp*

The situation with the capital equipment can be seen through the indicators for the consumption of fixed capital (amortization) and gross fixed capital formation (new capacities). Such performance indicators for service activities are given in table 6.

In addition to the condition of the capital stock, it is necessary to follow the capital flow conditions. The consumption of fixed capital is lower than the gross fixed capital formation and thus the net investments in the Republic of Macedonia are positive. It is an indicator that firm's capital stocks are increasing. Within the service activities in the last years, accommodation and food service activities have had the largest dynamics of net investments compared to other service activities. The difference in investment in terms of amortization is 1.577 million denars in 2016, i.e. 3.3 times more was invested than amortization. This can be an indication of the positive shifts in the technical condition of tourism firms in the future, with all the positive consequences that arise from this. There are some tendencies in other service activities. It is very interesting that active information and communications have a greater amortization than investment in 2016, which suggests that the development of this activity in the future will be directed towards investing in software. Also, there is a drastically large amount of amortization in terms of investment in the real estate activities, which may result from a methodological approach, as well as a write-off of outdated investments in designing engineering and real estate transactions. Stagnation of net investments is characteristic not only in trade and transport, but also in financial activities.

Table 6: *Consumption of fixed capital (amortization) and gross fixed capital formation (net investments) in some of the activities in the service sector in the Republic of Macedonia (In millions of denars)*

	Consumption of fixed capital				Gross fixed capital formation			
	2013	2014	2015	2016	2013	2014	2015	2016
Wholesale and retail trade	5 237	5 709	5 806	6 287	10 792	11 963	12 005	13 368
Transport and storage	4 454	5 393	5 501	5 713	3 913	3 443	5 469	6 556
Accommodation and food service activities	815	848	947	962	2 424	1 786	2 829	2 539
Information and communications	5 215	5 422	5 435	6 471	7 152	5 387	4 989	6 191
Financial and insurance activities	1 509	1 823	1 394	1 447	2 785	1 873	1 933	2 174
Real estate activities	25 317	24 790	25 269	24 667	1 788	2 517	2 566	1 779
Total service sector	-	47 128	47 727	49 488	-	28 958	33 161	42 025
Total for all activities in the Republic of Macedonia	91 208	95 314	97 008	99 905	119 003	123 549	133 254	145 040

Source: *State Statistical Office, Statistical review No 3.4.17.02/885 u*
http://www.stat.gov.mk/Publikacii/3.4.17.02.pdf, Statistical review No
3.4.18.01/903, http://www.stat.gov.mk/Publikacii/3.4.18.01.pdf

Creation of gross operating surplus (profit) in service activities

According to the system of national accounts, in determining the creation of GDP according to the income method, besides the consumption of fixed capital, the amount paid to the employees (compensation of employees) influences the amount of the business profit (gross operating surplus) of the companies in the service activities. Such data is contained in table 7. The wages of the employees reduce the profit of the companies. However, their increase may affect the increase in the engagement of the labor force, greater effectiveness, and even increased productivity. There is a low level of wages, even underpaid, for the accommodation and food service activities, and it causes negative changes, of which the main problem is the lack of professional labor force.

Table 7: *Gross operating surplus (profit) and compensation of employees (wages) in some of the activities in the service sector in the Republic of Macedonia (In millions of denars)*

	Gross operating surplus (profit)				Compensation of employees			
	2013	2014	2015	2016	2013	2014	2015	2016
Wholesale and retail trade	46 048	45 367	47 448	51 023	22 410	25 731	26 665	29 748
Transport and storage	9 482	8 784	11 938	12 849	8 329	9 625	9 941	10 590
Accommodation and food service activities	2 261	2 352	2 165	2 614	4 170	4 533	4 974	6 631
Information and communications	10 025	9 483	9 410	9 768	6 248	6 716	7 297	8 966
Financial and insurance activities	7 151	8 531	9 739	10 027	6 688	6 864	7 282	7 566
Real estate activities	58 683	58 095	59 677	57 751	847	980	954	1 053
Total service sector	-	145 731	154 239	159 818	-	71 794	75 276	84 231
Total for all activities in the Republic of Macedonia	280 019	285 859	307 255	316 877	159 907	176 316	185 174	201 899

Source: *State Statistical Office, Statistical review No 3.4.17.02/885*
<http://www.stat.gov.mk/Publikacii/3.4.17.02.pdf>, *Statistical review No 3.4.18.01/903*, <http://www.stat.gov.mk/Publikacii/3.4.18.01.pdf>

The low level of wages in the fields of tourism and hospitality is linked to another phenomenon in economic theory defined as - underemployment (McConnell-Brue et al., 2009). This phenomenon is also present in other activities of the service sector (for example, trade), but it is especially emphasized in tourism and hospitality. The insufficient employment of enterprises in the tourism and hospitality industries is a manifest as a phenomenon where a large part of the employees are employed less hours than they want, work on things that do not correspond to their training or qualifications, or spend a large part of working time unproductive. This situation leads to a decrease in labor productivity, which further pushes for wage cuts.

The service sector of the selected service activities in the Republic of Macedonia participates with 45.7% in the gross business surplus (profit) in the Republic of Macedonia in 2016. The compensation of employees (wages) in the selected service activities for that year participates with 30.8% in the total amount at the level of the Republic of Macedonia. For the entire service sector (selected plus: health, social affairs, culture, education, etc.) in 2016, it participates in profit with 50.4% and in wages of employees with 41.7%. Such figures confirm the thesis that "non-productive" service activities are more intense in creating incomes in the Republic of Macedonia.

Service activities generate more profits from other activities, among other things, and due to the smaller mass of paid wages in service. But there are significant differences for individual service activities.

Accommodation and food service activities in the creation of business surplus in the country in 2016 accounted for 0.7%, while within the selected services with 1.54%. For comparison, the activity related to real estate accounts for 19.4% of gross business surplus of all activities in the Republic of Macedonia, while within the service sector with 42.5%. In the compensation of employees (wages), the activity related to real estate participates in wages with 0.5% in the Republic of Macedonia.

Activities from tourism and hospitality are poorly accumulated. Therefore, the lack of own savings should be supplemented by additional

accumulation from the financial system. The underdeveloped financial structure in the Republic of Macedonia promotes banks as major financial institutions for financing investments in tourism and hospitality companies. Unfortunately, there is a bad combination of mutual indifference on both sides. Thus, tourism and hospitality companies do not have the solvency, nor are the banks willing to risk them. The end result of the whole process is the stagnation in the tourism industry in the Republic of Macedonia due to the non-receipt of loans from the banks (Gogoski-Miloshevic et al., 2018).

Compared to previous data on average wages paid, it is noted that the service activities with higher wages participate with most in creating profits. Such information activities related to real estate are the most attractive business for making a profit, with the activities of finance and insurance, information and communications. Unfortunately it does not apply to accommodation and food service activities. No one can expect greater dynamism in the near future either.

Conclusion

Structural changes caused by several technological revolutions have made the tertiary sector or services sector to turn into the dominant area of economic activity worldwide. Emerging economies, such as the Republic of Macedonia, its ongoing economic development, in addition to agriculture, also expects to derive from the services sector. Additionally, in the Republic of Macedonia, tourism and hospitality are strategic branches of which much is expected for further economic growth. But is it so?

Based on the facts of the paper, the following conclusions are presented.

First, due to a series of methodological problems and simplification of the analysis, in this paper, only the part of the activity of accommodation and food service activities for which there are direct and immediate data in the official statistics of the Republic of Macedonia is monitored. Also, some of the services in the service sector that are considered important for the tertiary sector in the Republic of Macedonia, i.e. for the economic development of the country, are arbitrarily selected.

Second, the structure of GDP creation in the Republic of Macedonia by the service industries is stable and it has not changed significantly in the

observed period. The share of the activity of accommodation and food service activities is low and stagnant - in the structure of GDP at the level of the national economy, as well as within the service sector. Although the participation of the service sector in the creation of GDP in the Republic of Macedonia is dominant, the activity of tourism and hospitality has marginal significance. And not only that, the participation of activities directly and indirectly related to tourism (trade, transport, travel agencies and operators, etc.) is far from being the main driver of economic growth in the Republic of Macedonia.

Third, the service sector in the Republic of Macedonia is dominant, that is, the "production" service activities are represented by more than two thirds in business entities in the Republic of Macedonia, but they participate in the total turnover with one half. In accommodation facilities and food service activities, the fact that the number of enterprises is almost five times higher than the share in the total turnover shows that the dominant business entities are from the part of the small economy. This is not a big disadvantage given that for the underdeveloped economies small business firms should be carriers of growth, primarily because of their flexibility in times of crisis and financial insolvency. So the problem is not that there are small firms, but that they are not active enough (seasonal character).

Fourth, it can be concluded that accommodation and food service activities employ a significant number of workers in relation to all employees in service activities. This confirms the labor-intensive nature of the tourism and hospitality activities. Within accommodation and food service activities, the part of food preparation and servicing has dominant participation of employees. Employment in travel agencies has a higher degree of qualification in terms of employment in food preparation and servicing. An activity with a higher degree of qualification is less represented in the activities of tourism and hospitality.

Fifth, the average paid wage per employee in accommodation and food service activities is the lowest for all service activities of the Republic of Macedonia, except for the activity wholesale and retail trade.

Data for earnings in the service sector show that the labor force is directed more towards other service activities than towards accommodation and food service activities. Considering the great importance of human capital, this situation can have serious consequences in the long run from

the lack of quality professional labor force in tourism and hospitality, and hence further stagnation of this activity within the service sector. Thus, other service activities, primarily information and communication, financial activities and insurance, will be more significant for the development of the Republic of Macedonia, because they will absorb the skilled labor force.

Sixth, in the case of the Republic of Macedonia, it is positive that service sector is dominant in the investments, but within that, tourism and hospitality companies are marginalized. This means that the technological capability of other service activities is increasing, and potentially in the future will have a greater significance for the development, as well as in the GDP growth in the Republic of Macedonia. This will also affect the direction of the already limited financial resources available in the financial intermediaries in the economy of the Republic of Macedonia toward other service activities, and not to the activities in tourism and hospitality.

Seventh, although the share of investments as a stock is negative, investments as a flow are encouraging accommodation and food service activities. Within service activities in the last years, accommodation and food service activities have had the largest dynamics of net investments compared to other service activities. This can be an indication of positive shifts in the technical equipment of tourism and hospitality in the future, with all the positive consequences that arise from this.

Eighth, the increase in investment from year to year is associated with an increase in the current profitability of firms. Service activities generate more profit than other activities due to, among other things, the lower mass of paid wages (compensation of employees) in the service activities. However, the wages (compensation) increase may affect the increase in the engagement of the labor force, greater effectiveness, and even increased productivity. Unfortunately, there is a low level of wages, even a subsidence, for accommodation and food service activities, and it causes negative changes, of which the main problem is the lack of professional labor force.

References

1. Gogoski R. (2012). *Ekonomija*. Fakultet za turizam i ugostitelstvo, Ohrid, pages 137-149.

2. Gogoski, R., Miloshevic, B., Naumov, K. (2018). Tourism and hospitality companies and the credit activity of the banks in the Republic of Macedonia. *14th International Scientific Conference on Service sector "INSCOSES 2018"*, Ohrid, Republic of Macedonia, 147-160. <http://www.uklo.edu.mk/tabs/view/7f64e16d0371e3900bd01765230701e7>
3. Gogoski, R., Naumov, K. (2018). Capital and investments in companies in tourism and hospitality in the Republic of Macedonia. *The Third International Scientific Conference tourism in function of development of the republic of Serbia - Tourism in the Era of Digital Transformation*, Thematic Proceedings, Vrnjačka Banja, Serbia, 657-672.
4. McConnell, C. R., Brue, S. L., Flynn, S. M. (2009). *Economics - Principles, Problems, and Policies*. eighteenth edition, McGraw-Hill Irwin, New York, chapter 39w.
5. National Bank of the Republic of Macedonia (NBRM). *Banking system Reports, annex, different years*, http://www.nbrm.mk/izvieshtai_za_bankarskiot_sistiem_na_riepublika_makiedonija7b8cb632.nsp
6. Republic of Macedonia, State Statistical Office, *Statistical review No 3.4.17.02/885*, <http://www.stat.gov.mk/Publikacii/3.4.17.02.pdf>,
7. Republic of Macedonia, State Statistical Office, *Statistical yearbook of the Republic of Macedonia, 2018*. <http://www.stat.gov.mk/Publikacii/SG2018/09-NacEk-NatEc.pdf>
8. Republic of Macedonia, State Statistical Office, *Македонија во бројки за 2016*, http://www.stat.gov.mk/Publikacii/MakedonijaVoBrojki2016_mk.pdf
9. Republic of Macedonia, State Statistical Office, *Македонија во бројки 2018*, http://www.stat.gov.mk/PrikaziPublikacija_1.aspx?rbr=722
10. Republic of Macedonia, State Statistical Office, *Statistical yearbook of the Republic of Macedonia 2017*, <http://www.stat.gov.mk/Publikacii/SG2017/07-PazarNaTrudot-LabourMarket.pdf>
11. Republic of Macedonia, State Statistical Office, *Statistical yearbook of the Republic of Macedonia 2018*, <http://www.stat.gov.mk/Publikacii/SG2018/07-PazarNaTrudot-LabourMarket.pdf>

12. Republic of Macedonia, State Statistical Office, *Statistical review No 3.4.18.01/903*, <http://www.stat.gov.mk/Publikacii/3.4.18.01.pdf>
13. Sloman, J., Garratt, D. (2016). *Essentials of Economics*, seventh edition, Pearson Education Limited, Harlow, England, Chapter 8.