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FACULTY OF ECONOMICS

MASTER'S THESIS

**THE INFLUENCE OF ENTREPRENEURSHIP AND SME's ON
ECONOMIC GROWTH IN KOSOVO**

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AUTHORSHIP STATEMENT

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INTRODUCTION

Entrepreneurship and economic growth, during the past decades, have both enjoyed the interest and attention of politicians, economists, and researchers. The relationship between entrepreneurship and economic growth has been even more obvious during recession times, because the economic growth stagnates. It is important to stress out that during the last recession that happened between 2008 and 2010, entrepreneurship was considered as the most viable, encouraging, and realistic solution that had the capacity to create jobs for the economy and to provide human progress in countries that faced difficulties during the recession (Fairlie, 2011).

The first authors that attempted to find a viable relationship between entrepreneurship and economic growth were Wennekers and Thurik (1999). Even though, many studies have been conducted to find the relationship between entrepreneurship and economic growth, only a few of them managed to offer empirical evidence that such relationships exist (Karlsson, Friis, & Paulsson, 2004).

Entrepreneurship and SMEs are recognized as relevant factors for encouraging the competitiveness, economic growth and job creation. It is important to understand that entrepreneurship and SMEs are related but they are not synonymous concepts. Entrepreneurship, as a type of behavior, is more concentrated on opportunities rather than sources. This type of behavior is typical for both small and large business. Whereas, small business can be considered as vehicles for both Schumpeterian entrepreneurs, introducing new ideas, products, and processes that change the economies or industries, and for people who own or simply run a business for living (Wennekers & Thurik, 1999).

One of the most relevant factors that influences and has a positive effect on the growth of the economy is competition, which is also a common place for entrepreneurs. A contribution of entrepreneurship in economic growth is represented by the increasing number of entrepreneurs in the market. Economic growth and employment is encouraged by local competition measured by considering the number of the businesses in particular region per number of employees (Carree, 2002). Self-employment is promoted by entrepreneurship which has proved to have an impact in productivity growth, but this observation was contested and there is still a contest whether countries should adopt the equilibrium or the self-employment model due to the failure of self-employment model in countries such as Italy. As a result of this failure, high levels of self-employment in the country have proved to be inefficient for economic development.

Entrepreneurship is considered more of an individual concept as it is related to the actions of individuals, while economic growth, as a concept, was always considered relevant by the firms, in industrial, national and regional stages (Robbins, Pantuosso, Parker & Fuller,

2000). Thus, the merge of an individual to aggregate levels is a result of linking entrepreneurship with economic growth.

Entrepreneurship and entrepreneur have an important role in linking entrepreneurship to economic growth because entrepreneurs have the ability to create new business ideas and opportunities but also determination to introduce new products to the existing markets by considering uncertainties and obstacles. Accordingly, they engage in critical decision making activities such as utilization of available resources, organizational method, business location etc. (Todtlingand & Wanzanbock, 2003).

Increased competition and environmental changes are seen as the main motives for small firms to innovate in modern economy. Increased competition also encourages firms to generate new ideas and facilitate the entry of new enterprises in the markets, specialized in particular products. This occurs because small firms can produce complementary products that serve as the basic offer for large enterprises, avoiding at the same time competing with these firms.

However, it should be underlined that small firms compete with big enterprises too. Thus, this has an effect on increasing the competition, but also the productivity in a given industry by putting pressure on firms to innovate, offering new goods and services by using the most modern and effective methods of production.

In the economic theory, the entrepreneur is seen as an incomprehensible character, and this comes primarily due to the difficulties to produce a single accurate definition of who we should truly call an entrepreneur. It is seen almost impossible to produce a single definition for the entrepreneur and this comes as a result of the obstacles on the operational levels, different presentation on paper, and different acts in the field (Karlsson, Friis, & Paulsson, 2004).

Entrepreneurship creates the opportunity for the person to contribute and many young entrepreneurs help the growth of the local economy. There is no definitive profile of entrepreneurs. Successful entrepreneurs are of different ages, have different incomes, race, and may come from countries with different economic systems and different levels of economic development. They differ in education and experience, but the most vital points of entrepreneurs are their special attributes such as commitment, creativity, flexibility, leadership, self-confidence, and passion.

The purpose of the master thesis is defining, studying and analyzing the influence of entrepreneurship and SME's on economic growth in Kosovo. The research design of the project includes a combination of desktop and empirical research. This research project relies both on primary and secondary sources. For the purpose of elaborating the problem,

we used the exploratory approach. Theoretical knowledge and concepts are derived from the online research such as journals, articles, publications, reports from organizations, books and reliable internet sources. Quantitative research method was used for this research project.

The master thesis consists of four main chapters. The first chapter includes information on the definition of entrepreneurship and different theories. The second chapter elaborates the relationship of economic growth with entrepreneurship. The third chapter includes the factors that influence the development of the SMEs in Kosovo, whereas last chapter provides information on the analysis of the influence of entrepreneurship and SME's on economic growth in Kosovo.

The purpose of this study was to address the following questions:

- What is the impact of entrepreneurship and SMEs on job creation?
- Is entrepreneurship a solution to high unemployment rates in Kosovo?
- What is the role of entrepreneurship in increasing competition?

Some of the main limitations of the study are considered to be: the questionnaire has not been tested on a given sample before, the used terminology, honesty in answering, time and content limitations.

1 DEFINITIONS AND THEORIES

Different definitions of entrepreneurship have been provided by both classical and neo-classical theorists, but we still do not have a unified definition. There are many points of view, as many researchers define entrepreneurship from the economics perspective, psychology, sociology, and managerial perspective. Considering all the definitions from all the respective fields we conclude that entrepreneurship is a multidimensional concept (Ricketts, 2008).

According to Ricketts (2008), entrepreneur as a key economic factor, was firstly acknowledged by Richard Cantillon. He attributed all the exchanges in the economy to the entrepreneur because entrepreneurship involves the process of risk taking and it has a crucial role on equilibrating supply and demand in the market (Ricketts, 2008).

Say (1885; in Bula, 2012) came up with different definition for entrepreneurship. Say believed that entrepreneur is a relevant agent in the production process in the economy and a manager of the business. The risk taking factor is not very relevant to Say because he

believes that the main principle of the entrepreneur is good judgment. Moreover, he believes that entrepreneur has different role compared to capitalist because the goal of the entrepreneur is not to increase the profit but the wage available for scarce labor (Hébert & Link, 1989; in Bula, 2012).

A well-known economist Alfred Marshall emphasized the relevance of the entrepreneur in economic development and contributed further on defining entrepreneurship. When defining entrepreneurship Cantillon and Say brought together managerial and risk taking aspects whereas, Marshall introduced the innovation as a function of the entrepreneur by stressing out that the entrepreneurs always seek new opportunities in order to minimize the costs of their company (Hébert & Link, 1989; in Bula, 2012).

Schumpeter's ideas regarding the definition of entrepreneurship are related to the economic perspective because they are concentrated on the introduction of the new ideas, economic opportunities and perception. Hence, it is assumed that entrepreneurs identify the opportunities, complete the business plan, find out the required resources, and wait for the rewards (Ricketts, 2008).

In the Cantillon's theory, an entrepreneur is not considered a production factor; instead the entrepreneur is considered a risk taking factor that equilibrates supply and demand. He describes entrepreneurship as a risk taking process that involves buying products at a certain price and selling the same products at an uncertain price. Basically, according to Cantillon's theory, the entrepreneur is someone who is a specialist on taking the risk in the world of uncertainty (Hébert & Link, 1989; in Wennekers & Thurik, 1999).

Equilibrium creating entrepreneur is the main concept of the Marshall's approach. Whereas Schumpeter's main problem with modern corporations is that its managers in the modern corporations do not fill the strong social role of the entrepreneur. Under the assumptions of perfect knowledge and information, perfect competition, and free entry and exit, there are elaborated equilibrium conditions in the market by the Neo-classical theory and the Marshallian analysis (Schumpeter, 1942; in Bula, 2012).

In Marshall's approach, there is no excess profit opportunity and, at the same time, the goal is to show that market assumptions are comprehensible under the perfect competition. Therefore, everyone earns his marginal contribution on production and national income excluding exploitation of labor in the production process. Marshall's approach towards perfect competition is to create the equilibrium by including all the players in the market, thus creating the perfect competition and neglecting monopoly market (Schumpeter, 1942; in Bula, 2012).

Marshall confusingly points out that large scale production is essential for economic progress and economic innovation, also by utilizing micro innovation in the market process by numerous small competitors. This theory contemplates “great men” who establish the equilibrium in the supply and demand (Schumpeter, 1942; in Bula, 2012).

According to Schultz (1975; in Bula, 2012), entrepreneurship is considered to be the ability to deal with unexpected situations, particularly with situations of disequilibrium. In addition, entrepreneurship is viewed as the ability to coordinate the allocation of resources efficiently. In disequilibrium, actors act sub-optimally thus, they can allocate resources to achieve a higher level of satisfaction. In disequilibrium entrepreneurs have an opportunity to increase the level of satisfaction but the allocation process requires time. The quality of allocation of resources can be achieved by investing in human capital or by experimenting (trial and error) (Hebert & Link, 1988; in Bula, 2012).

Furthermore, according to Schultz (1975; in Bula, 2012), entrepreneurship exists in all aspects of our daily lives. Thus, students and housewives are entrepreneurs when they achieve to allocate time for studying activities and for housework. Schultz argues that it is possible to analyze entrepreneurship in the context of conventional supply and demand framework and the market for entrepreneurship exists, thus entrepreneurship can improve by investments (Hebert & Link, 1988; in Bula, 2012).

In comparison to neo classical approach where the main focus is the condition necessary to achieve equilibrium and Schumpeter’s creative destruction, Kirzner represents the Neo-Austrian approach to entrepreneurship with focus on answering the question regarding the process that shows that the economy is going towards equilibrium and whether the economy works. Kirzner came up with idea that the economy is in a state of disequilibrium and the competition among alert entrepreneurs leads to equilibrium (Kizner, 1985; in Wennekers & Thurik, 1999).

Furthermore, Kirzner (1985; in Ricketts, 2008) argues that for change to happen, the entrepreneur needs incentives. Also, the markets are not constantly clear and there are no entirely informed representative agents. Kirzner (1985; in Ricketts, 2008) believes that incentives come from differences among agents in terms of information and knowledge.

According to Kirzner’s approach (1985; in Ricketts, 2008), a change in preference or an investment in the production technique leads to disequilibrium in the market. This idea is based on that the market was previously at an equilibrium state. If the market is in equilibrium, than there is no space for the entrepreneur to exercise their business because there is no exchange and profit opportunity. Hence, whenever we have economic changes, different planned activities will fail or will not be realized.

Schumpeter's view on entrepreneurship is more of an innovation process than an imitation. This approach argues that the innovator as an economic leader is not interested much on the economic profits but rather preoccupied with the joy of being an inventor. Schumpeter's approach to entrepreneurship is more of the innovator as he moves out of the static equilibrium (Schumpeter, 1934; in Wennekers & Thurik, 1999).

According to Schumpeter (1934), the entrepreneur is continually creating new products or production methods as the economic system moves out of the static equilibrium. Furthermore, this driving force behind economic development, also known as the process of creative destruction, is identified by Schumpeter (in Wennekers & Thurik, 1999).

Knight (1921) argues that the main abilities of entrepreneurs are to assume uncertainty and defend all other stakeholders. In addition, the innovation role of the entrepreneur was pointed out by Marshall, whereas on the other hand Knight defines the entrepreneur in terms of uncertainty, risk and profit. Furthermore, Knight found the distinction between risk and uncertainty. He defines uncertainty as uninsurable since it is related to a unique event e.g. change in customer taste (in Ricketts, 2008).

According to Knight (1921), the entrepreneur analyzes the unique situation where the main function is to assume the uncertainty related to these events, also the uncertainty in the economy, plays the role of an insurance agent. In addition, Knight views entrepreneurs as owners of companies, he claims that in order to have profit, the entrepreneur has to accomplish three tasks: to initiate all the useful changes or innovations, to adapt quickly to changes in the economic environment and to be responsible for assuming the consequences of the uncertainty related to the firm (in Ricketts, 2008).

1.1 Understanding Entrepreneurship and Economic Growth

The creation of a country's dynamism and wealth relies upon the competitiveness of its companies and the capabilities of its managers and entrepreneurs. The strongest point of the modern companies lies in the specialization of particular functions. Businessmen manage economic activities or managers and entrepreneurs without participating actively in terms of capital usually control the firm. In terms of business capabilities, it is required to understand the differentiation between the functions of entrepreneur, manager and capitalist, even though there are cases where the same person performs all three functions (Cuervo, Ribeiro & Roig, 2007).

The individual entrepreneur discovers business opportunities which are utilized by enterprises, very often participates in capital funding of the business, and has the main decision-making role in the enterprise or simply sells the business idea to a particular

business or investor. There must be also considered the chief executives of large firms or “corporate entrepreneur” (Cuervo, Ribeiro & Roig, 2007).

These positions are no longer limited to efficiency of managing company’s sales, assets, human resources, marketing, and coordinating and controlling activities, but include functions such as articulation, forecasting and change in management. Basically, they must reinvent the company on a daily basis, create new firms but also develop the company network. If we elaborate the figure of the corporate businessman, we must also consider the key shareholders and managers that have a relevant active role in making up the firm’s basic competences (Cuervo, Ribeiro & Roig, 2007).

Nevertheless, the key functions of the managers are to manage the combination of process resources, and to supervise efficiently business portfolio of the company. Key functions and abilities of the managers must be expressed especially when the company is not operating efficiently, and instead they are far away from their production capacities. An atmosphere of trust and reputation is the second fundamental task of the manager in order to have the appropriate conditions for transforming a conflictive system into a cooperation system (Leibenstein, 1979; in Cuervo, Ribeiro & Roig, 2007).

Indeed, managers should have appropriate skills and attitude to maintain a climate of trust, because it halts employees from having opportunistic behavior even though it might work better for the short term. It is also required to achieve greater degree of efficiency by reducing agency costs and supervision (Wennekers & Thurik, 1999).

The capitalist is the provider of the funds, either in the form of a passive shareholder, a majority shareholder or active shareholder. In many small and medium-sized enterprises, active shareholder performs both the entrepreneurial and managerial functions (Wennekers & Thurik, 1999).

The entrepreneurial function implies exploitation of opportunities, discovery, and assessment, or in other words, new production and services, new organizational form, strategy, and market for the products and services that have not been present in the market before. Entrepreneurial opportunity is considered unvalued and unexpected opportunity in economy (Wennekers & Thurik, 1999).

The presence of entrepreneurial opportunities is dependent on different stakeholders that have different thoughts on the relative value of resources or even when capital is transformed from inputs into outputs. The heterogeneity of beliefs about the value of capital is the concept that the theory of entrepreneurship is focused on. Discovery of business opportunities and the creation of economic activities which very often result in

the establishment of new organizations are entrepreneurial or entrepreneurship functions (Shane & Venkataraman, 2000; in Cuervo, Ribeiro & Roig, 2007).

Considering the fact that there are no markets for “opportunities”, the entrepreneurs have to explore for them, and entrepreneurs must develop their attitude and skills to exploit opportunities as well as to obtain resources. Entrepreneurship, as a concept, is very often discussed and understood in the framework of the entrepreneurial factor, entrepreneurial function, entrepreneurial behavior, and entrepreneurial initiative (Cuervo, Ribeiro & Roig, 2007).

The entrepreneurial factor is considered different to the classic idea of capital of work, and even though it is a new factor in production, it has to be illustrated through income of the entrepreneur associated with shortage of persons with entrepreneurial capabilities. Entrepreneurial behavior includes a combination of pro activeness, innovation and risk taking. Thus, it can be considered a combination of innovative entrepreneur from the classical theories of Schumpeter (1942) and risk taking entrepreneur that is fulfilling uncertainty position as proposed by Knight (1921) and the last, the entrepreneur with initiative and imagination who has ideas and generates new opportunities (in Cuervo, Ribeiro & Roig, 2007).

Entrepreneurial initiative includes the ability to innovate in order to produce new products or combinations which also emphasizes the ability to forecast correctly market imperfections. Indeed, risk taking, opportunity generation, and innovation are all covered by the concept of the entrepreneurial initiative. Finally, one can argue that the entrepreneurial spirit includes relevant components such as research, exploration and innovation, whereas the exploitation of business opportunities in one or another way represents managerial functions (Wennekers & Thurik, 1999).

All these processes and functions show why entrepreneurship is always perceived in different manners. Thus, business process always covers the identification and assessment of business opportunities, the decision to use or trade them, the efforts to allocate resources, the development of the strategic planning, etc. Indeed, if the managers and businessmen of the companies consider entrepreneurial behavior when developing business strategies, companies would have had much better future (Lee & Peterson, 2000; in Cuervo, Ribeiro & Roig, 2007).

The fundamental activity of the entrepreneur is business creation, studied at an individual or group level by analyzing social variables of education and other psychological aspects, background, family or even economic, cultural and social aspects of development. In order to analyze entrepreneurs at the individual level, it is necessary to include psychological variables that describe their appearance like personal traits, the need for achievement,

controlling capacity, risk taking tendency, and other variables that are not psychological like family, education, experience and network (Cuervo, Ribeiro & Roig, 2007).

Moreover, socio cultural and institutional stakeholders emphasize the role of exclusion and changes in social structure as promoters of the entrepreneurial function in minorities or marginalized groups. Thus, environmental variables highlight the relevance of shared values in society or culture, legal framework and institutions related to it, variables related to the financial and economic environment (Cuervo, Ribeiro & Roig, 2007).

Hence, we have three core ideas that in one or another way represent the appearance of entrepreneurial activity. The first is focused on the individual because the entrepreneurial activity is considered as a human attribute since entrepreneurs are different from the rest of the society due to the fact that they have the willingness to accept and face the risk and uncertainty and they have significant need for achievement (Eckhardt & Shane, 2003; in Cuervo, Ribeiro & Roig, 2007).

The generators of the entrepreneurial activity such as environmental and economic factors that include market dimensions, market structure, technological and industrial development make up the second idea, whereas the third idea is associated with the institutional functionality and cultural and social values. Hence, it is relevant to point out that all these approaches are not exclusive, due to the fact that entrepreneurial activity is also considered as human activity and it does not occur only due to the technological, environmental, economic, demographic or normative alterations (Eckhardt & Shane, 2003; in Cuervo, Ribeiro & Roig, 2007).

The term entrepreneur and entrepreneurship had been perceived differently depending on the role they have had and the time they have been used. To describe the entrepreneur, different names have been used such as, strategic renewal, entrepreneurship corporate, corporate venturing, and internal corporate entrepreneurship (Eckhardt & Shane, 2003; in Cuervo, Ribeiro & Roig, 2007).

Compared to traditional method of managing organizations, entrepreneurial management is completely different and nowadays many managers are looking for new methods to transform the management of the organizations by considering entrepreneurial characteristics, especially in terms of the rewards schemes and general strategic direction (Brown, Davidsson & Wiklund, 2001; in Cuervo, Ribeiro & Roig, 2007).

Moreover, entrepreneurship is categorized as an essential component for achieving economic sustainability, and its importance relies on the fact that through entrepreneurship, there is an opportunity to identify, assess and explore business opportunities, establish new businesses, renew the existing ones by transforming them, create new jobs, innovate, and

improve the general well-being of citizens because entrepreneurship influences all aspects of the economy, including here the enterprises, regardless of the status of the organization, size, age, etc. (Eckhardt & Shane, 2003; in Cuervo, Ribeiro & Roig, 2007).

We have limited knowledge in regards to the entrepreneurial aspect like, business opportunities, type of people that pursue them and their background, skills that they use to organize and exploit opportunities, and the favorable environmental conditions. Thus, at different levels, many studies are conducted such as in individual, company, industry, and geographical area level because there is no single basic theory for this particular study (Eckhardt & Shane, 2003; in Cuervo, Ribeiro & Roig, 2007).

1.2 Entrepreneurs and their role in economic growth

It is argued that as institutions acquire solid ground and strength, economic development improves as entrepreneurial activity moves towards productive entrepreneurship. In many cases, it has been demonstrated empirically that opportunity driven entrepreneurs can be used as a source for the economic sustainability and growth. For example, the case of financial crisis of 1991 in Japan has shown that entrepreneurship has significantly contributed to the economy of the country. Even though the growth of the economy was influenced by different factors which are considered relevant attributers, a few economists believe that entrepreneurship is an important factor that contributes to the economic development (Acs and Szerb, 2010; in Ekmekçioğlu, 2013).

Early findings have shown that wealth creation and investment opportunities are derivatives of entrepreneurial activity (Davidsson, 2005; in Ekmekçioğlu, 2013). Uncertainty and risk taking, in the traditional context, were always related to the entrepreneurship as entrepreneurship's main effort was in transforming goals and objectives into business activities. In addition, new theories that have been developed support the idea that companies that have entrepreneurial characteristics remain innovative, consequently having a high degree of economic growth (Gregoire et al., 2006; in Ekmekçioğlu, 2013).

To explain better the entrepreneurship's contribution to economic growth, Carree and Thurik, (2002) created five standards of evidence to express their involvement.

The first is the turbulence effect on the economy where total number of entries and exits in certain region or industry are considered as indicators of the entrepreneurial activity (Carree, Van Steel, Thurik & Wennekers, 2002)

The second standard of evidence is changes in the distribution size in a certain region, which are considered to have a significant impact on the economic growth (Carree, Van Steel, Thurik & Wennekers, 2002).

Third standard of evidence proposes that increasing number of the participants in a certain industry will positively affect the growth of the economy (Carree, Van Steel, Thurik & Wennekers, 2002).

The fourth standard of evidence supports the idea of the self-employment for the growth of the economy and it further analyzes the influence of the business owners and self-employed in the economic growth (Carree, Van Steel, Thurik & Wennekers, 2002).

Fifth standard of evidence shows that previously planned and centralized economies will influence the economic growth (Carree, Van Steel, Thurik & Wennekers, 2002).

It has been confirmed that competition among business has had a positive influence on the economic growth. Entrepreneurial activity associated with increasing number of business in the market contributes to the growth of the economy. Local competition in particular encourages growth of employment, thus economic growth (Carree, 2002).

Entrepreneurship has impact on the productivity growth by encouraging self-employment. Nevertheless, there are still many doubts whether countries should implement the model of self-employment, due to the fact that there were cases where the model failed such as in Italy (Chang, 2011; in Ekmekçioğlu, 2013).

Countries that have sustainable economies, such as Scandinavian countries, are characterized with low rates of self-employment, low entry and exit and extensive public sector. Germany is also characterized with low rates of self-employment. Furthermore, Germany did not support structural changes; instead they supported massively with subsidies large scale industries (Van Steel, Carree & Thurik, 2004; in Ekmekçioğlu, 2013).

While analyzing the effect of the Great Depression, Joseph Schumpeter came to conclusion that it is essential for the countries to promote entrepreneurial activity during financial crises. In 2009, the case of the United Kingdom and the United States showed that all the efforts of the state authorities did not help in decreasing the deficit in the public sector (Chaston & Scott, 2011; in Ekmekçioğlu, 2013).

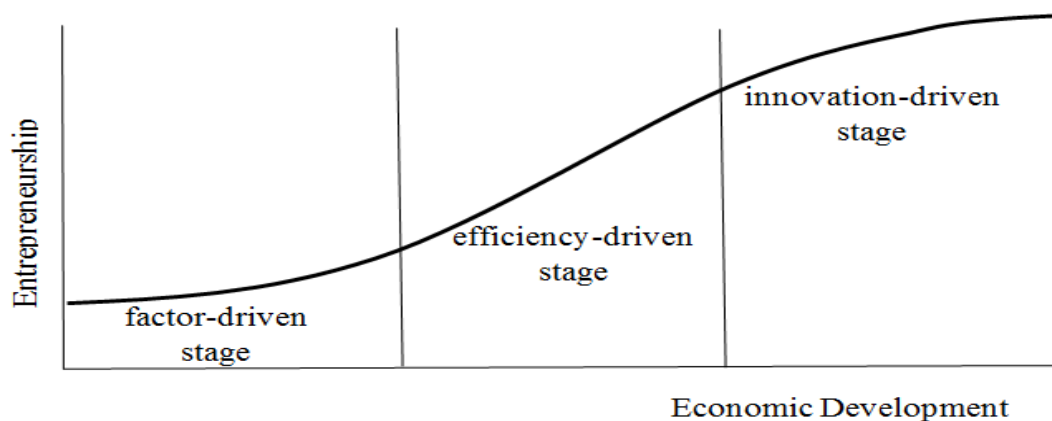
Furthermore, financial malpractices resulted in the emergence of the debt crisis in different countries such as China, India, and United States, and as remedy for the crisis, these countries focused on enhancing entrepreneurial activities thus enhancing the economic growth (Jain & Pisani, 2008; in Ekmekçioğlu, 2013).

An important factor in the entrepreneurial activity during the crises is innovation. It has been proven many times that innovation has always been helpful during economic crisis to cope with competition, and to remain competitive in cutting costs. The way we live and work is highly influenced by the innovation process which includes discovering and realizing ideas at large scale (Trott 2008; in Ekmekçioğlu, 2013).

Entrepreneurial oriented companies emerge when managers take risks, adapt to changes, gain competitive advantages, and utilize the advantage of innovation. Businesses that increase the entrepreneurial activities and innovation achieve business growth, support and expansion. Hence, companies that have the courage to promote entrepreneurial activities and follow their openness to transform the business process can attain a higher business performance (Chaston & Scott, 2011; in Ekmekçioğlu, 2013).

Entrepreneurship is regarded to have huge contribution to economic growth by providing employment, welfare and innovation. Equivalent and entrepreneurship stages of development are presented in figure number 1.

Figure 1. Entrepreneurship and the Equivalent Stages of Development.



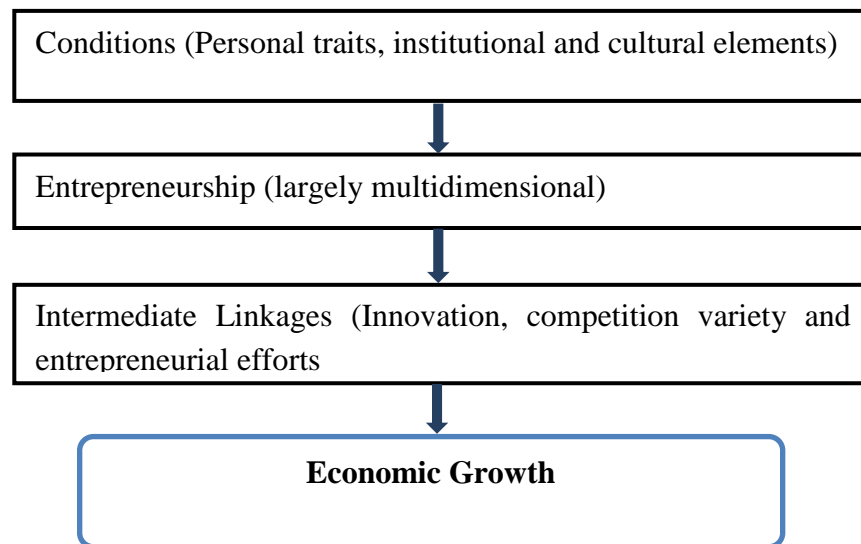
Source: Zoltán J. Ács and László Szerb, *The Global Entrepreneurship and Development Index (GEDI)*, 2010, p.5, Figure 1.

In the factor driven stage are countries where the economy is concentrated on the use of unskilled labor and natural resources and businesses compete with prices as they buy and sell elementary products. In the efficiency driven stage, the growth of the economy is focused on the development of efficient production processes and on increasing the quality of products, whereas in the innovation driven economies, businesses compete by bringing new and different products and services to the market by using sophisticated processes.

There have been enormous discussions and debates on how entrepreneurship stimulates the economic growth in order to find out the importance of innovations and competition in this process. Measuring of entrepreneurial factors is considered to be the main problem, which consequently complicated the exact contribution to the economic development. For this reason, entrepreneurship is considered a multidimensional concept and it has still not been exactly defined (Todtling & Wanzanbock, 2003).

Due to different connections and variables that are present in the economy, it is required to have a framework to understand the role of the entrepreneurship in the growth of the economy. These variables include competition, innovation, and entrepreneurial efforts, whereas other factors that add up, when it comes to contribution of entrepreneurship to the economic growth, include personal traits, instructional, and cultural factors. In the Figure number 2, is presented the above mentioned framework (Wennekers & Thurik, 1999)

Figure 2. Introductory framework.



Source: Sander Wennekers and Roy Thurik, *Linking Entrepreneurship and Economic Growth*, 1999, p.30, Figure 1.

1.3 Entrepreneurship, economic growth and globalization

With the introduction of global economies the world experienced one of the most tremendous boosts in the economic growth as the focus of the businesses was in increasing competition, improving manufacturing operation, utilizing labor and technological factors, etc. All businesses that operate nowadays are accustomed to organizing business operations in one country while having headquarters in another country, enjoying technological features in different parts of the world while competing with different companies all over the world (Robaro & Mamuzo, 2012).

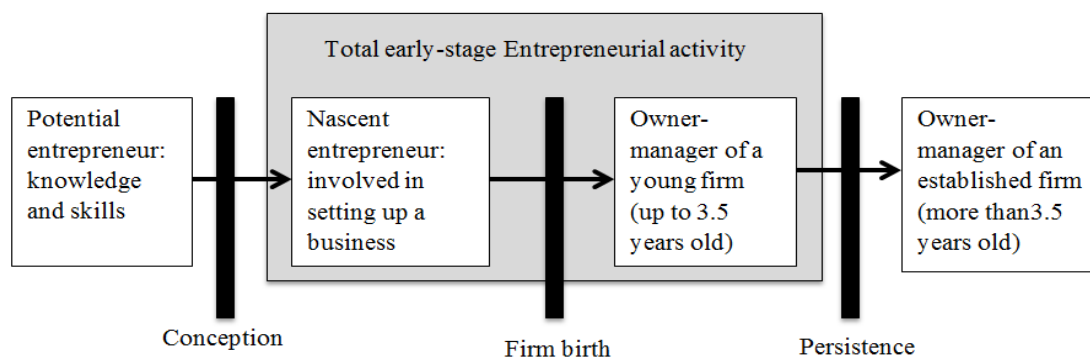
Nowadays, different countries at different stages of economic development are opening their economies to allow a free flow of goods but also to attract foreign investment. In order to adjust and benefit from globalization, economic reform is implemented in different countries not only in the governmental level but it is also expanded to private corporations. Furthermore, the countries that embraced the globalization process are bridging the income gap and consumption level of the country (Robaro & Mamuzo, 2012).

Globalization, as a phenomenon, provides completely new economic reality such as the need for the market of globally standardized products, increased competition, trade, income level, and consumption, and reducing poverty. The new economic reality is the derivative of the influence that globalization has on the development of entrepreneurship and for that reason, entrepreneurship is considered as a link between economic growth and globalization (Robaro & Mamuzo, 2012).

Removing trade barriers and transforming protected markets into competitive markets by promoting entrepreneurship, new products, and market creation, are just some of the aspects that we should take into account when we discuss the influence of globalization in economic growth and entrepreneurship (Audretsch & Thurik, 1998; in Wennekers & Thurik, 1999).

Moreover, entrepreneurs are pushed to innovate, increase efficiency, and to adjust to changes in market conditions as a result of the increased global competition. As globalization increases, competition among businesses triggers the production of the innovative and quality products which require extraordinary research and creativity, in this way engaging entrepreneurs in the so called “learning entrepreneurship” (Nickels et al., 2002; in Robaro & Mamuzo, 2012). Figure number 3 shows the development stages of the entrepreneurial activity.

Figure 3. Early stages of Entrepreneurial Activity.



Source: Paul Reynolds, *Global Entrepreneurship Monitor: Data Collection Design and Implementation*, 2005, p.208, Figure 2.

Globalization has a further positive effect on lowering prices of goods and services consequently, increasing the competition. This is not just beneficial for a final customer, but also for the entrepreneur, since the benefit of the entrepreneur is to have a lower cost of resources. Hence, globalization has given the opportunity to entrepreneurs to find out an undifferentiated strategy to reduce expenses that are related to product design and production (Nickels et al., 2002; in Robaro & Mamuzo, 2012).

Furthermore, globalization creates firms, named global corporations, which sell the same products in the same way everywhere in order to meet the demand of customers at a lower relative cost. Globalization of companies decreases the prices of the products, which is in the favor of the final customers because international companies can offer lower prices as they have reduced the cost due to large scale of production. Also, globalization, in regards to entrepreneurship development, provides accessibility to markets for producers to dispose of their products (Nickels et al., 2002; in Robaro & Mamuzo, 2012).

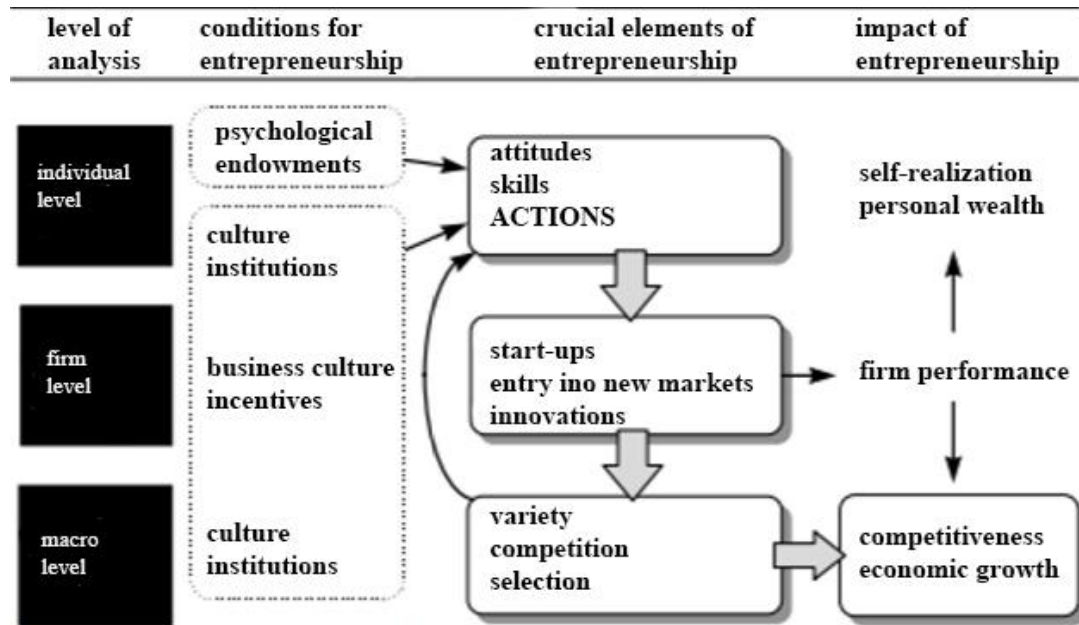
Due to globalization, entrepreneurs can have access to newly developed technologies elsewhere and an opportunity to enter new industries that can improve their sales. Furthermore, it enables entrepreneurs to borrow ideas, methods and processes from other countries and use them in their home countries. When the above mentioned entrepreneurs make a breakthrough into new markets, they gain knowledge from which the local entrepreneurship development can benefit. Hence, there is an opportunity to take advantage of the facilities in other countries, as they can move their operations to countries where these facilities are available which results in having relatively lower costs (Robaro & Mamuzo, 2012).

Another advantage of globalization is that it provides entrepreneurs with opportunity for funding their businesses through inflow of foreign capital. Local entrepreneurs can cooperate with international foreign entrepreneurs to provide the fund for the establishment of local enterprises, which in certain cases are not available over local sourcing. Moreover, local entrepreneurs have to collaborate with foreign entrepreneurs in the managerial and technical aspects because in some cases local entrepreneurs might have the necessary fund but they lack the managerial and technical skills, thus through globalization, it is much easier for entrepreneurs to collaborate (Robaro & Mamuzo, 2012).

Globalization provides cooperation for entrepreneurs where even small businesses, offering certain services that have advantages, can capitalize from overseas by being supported in their operations. In addition, globalization has affected entrepreneurship development and entrepreneurial personality change, through interactions and cultural associations (Robaro & Mamuzo, 2012).

Entrepreneurs with rich background from developed societies, through culture learning associations, generate positive influence on the values, attitude, behavior and philosophy which contribute to the creation of successful individual entrepreneurs. Thus, these positive traits are the key pillars of the entrepreneurial personality. Audretsch, Thurik, Verheul and Wennekers (2002) presented a framework of linking entrepreneurship to economic growth, which is presented in Figure 4:

Figure 4. Final framework: linking entrepreneurship to economic growth.



Source: Sander Wennekers and Roy Thurik, *Linking Entrepreneurship and Economic Growth*, 1999, p.51, Figure 4.

However, globalization does not always have a positive influence on entrepreneurship. One of the weaknesses of globalization is that it discourages creativity and innovation in developing countries because companies from these countries enjoy and copy certain products from the global market, in this way discouraging them to become creative (Robaro & Mamuzo, 2012).

Moreover, globalization forces entrepreneurs that own small enterprises to compete with corporations which have low operation and production cost. Another strong argument against globalization is that it requires product standardization to meet the needs of each country where they operate which puts an extra burden to enterprises (Robaro & Mamuzo, 2012).

An additional negative aspect of globalization is that it opens the opportunities for product dumping, as these products are sold at a cheap price due to the fact that they could not be

sold in home-countries because they are not genuine or they do not meet certain criteria; they destroy local competition by affecting the price of the domestic products (Robaro & Mamuzo, 2012).

1.4 Development of entrepreneurship and SMEs in Kosovo

The development of entrepreneurship in Kosovo is related to the establishment and governance of the socially owned enterprises, even though the concept of entrepreneurship in Kosovo has been developed in the recent years due to the drastic changes in political, economic and social aspect. The sector of the social enterprises in Kosovo has employed more than 20,000 people before the year of 1994, whereas the number of the employees in certain periods was reaching 60,000 people (Center, 2012).

Social enterprises were operating in different industries, including here the metal processing, plastic, paper, hotels, mines, agro-industry, agriculture, forestry, construction materials, textile, vineyards, beer production, tobacco, wholesales and retails. Out of 323,508 people that are employed in the Republic of Kosovo, 12,000 are employed in the central public enterprises in Kosovo, of which 7,500 work only in Kosovo Energy Corporation (KEK), after which is ranked the Post and Telecom of Kosovo (PTK), with 2400 employees (Center, 2012).

Almost all public enterprises (except Prishtina Airport that served for military purposes) which operate in Kosovo today have existed and functioned before the war of 1998-99 but have been organized according to the requirements of the socialist system of the time. They had been operating as social enterprises until 1999. It should be noted that the period from 1989 up to 1999, due to bad governance and political and economic crisis, has had a negative impact on all enterprises (Task Force on European Integration, 2012).

Since 1999, when Kosovo was administered by United Nations Mission in Kosovo (UNMIK), all utilities as well as the economy in general were administered by the Kosovo Trust Agency (KTA), established on the basis of UNMIK Regulation 2002/12 "on the Establishment of the Kosovo Trust Agency" which has been operating within the Pillar IV of UNMIK. This model of governance, in the absence of laws, continued until 2008, when Kosovo Privatization Agency (PAK) was established as the successor of the Kosovo Trust Agency, which was also in charge during this period when some of the enterprises prepared for transformation to the public enterprises (Task Force on European Integration, 2012).

Public Enterprises (POEs), which operate in Kosovo, are the heritage of the enterprises that have existed before 1999 but had other names based on the form of organization and

activities they performed. Some of the enterprises, which have been operating before 1999, have continued the same activity, but under a different name or by the division of former socially-owned enterprises, there were created two companies (as in the case of KEK and the Transmission System Market Operator-KOSTT) (Task Force on European Integration, 2012).

Only after 1999, when the fourth pillar of UNMIK was responsible for Kosovo's economy, all former socially owned enterprises were under the administration of former Kosovo Trust Agency (KTA), and since 2008, Privatization Agency of Kosovo (PAK). This was a period of consolidation attempts of former socially-owned enterprises in order to maintain continuity in the provision of public services which were offered at a very low level. These enterprises, in this period, faced serious problems because the property was damaged, and there was lack of labor force, lost markets due to the termination of operation, and lack of business suppliers and partners. There were many requests and claims from different creditors and lack of documentation (Task Force on European Integration, 2012).

Differences between public enterprises and the private sector are based on the fact that while the increase in profit for the owner is the obvious intent of private businesses, for public enterprises is presented a number of broad goals of satisfying public demands, employment, satisfying environmental requirements, and the fulfillment of social demands. The influence of the SMEs in economic development of Kosovo has been relatively weak because the economy of the country is in a transitional phase and entrepreneurship is expected to have significant role in the process of development and economic growth (Task Force on European Integration, 2012).

Furthermore, the economy is suffering from the payment imbalance because imports are significantly dominating exports and SMEs operating in Kosovo do not compete internationally. Hence, due to the fact that there is a high number of SMEs that do not export, they are also inhibiting the contribution of SMEs to GDP, economic growth and job creation. The export is mainly dominated by big enterprises which can only export base metals and minerals (BSCK, 2013).

The number of innovative businesses that are rapidly growing is very low in Kosovo because of the unfavorable economic environment and lack of the entrepreneurial culture. Furthermore, these companies are considered relevant financial contributors to economy in developed economies especially in terms of the jobs they generate. Even though, SMEs have crucial role in the process the economic growth due to innovation abilities, job creation, increasing competition, they have limited access to capital to fund their business development (BSCK, 2013).

Very often for SMEs in developing countries, the limited access to finance represents difficulties and obstacles to develop their business idea. In developing countries, such as Kosovo, very often SMEs have difficulties to access bank loans because due to imperfect information or lack of such, banks are facing obstacles in lending activity in this way offering unfavorable loan conditions (Center, 2012).

Almost all small businesses begin their business activity with an idea of reaching the maximum, and are mainly established by one or two individuals who invest their own resources or by borrowing from the family or friends or sometimes by getting an investment from different angel networks. If their business idea succeeds, the time comes when the emerging SMEs have to find investments for the purpose of increasing production and operations. In most cases, and especially in Kosovo, at this stage SMEs have much more difficulties to finance their activity than big enterprises, because they do not enjoy the benefits of bank loans or other sources.

In cases when SMEs cannot find the required funds to finance their business activity, many times it happens that excellent innovative ideas are never converted into successful business activities, in this way resulting in a loss of potential for economic growth. Due to the war of 1999 and fragile political situation during the last decade, the progress of small and medium enterprises in Kosovo has stagnated, as it is the case with overall economic development (BSCK, 2013).

2 ECONOMIC GROWTH

Economic growth is considered the process of increasing production and consumption of goods and services. It implies an increase in population or per capita consumption, thus, the process is accompanied with the increase of gross domestic product (GDP). Economic growth includes the process of getting bigger rather than getting better.

Furthermore, economic growth includes the increase of the national output caused by the increasing number of resources and technological development or an increased value of products and services produced by all industries of the economy. Country's GDP is just another way for measuring the economic growth (Romer, 1993).

There are thoughts that the process of economic growth should be in accordance with global economic institutions in order to make sure that the sustained growth is shared and the overall prosperity is inseparable. The process of the economic growth is characterized with an increase of the nation's wealth over the time. This term, in the context of the economic theory, refers to an increase in the wealth of the country for an extended period even though the term very often includes short term economic performance. The process of

growth is the process of transformation, as this process is uneven and unbalanced in modern, industrialized or in an economy at an earlier stage of development (Romer, 1993).

Higson (2012) provided two meanings regarding economic growth:

An increase in the outputs that an economy produces for certain period of time which includes a minimum of two consecutive quarters is the most common definition of growth (Higson, 2012).

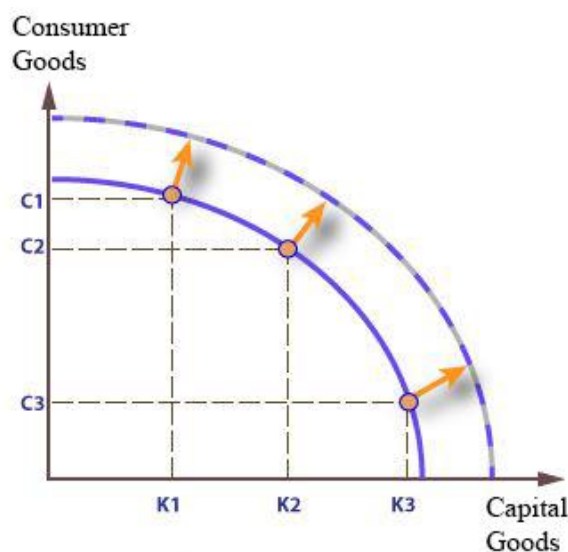
Economic growth is also defined as an increase in what an economy can produce when all the scarce resources are used. An increased productive potential of an economy is illustrated by an outward shift of the production possibility frontier of the economy (PPF) (Higson, 2012).

One of best methods to present the economic growth is to split all goods into two basic groups, consumer and capital goods. Thus, an outward shift of a PPF shows that an economy has increased its production capacity (Higson, 2012).

2.1 An outward shift of a PPF

In the cases when PPF is used, economic growth is related to the output potential and it is presented by the outward shift of the curve. So, in cases where there is an outward shift of a PPF, it shows that production capacity of the economy has increased. In figure number 5 it is presented an outward shift of PPF.

Figure 5. An outward shift of PPF.



Source: George Higson, *Markets and Market Failures*, 2011, p.22.

Thus, an outward shift of PPF is typical when economy is experiencing some of the following process.

2.1.1 New technology

As the development of technology helps in increasing efficiency, investments in this field directly influence output potential for products and services. The development of the technology, especially production, during the 18th and 19th century helped UK to generate from a few resources high number of outputs and to become the leading economic factor with completely industrialized economy. Moreover, the attributes for the recent economic growth of China are addressed to the development of the technology which influenced mostly production efficiency (Higson, 2012).

2.1.2 Division of labor, allowing specialization

A division of labor refers to the process of breaking down the production process into separate tasks, in this way creating the conditions for the development of machines in order to help production processes, but also the specialization of the labor force into specific activities. A significant factor in shifting PPF outwards, but also improving the capacity of production, is the specialization and division of labor (Higson, 2012).

2.1.3 New production methods

Potential for output can increase dramatically with the introduction of the new production methods. Team working is one factor that improved efficiency and helped in reducing losses in the motor vehicle production in 1980s. Also, the invention of the computers helped in controlling the production methods, such as in the fields of robotics, which have also increased the production potential in manufacturing industry (Higson, 2012).

2.1.4 Increased number of labor force

When the number of working population of certain economy increases, it also increases the output potential of that economy. In order to increase the number of labor force, there is a need for natural growth or in other words, natality rates have to overcome mortality rates and the number of people that emigrate has to be lower compared to the number of people that immigrate (Higson, 2012).

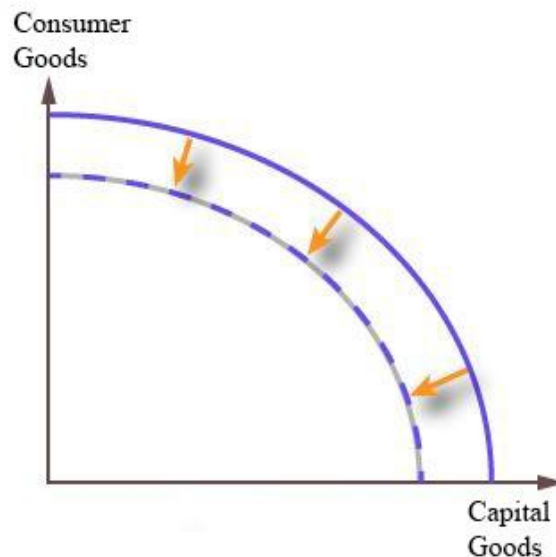
2.1.5 Discovery of new raw materials

Production capacity of the economy increases as a result of the discoveries of precious resources such as gold, oil, gas, and coal (Higson, 2012).

2.2 An inward shift of a PPF

When the economic productive potential decreases as a result of the depletion of the scarce resources, it is obvious that PPF shifts inward as it is presented in in figure number 6.

Figure 6. An inward shift of PPF.



Source: George Higson, *Markets and Market Failures*, 2011, p.23.

2.2.1 Resources run out

The production capacity of the economy decreases in cases when nonrenewable resources are depleted. With the development of technology and the use of efficient production methods, the process of depletion can occur very quickly. Depletion of nonrenewable resources is typical for countries that are specialized in the production of goods from these resources (Higson, 2012).

2.2.2 Failure to invest

In order to compensate for depreciation, there should be investments in human and real capital, and in case of the failure to invest in these two categories, there will be a reduction on the capacity of the economy. Real capital, such as equipment and machinery, wears out and its productivity decreases over the time. When real capital decreases, it drops the productivity of the labor force. Thus, if we do not have investments on improving people's knowledge and skills and technology, the PPF of the economy will slowly go inward (Higson, 2012).

2.2.3 Erosion of infrastructure

In cases of military conflicts, it is likely that there will be damages to factories, number of population, infrastructure and communications (Higson, 2012).

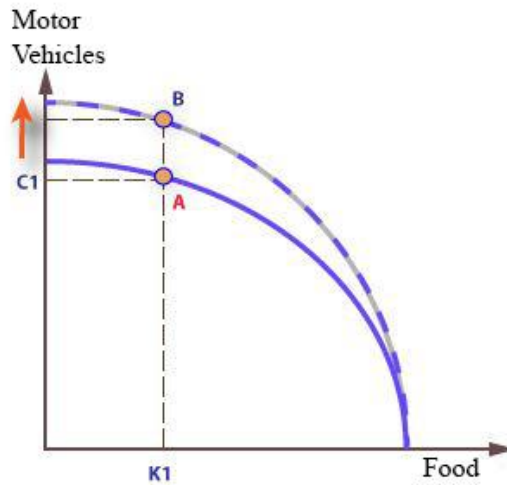
2.2.4 Natural disasters

The PPF of the economy will shift inward in cases of natural disaster. The world experiences natural disasters such as Tsunami in 2015 and earthquake in Haiti in 2010 (Higson, 2012).

It is relevant to point out that there is a trade-off between the short and the long run. Capital creation should be the focus of the economy in short run and this is achieved by using all the resources. As goal of the short run is capital generation, the living standard and private consumption decreases. Hence, in long run we have more consumer goods and better standard of living as a result of the investments in capital goods (Higson, 2012).

When economic growth occurs as a result of productivity increase in one of the industries of the economy, we have asymmetric growth. Figure number 8 shows that if we have rapid technological development in motor vehicle sector represented by Y, and not in the food production sector represented by X, the curve of PPF will shift only from Y axis (Higson, 2012).

Figure 7. Asymmetric growth.



Source: George Higson, *Markets and Market Failures*, 2011, p.24.

2.3 Economic Growth theories

Nearly all theories of economic growth aim to answer the question of what circumstance led to sustained economic development of an economy. In addition, these theories tend to explore the interaction of the state and enterprise by considering all other factors that affect the economic performance. There are different economic growth theories such as classical, neoclassical theories, mercantilists, spontaneous order and monetarism and each theory attempts to understand economics and to create a model to maximize growth (Salvadori & Kurz, 2003).

While Europe moved from feudalism to capitalism, early economic theories were developed. Two of the earliest and opposing schools of thoughts on economic growth were physiocratic and mercantilist theories. The physiocratic economic growth roots back to 18th century in France, and it argues that economic growth can only come from agriculture and land ownership. While, the mercantilists believed that trade was the main factor for economic growth (Salvadori & Kurz, 2003).

Furthermore, Adam Smith came up with classical theories in his work "*Inquiry into the Nature and Causes of the Wealth of Nations*" in which he criticizes both the physiocrats and the mercantilists. Smith argues that the derivatives of the economic growth are specialization, division of labor and the accumulation of wealth. He believed that government should not intervene and the influence of the government in the market should reduce in order to help the establishment and development of the free business sector (Salvadori & Kurz, 2003).

Another contributor to develop classical theory is Robert Slow. He believed that consumption should be postponed in order to allow savings to build up. Slow argues that savings create prerequisites for economic growth. Robert Slow was one of the contributors among Paul Omerod and Paul Romer who gave their contribution to develop the new economic growth theory or the neo classical theory. Robert Slow's theory helped Smith's theories further. Furthermore, Slow's theory argues that the increased number of labor will cause parallel economic growth. In addition, it will lead to an improved labor quality through education and training, which later on will lead to growth of entrepreneurship and investments (Salvadori & Kurz, 2003).

Joseph Schumpeter contributed on the theory of growth by taking into consideration the role of technology and innovation. He argues that the development of technology and innovation will lead to economic growth. A crucial role plays innovation, because creating new products and services will lead to economic growth and creation of new markets, but consequently the destruction of the old ones. Schumpeter's theory is known as the creative destruction (Salvadori & Kurz, 2003).

Most of these theories were established at times of economic growth and stability. However, there are theories such as John Keynes theory which was developed during times of economic depression. Since rich people in the recession times block their wealth and they do not invest in the free market, it is government's duty to advance labor market, to increase consumption and economic growth (Salvadori & Kurz, 2003).

Hayek and Milton Friedman were the main critics of Keynesian theory. Hayek believed that some elements of the economic growth cannot be predicted. In his theory, named Spontaneous order, he argues that there is an "invisible hand" in the economy. This invisible hand is accidental rather than a human creation (Salvadori & Kurz, 2003).

Additionally, Friedman, in his theory of Monetarism, believed that supply of money created growth. He indicates that government should control the differences in the supply of money, because excessive money supply is inflationary. He argues that money should be spent by individuals and businesses rather than by government (Salvadori & Kurz, 2003).

According to Friedman, the role of monetary authorities is price stability. This theory aims the reduction of inflation and maintaining a minimal level of unemployment, thus finding the equilibrium between supply and demand (Salvadori & Kurz, 2003).

2.4 Overview of the Kosovo economy

Kosovo, the youngest country in Europe, is an upper-middle income, very small-sized economy located in Eastern Europe. Nowadays, the new country is facing great challenges in its economic development because it has the lowest gross domestic product in south east Europe and it is the slowest growing economy (Affairs, 2014).

A considerable progress has been made since the war of the 1999, because the economic growth is associated to post conflict reconstruction, retail, trade and public administration. Furthermore, the progress of the private sector was stagnating and it was not capital intensive. Considering all these relevant changes and increasing population, the economy of Kosovo could not satisfy the demands of the labor supplied (Affairs, 2014).

Adding to this the fact that Kosovo lacks the infrastructure, competitive and friendly economy conditions, and it suffers as a result of inefficient institutions, unreliable legal and judicial system, and lack of job opportunities for young population, the situation is made even worse. Moreover, inconsistency in the sector of energy and absence of transport facilities encumber the development of production and trade sectors, and they are even considered as general barriers for investors (Affairs, 2014).

Unemployment rates remain officially over 43% and about 70% at the age group of 21-24 years old. Government and other relevant factors, including here companies, are having difficulties to attract foreign investments. The government and companies in the country are suffering to attract foreign investment and reduce the high unemployment rates, which officially remain at over 40%. Unemployment among youth of age group 21-24 is estimated at be at about 70%. Due to the high number of people that are not actively pursuing employment and those that are engaged in informal jobs, the public employment service is overblown (World Bank, 2015).

Moreover, the economy of the country is highly dependent on the diaspora and the financial and technical assistance from the international community. Kosovo has the highest rate of unemployment compared to other countries of the region where more than a third of the population lives below the poverty line (World Bank, 2015).

Accordingly, 80% of the businesses operate in the service sector, which makes up two thirds of the total GDP, in agriculture or primary sector are registered 2% of the businesses, whereas in the manufacturing sector participate 16% of the business. The economy of the country is not economically competitive and financially strong because the economy highly relies on foreign aid and remittances. Over 15% of the total GDP is from the remittances from Italy, Norway, Switzerland, and Sweden, whereas 7.5% of the GDP accounts for international aid and more than a half of the received funds are used for

consumption. Most of the remittances are transferred by person because only 16% are transferred through the financial institutions (World Bank, 2015).

According to Agency of Statistics of Kosovo, the average monthly salary in Kosovo is 364 EUR, where 60% of the economic turnover is concentrated on the enterprises that employ less than 50 employees, which make up 99.7% of the overall enterprises in Kosovo. The average inflation rate in 2013 was 2.7%, whereas in 2014, it decreased to 0.3%. Interest rates for personal loans in 2014 were 9.5% and they decreased in 2015 to 8.1%, whereas the interest rates for enterprises in 2015 have decreased to 8.9% compared to 11.3% in the previous year (World Bank, 2015).

Despite the fact that Kosovo is facing many problems such as high level of corruption, weak rule of law, lack of infrastructure, and unstable financial system, there is still opportunity and potential to overcome these problem because Kosovo has the youngest population in Europe that have excellent academic background and foreign language skills, appropriate climate and land for the development of agriculture sector, and the availability of the underground assets (World Bank, 2015).

2.5 Key factors for the economic growth of Kosovo

There are five particular areas identified by the World Bank and the Government of Kosovo in order to have satisfactory economic growth. These areas include:

1. Macroeconomic management:

- a) Implementation of prudent fiscal policies (avoiding excessive deficits);
- b) Maintain macroeconomic stability and improve public investment management;
- c) Incorporate the annual budget into the Medium Term Expenditure Framework;
- d) Improve the public investment, project planning and implementation, and use open bidding for large infrastructure projects (Bank, 2010);

2. Private sector development:

- a) Reduce the time and cost for registering a business (introduce one-stop-shops);
- b) Expand the real estate cadaster coverage;
- c) Strengthen the rule of law, in particular, ensure greater property protection, improve business regulations to reduce informality and stimulate entrepreneurship, and transform the energy sector;

- d) Eliminate unnecessary procedures and strengthen administrative capacity related to the regulatory regime for doing business, especially concerning business and construction licensing;
- e) Strengthen the court system to improve contract enforcement;
- f) Implement the policy measures of the energy strategy that would improve the financial position of KEK and complete the bidding process for the new power plant (Bank, 2010);

3. Trade facilitation:

- a) Upgrade transport corridors that are most important for trade;
- b) Adopt European product standards;
- c) Further streamline customs operations, upgrade the road network, and improve the national quality infrastructure;
- d) Pass the complete set of secondary legislation related to the Customs Code;
- e) Synchronize the operating hours of customs and veterinary inspection services;
- f) Develop a value database to reduce appeals concerning customs valuation (Bank, 2010);

4. Labor and migration:

- a) Improve the labor legislation to allow greater flexibility as well as better worker protection;
- b) Improve labor demand, strengthen educational attainment and facilitate migration;
- c) Strengthen curricula to meet market demand, and improve quality of teaching;
- d) Strengthen the capacity of the institutions responsible for managing migration policy, and take measures to formalize the transfer of remittances (Bank, 2010);

5. Agriculture:

- a) Develop the cadaster (record and update land data into electronic databases);
- b) Strengthen land policies, improve input markets and improve public expenditure allocation;
- c) Finalize the land consolidation program and complete the privatization of state-owned enterprises;
- d) Establish a Market Information System that includes information on inputs.
- e) Allocate public expenditure to more investment and service oriented agricultural support;
- f) Focus public spending on matching grants for private investments with a public good aspect, for example: agricultural storage facilities or milk collection systems (Bank, 2010);

2.6 Job creation and employment

Since employment has been crucial to economic development, one of the major challenges faced by the developing countries has been to provide jobs for a growing population. Job creation in economies such as Kosovo contributes on poverty reduction, improves gender equality and promotes social cohesion.

Poor educational services, large population growth, and lack of capital accumulation are just some of the obstacles that developing countries face when it comes to creating employment opportunities. Even though growth rates of population in many developed countries have been decreasing during the recent years, in developing countries they are constantly increasing (Global Business School Network, 2013).

The trend of population growth has resulted in increasing the proportion of youths within the population. Since population in developing countries is expected to grow, the trend will continue at the current rate. Accordingly, the competition for jobs will increase because youth population matures and enters the workforce. Thus, while the workforce is continually growing, the number of job opportunities is decreasing (Global Business School Network, 2013).

Markets instability created even more obstacles for SMEs to access to the necessary funding to develop their business ideas. While small businesses are struggling in their process of growing, large companies are constantly increasing their productivity and job creation. SMEs are the largest contributors and an important mechanism for employment generation as they consist of 78 percent of the formal jobs in low income countries. Rapid fall in the sector of SMEs generally has a significant impact on availability of jobs (Global Business School Network, 2013).

Moreover, poor quality of education is contributing further to decrease employment rates by providing unqualified workforce that does not have the basic knowledge and skills required to find a job. In developing countries, such as Kosovo, the education system is associated with the lack of appropriate infrastructure, unqualified lecturers and trainers and outdated literature (Global Business School Network, 2013).

One of the key concepts of the Millennium Development Goals was to contribute in the primary education development, but unfortunately the quality of higher education did not receive desired attention (Global Business School Network, 2013).

Increasing employment and entrepreneurial activity initiatives share great values because entrepreneurship is considered a special form of employment and very often it has also been credited as a major influencer on the economic growth in developing countries. There

is also evidence which suggests that entrepreneurs are the generators of the employment because entrepreneurial activities trigger the establishment of new enterprises which create new jobs (Global Business School Network, 2013).

Formal jobs in the developing world are represented by SMEs in large percentages. By supporting the creation of SMEs and helping in the process of growing, governments, as relevant stakeholders, will establish an effective way to create jobs. Based on the Data provided by Kosovo Agency of Statistics it is estimated that in Kosovo, in upcoming five years, approximately 200,000 people will reach the age for employment and approximately 110,000 young workers will enter the market, whereas the number of people that will retire during this period will reach approximately 60,000 people.

This process of growing in the workforce number will directly influence the need for the job generation. In the performance report of the Department of Labour, of the Ministry of Labour and Social Welfare, it is noted that the average age of young unemployed workforce is between 18-25, and this occurrence is even increasing by 1.8% each year, even though in other age groups, there is regression.

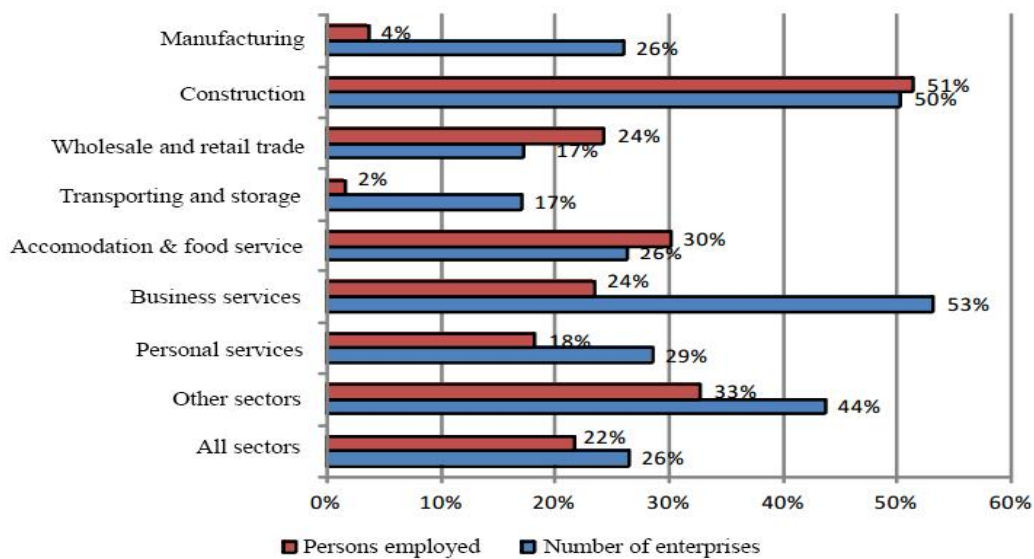
Based on the data presented by the Ministry of Labour and Social Welfare, a number of 325, 261 persons are registered as unemployed in the Offices for Employment in Kosovo. Almost the same as the previous year, the unemployment rates are on average between 37-43% of the economically active population. The unemployment rate is one of the highest in Europe, and as such, it is considered one of the biggest challenges for the society of Kosovo.

In order to have qualified workforce, there is a need for training to improve skills and knowledge but this is all dependent on the educational system of the country. The economy of the country is dependent on the skills of the workforce and the development of the entrepreneurship because of relevance on the job creation process and contribution to the economic growth (Global Business School Network, 2013).

New entrepreneurs, especially young entrepreneurs, are a relevant factor in the economic development because they have the premises for strengthening the innovative and entrepreneurial culture, and have the capacity to contribute to the dependency of the families and the government from them (Global Business School Network, 2013).

As we can see from figure number 8, the employment share of industries, excluding here the sector of construction, whole sale and retail trade, and accommodation and food services, is very low compared to the industry share. This further shows the high unemployment rates and the unbalanced development of the sectors of the economy of Kosovo.

Figure 8. Employment share compared to industry share, 2010-2013.



Source: Thomas Oberholzner, *Report on SMEs in Kosovo 2014*, 2014, p. 8, Figure 3.

Considering the actual business environment, young entrepreneurs are facing many obstacles and difficulties in the process of developing their business ideas. Some of them are as follows: insufficient knowledge for the labor market, lack of information on the development of market conditions such as supply and demand in the labor market, lack of education in entrepreneurship, lack of knowledge on the legal basis to deal with entrepreneurship, lack of initiatives to establish businesses, lack of self-confidence and entrepreneurial environment, and lack of knowledge on loans and facilities offered by banks for businesses (BSCK, 2013).

Considering the difficulties they face, it is important for the entrepreneurs in Kosovo, especially startups, to have a special program of monitoring and supporting which will help on promoting and developing the entrepreneurial culture.

Based on the data published by the Ministry of Labour and Social Welfare, 63.22% of the entrepreneurs belong to the age group of 26-45. Considering that Kosovo has one of the youngest populations in Europe, this occurrence shows that entrepreneurship is considered as an opportunity for job creation and it can contribute to reaching the sustainability and economic growth.

3 SMALL-MEDIUM ENTERPRISES IN KOSOVO

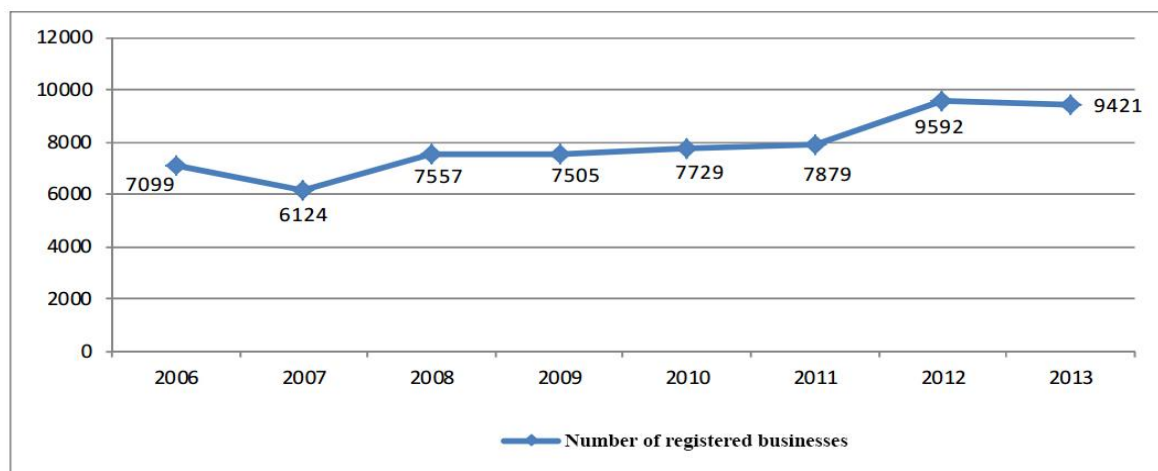
Since the war of 1999, Kosovo economy has undergone through the process of transition from a former Yugoslavian socialist system to a free market economy. The economic transformations that Kosovo has been through were associated with dramatic changes in the structure and organization of enterprises (BSCK, 2013).

The sector of small and medium enterprise has been improving during these years as they took the burden for the economic development because in former Yugoslavia most of the businesses were organized as social enterprises. The process of privatization of the social enterprises resulted in having employee reduction where most of the employees that were fired established their own businesses (BSCK, 2013).

The main generators of the economy of Kosovo after the war were remittances, international aid, and public sector. Even though the level of development was relatively low, private sector has had an important role during these years, especially SMEs. The economy of the country even nowadays is in transition, and SMEs are expected to have an essential role in the processes towards a free market, sustainability, and economic growth (Ministry of Trade and Industry, 2013).

One of the reasons why the SMEs in Kosovo are not competing at international level is the fact that the domestic economy is dominated clearly by an imbalance between exports and imports. The goods that are exported, the most are minerals and metals, mainly in the unprocessed form. Even though the number of SMEs, as presented in figure number 9 is increasing, they do not export their goods which results in having a negative effect on the economic growth, GDP, and job creation (BSCK, 2013).

Figure 9. Number of business registration for the period 2006-2013.



Source: Kosovo Agency of Statistics, *Statistical Repertoire of Enterprises in Kosovo*, 2014, p.10, Figure 2.

Moreover, unfavorable businesses environment in Kosovo creates even more obstacles and difficulties for the development of entrepreneurship. It was estimated that more than 50% of the SMEs operate in the commercial sector and are characterized by small investments. After the war, the establishment of the UNMIK in Kosovo enabled temporary registration of the businesses up to March, 2003. Since then it became permanent registration of businesses (Ministry of Trade and Industry, 2013).

Even though we have a decreasing number in 2007 which is also a result of the global financial crises, in general, there is an increasing number of businesses that are registered through the years due to the improvements in the legal framework, favorable economic environment, subsidies from the Government, establishment of the Business Angel Networks, and grants from the foreign NGOs (BSCK, 2013).

3.1 Definition and Legal Framework

Defining SMEs was always challenging, since there is no single agreed definition for SMEs yet. Many definitions are applied even among countries that are part of the Organization for Economic Co-operation and Development), but it is relevant to point out that the number of employees is not the sole criteria for defining them. In the European Union, the most common upper limit for the definition of SMEs, by considering the number of employees as a factor, is 250 employees, even though some countries can set the limit to 200 employees. In the United States, SMEs are considered companies that have fewer than 500 employees (OECD, 2005).

As Günter Verheugen, Member of the European Commission Responsible for Enterprise and Industry claimed “Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition, which entered into force on 1st January 2005, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the stakeholders involved which proves that listening to SMEs is a key towards the successful implementation of the Lisbon goals”.

Furthermore, considering the definition of World Bank; SMEs are enterprises that consist of a maximum of 300 employees, with annual revenues in the value of 15 million dollars, and 15 million dollar assets. Meanwhile, based on the European Union definition, SMEs are considered enterprises that employ fewer than 250 persons, with annual turnover not exceeding 50 million EUR or with annual balance sheet not exceeding 43 million EUR.

Thus, one can argue that the definition provided by European Union is more suitable, compatible, and inclusive, especially in terms of turnover compared to other definitions.

Table number 1 includes number of employees in fourth quarter of 2014 and the classification of the enterprises depending on the number of employees.

Table 1. Registered SMEs in Kosovo by number of employees, fourth quarter of 2014.

Classification By Size	Number of employees	Number of enterprises	Percentage
Micro	1 – 9	2153	99.00
Small	10 – 49	21	1.00
Middle	50 – 249	0	0
Big	250 and more	1	0
Total		2175	100.00

Source: Kosovo Agency of Statistics, *Statistical Repertoire of Enterprises in Kosovo*, 2014, p.11, Table 3.

Out of a total of 2,175 enterprises operating in Kosovo in 2014, 2,153 (or 99.00%) are micro-enterprises; 21 (1.00%) are small, and 1 (0.001%) are registered as a big enterprises.

There are different legal forms of organization in the Republic of Kosovo. Definitions applied for the legal forms of enterprises based on the Regulation 2001/16 and Law no. 02/L123 on The Commercial and Shareholding Companies, when it comes to the process of registration on the KBRA are as following:

1. Individual Business - is where there is only one person engaged in the economic activity for the purpose of profiting, and is registered in KBRA. In the case of the individual business, the owner has unlimited responsibility for all the debts of the company. The company has its official name or it includes the official surname of the legal owner.
2. General Partnership - In the case of the General Partnership, for the debt of the company all responsibility is directed to all partners without any restriction. Business name in this form of organization should include one or more names of one of the partners.
3. Limited Partnership - In the case of the limited partnership organization, except for the unlimited partners (partners that are jointly responsible for the debts of the company), there are included also the “Limited Partners”, responsible for the liabilities of the company up to the value of their founding contributions or capital.
4. Limited liability enterprises - Are enterprises that are established by one or more founders, who are responsible only to the limit of the value of their contribution. Limited liability enterprise has a name, which may include the name of one or more partners.

5. Shareholders - Shareholder's capital is divided into shares and they are responsible only to the limit of the value of their contribution. Shareholder enterprise or joint stock enterprises can be established by one or more shareholders.

6. Foreign Companies - Are commercial companies which from the moment of the registration are considered as branches in Kosovo and they do not have the identity of the legal person. After the registration, the company shall enjoy all the rights and obligations based on the applicable laws.

7. Social Enterprises - With the term Social Enterprises is defined a legal entity where the most of the assets and capital are socially owned. Based on the Law for Social Enterprises, No.02/L-123, these types of enterprises up to the process of the privatization are monitored and registered by the Kosovo Agency of Privatization.

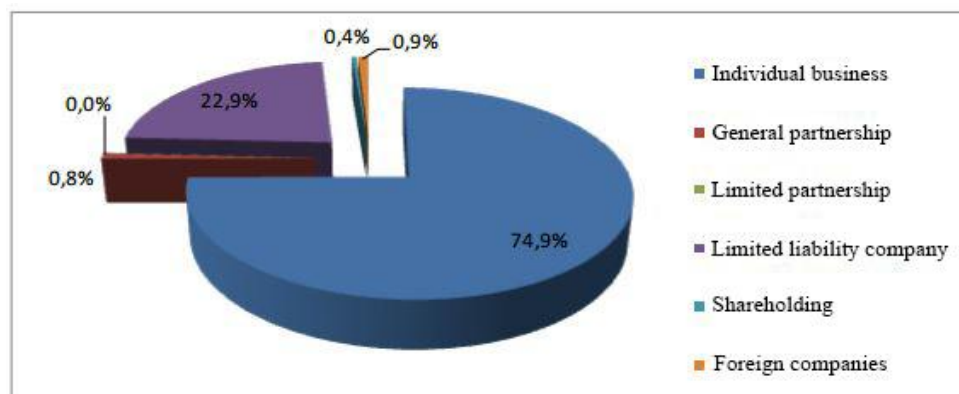
8. Public Enterprises - They are established by the state and they carry out their activities in terms of general interest. Based on the Law for Commercial Companies, Public Enterprises are monitored by the government as the main shareholder, and they are organized as joint stock enterprises. All ownership interests in public enterprises are divided by shares but these shares should be registered.

9. Agricultural Cooperatives - are business organizations established by physical or legal entities like farmers who contribute with their own private property to the share of capital.

10. Enterprises under the jurisdiction of the KAP - are former socially owned enterprises that are managed and supervised by the Privatization Agency of Kosovo.

Data presented in figure number 10 provide information on the ownership structure of companies registered in Kosovo. Individual businesses clearly dominate with 74.9% ownership structure, limited liability companies (22.9%), foreign companies (0.9%) and general partnership companies (0.8%).

Figure 10. Types of Ownership in Kosovo and Number of Employees.



Source: Kosovo Agency of Statistics, *Statistical Repertoire of Enterprises in Kosovo*, 2014, p.17, Figure 7.

The type of properties shown in figure 10 presents even more the shortcomings of SMEs in Kosovo because it shows the hesitation of SME owners to join the financial and human capital in the most advanced forms of business.

3.2 Competition and SMEs

One of the most important driving factors to boost the economic growth is competition. The importance of the competition relies on the fact that it increases the pressure and efficiency of the companies. Moreover, competition provides an opportunity for productive companies to increase their market share because less productive firms may exit the market to leave the space for much more productive companies (Kritikos, 2014).

In the presence of the competitive environment, companies aim to innovate in order to gain cost advantages, differentiate their products and bring new products to the market. Moreover, competition contributes to the reduction of the inflation rates, but also it serves as tool for increasing foreign direct investments (Office of Fair Trading, 2011).

In the current economic climate, the role of the competition in driving the economic growth is essential because the macroeconomic instruments, many times, have proved insufficient and their use is highly restricted by the need for having fiscal consolidation, the removal of unnecessary regulatory burdens and the promotion and protection of competition as microeconomic instruments. For the purpose of fulfilling its potential and contribution to the economic growth, the effective competition policies have to address both private and public restrictions on competition (Kritikos, 2014).

It is also relevant to recognize that in some cases the government's intervention can have an adverse impact on the competition, in this way, favoring the growth of the particular industry. These occurrences are a result of the government's actions, such as the exclusion of the certain industries from the application of the competition laws or granting subsidies to certain companies or individuals (Office of Fair Trading, 2011).

These cases are typical for developing economies where the governments intervene by introducing regulations with the aim of achieving public policy objective, but practically this occurrence provides an advantage for certain individuals. However, the role of the government is undisputed and necessary as markets cannot exist without having legal framework. Without governments, market can fail because of the information asymmetries, market power, externalities, etc. (Office of Fair Trading, 2011).

Government's interventions can have unpredictable and fatal consequences. Thus, the cost of the intervention needs to be assessed carefully, before deciding whether, how, and how

much to intervene because the over intervention generally has much more influence on destroying competition than under-intervention (Office of Fair Trading, 2011).

Competition agencies have a relevant role in helping policymakers on evaluating and considering properly all costs and benefits related to the market intervention. Their contribution is essential as there might be a bias in evidences. The benefits of government interventions are much easier to evaluate compared to the cost of lost competition as most of the evidence potentially will come from the interest groups and might be evaluated in certain direction (Office of Fair Trading, 2011).

In modern developed economies, it is assumed that there are a large number of participants in all markets, no externalities, no public goods, no information asymmetries, no natural monopolies, fully rational economic agents, complete markets, and an efficient court system to encourage contracts (Laffont, 1998; in Quartey, 2001). Laffont (1998) argues further that if any one of the assumptions necessary for the validity of the fundamental theorems of welfare economics cannot be met, restricted rather than unrestricted competition may be a better strategy (in Quartey, 2001).

In developing countries, the incomplete and missing markets are typical, so unrestricted competition might not contribute on reaching economic growth because such competition may led to unhealthy rivalry and price war. Hence, too much competition can be as harmful as too little. So, it is relevant to ensure optimal degree of competition which would secure a certain degree of rivalry and it would help in reducing inefficiency but not that much to make it difficult for new entrants (Quartey, 2001).

SMEs in the economy of trade have an important role because they demonstrate high level of innovation, flexibility and adaption to changes. In developed countries, the contribution of the SMEs is highly appreciated especially when it comes to the technology changes, increasing competition, generating employment, increasing production, improving labor force qualification, etc. (Kritikos, 2014).

Since big enterprises are recognized for the production of the new basic technological products, SMEs are usually specialized in transforming these products into new products. Big enterprises are more successful in producing wide range of products, with high efficiency, and powerful marketing strategies, whereas SMEs are specialized in the niche markets, and on the creation of new markets for the products that are at the end of their lifecycle (Quartey, 2001).

Thus, even though these two categories of enterprises have similarities, they can have different access to the factors that are related to production, such as, entrepreneurial skill or any other form of physical resource. SMEs and large enterprises do not always compete,

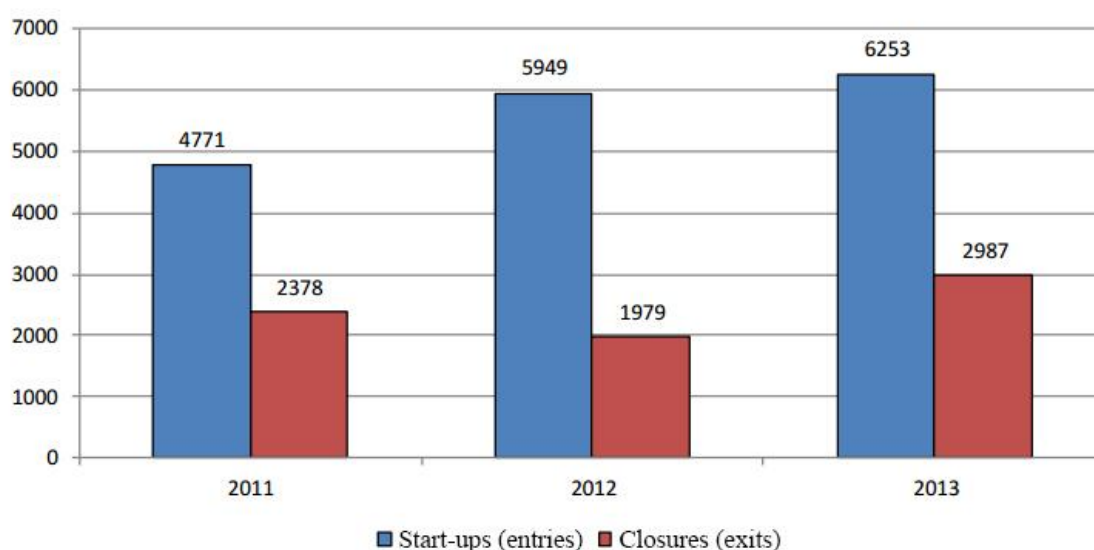
but instead, they have cooperation and are dependent on each other. Large enterprises, in many cases, subcontract SMEs to sell their products, but there are also cases when they are supplied by SMEs with primary materials (Quartey, 2001).

Kosovo, as the youngest country in Southeastern Europe, is the last country to apply the principles of free trade due to the rapid changes in the political system, respectively the creation of the new country. Considering this fact and referring to data provided by the Kosovo Agency of Statistics, such as, number and the level of businesses, gross domestic product, industries, number of employees, and other indicators, it is comprehensible that the economy is characterized with weak competition and high level of informal economy. Considering the level of competition and informal economy, there was a need for the harmonization and regulation of the competition practices.

Thus, the Assembly of Kosovo approved the Law on Competition 2004/36, with the purpose of undertaking the necessary actions in order to be in accordance with the regulations required by the European Union. After the approval of this law, the Kosovar Commission for Competition was established, as an independent authority for the application of this law in all the territories of the Republic of Kosovo.

Based on the data provided by Kosovo SME Promotion Program, the number of start-ups has been increasing in last three years compared to closure of the existing enterprises. Furthermore, the trend of increasing in the number of start-ups shows also an increased competition in different sectors of the economy. In figure number 11 it is presented the number of start-ups and closures of businesses in the period 2011-2013.

Figure 11. Number of start-ups and closures of businesses, 2011-2013.



Source: Thomas Oberholzner, *Report on SMEs in Kosovo 2014*, 2014, p. 12, Figure 6.

3.3 Factors influencing SMEs growth in Kosovo

For many years, business growth has been the area of study of many researchers. The practice shows that SMEs, in the process of growing, experience different stages of development or life cycles. Even though the term may be defined differently depending on the author, the event through which they pass remains almost the same. The main suggestion of the researchers is that each enterprise has to begin, then complete the process of growing while facing different challenges and crises, and finally mature (Wasilczuk, 2000; in Li, 2009).

There are many factors that contribute to the success of the enterprise and allow it to move from one stage to another. Entrepreneurial influence, education, business location, and financial support are just some of the factors that influence the growth. For the purpose of recognizing better the factors that influence the growth, many researchers came to the conclusion of dividing them in two sets: internal and external factors.

3.3.1 Internal factors

3.3.1.1 Entrepreneurial influences

Owner of a firm has considerable influence over strategies, tactic and operations that engage in decision process across the firm. Thus, the growth of a firm is dependent on the managerial knowledge. Moreover, motivation, efficiency, the quality of products and services and all processes within the organization can improve as a result of proper training (Levy & Powell, 2005).

The personality and behavior of the entrepreneur are casual factors for growth or for its negative effect. Very often decision making is centralized and this is a typical characteristic of small businesses because the decision making power relies on the owner or manager. Consequently, the owners or manager's personality, skills, responsibility, attitude and behavior will have influence on business strategy (Levy & Powell, 2005).

The role and the influence of the entrepreneur are not as dominant in large companies as they are in SMEs. Moreover, the characteristics of the entrepreneurs such as age, personality, gender, risk taking abilities, mindset, motivation, educational background, experience, and innovation, influence the performance and success of the business. Thus, the development of the SMEs is highly dependent on the characteristics of the entrepreneurs (Levy & Powell, 2005).

3.3.1.2 Education of employees

Due to poor educational services, SMEs are having difficulties to find skilled employees. Moreover, large companies are offering high salaries and job security to graduates, in this way restricting further the opportunities of SMEs to have qualified employees. Even though education is considered as a factor in promoting employment and economic growth, in developing countries scarcity of qualified employed is increasing (Jameson, 2000).

There is a strong relationship between education and the development of the SMEs. In order to follow up the fast changing work environment, it is essential that smaller enterprises continue to attract, keep and motivate highly qualified employees by having a clear strategic training plan and a special budget for training (Jameson, 2000).

3.3.1.3 Marketing

Marketing has been considered for many years as one of the most important factor to business survival and growth, and the lack of marketing knowledge has led to the lack of financial resources. Marketing is just one of the obstacles faced by the businesses in the process of growing because many businesses face different challenges such as establishing effective distribution channels, having effective sales strategy and attractive prices, researching markets, finding qualified employees, etc. (Brush, Ceru, & Blackburn, 2009).

Generally, SMEs do not have required information regarding the foreign markets, in this way, limiting their opportunities to market their products to larger groups of customers and to expand their business (Brush, Ceru, & Blackburn, 2009).

3.3.1.4 Technology

The use of the new technology improves the efficiency, production, and can be a source of the profit for businesses. Countries with a high level of technological development tend to have a high level of entrepreneurial activity. As a result of inefficient usage of technology and not maximizing the machinery utility, SMEs are having low productivity rate and have no advantages in terms of competition. Mainly due to the limitation in funding, SMEs are not improving in the technological aspects (Morse, Fowler & Lawrence, 2007).

3.3.1.5 Innovation

Innovation is a key characteristic in the entrepreneurial activity and it plays a crucial role in the development of SMEs. Innovative companies are characterized with an ability to respond to the changes for the existing products and services. Furthermore, globalization has increased the competition, in this way pushing SMEs towards greater demands. Innovation includes the process of conducting researches and utilizing the derived information to create and design new products (Levy & Powell, 2005).

Thus, innovation is directly associated with the work and investments done in the field of research and development. In most of the developed countries, 3% of the GDP is allocated in research and development activities. Countries that have fast growing economies like China, Brazil and India have increased their investments in research and development, in this way reaching the level of the most developed countries (Morrison, 2006).

3.3.2 External factors

3.3.2.1 Human resources capacities

Another relevant factor in the development of the SMEs is human resource capacities. Companies that have well educated and skilled employees have proved to be more efficient (Lee, 2001). Well educated and skillful employees have proved to be effective in helping businesses in achieving economic growth and long term sustainability due to their learning and innovative abilities. Various studies show that countries with scarce human resources have difficulties in the development of the SMEs (Lee, 2001).

3.3.2.2 Financial support

Even though SMEs have a vital role in establishing competitive environment in the market and are significantly contributing in the employment generation, they still face obstacles in the process of having access to the financial resources. When starting a business, it is crucial to secure financial resources. Unless you have an accumulated capital, you will need financial resources such as bank loan or an investor (Harvie & Lee, 2005).

Considering the actual circumstances in Kosovo and the region, SMEs do not have facilities to access credits and other forms of financial support. We have this situation due to the fragile banking institutions in the region, lack of legal framework for loan and collateral and the absence of the capital markets. Financial resources are essential for all

growing businesses because they are considered the primary source from which all other sources are acquired.

Business owners have various opportunities to finance the growth of their business but the main idea behind the decision is whether it is worth or not to accept financial support for part ownership of the business. In cases when business owners accept to receive external financial support, they also accept to give a part of their control over of the firm to financial institutions or other individuals. Even though the process of getting access to finances is essential for the growth of the firm, it is almost impossible to assess the risk of investment due to the high level of uncertainty (Harvie & Lee, 2005).

3.3.2.3 Legal framework

One of the many constrains faced by the SMEs in the process of growing is a complex tax system. Tax rates in developing countries are considered as a major obstacle for the development of the SMEs. When developing operational and administrative procedures such as business registry, licenses, and permits businesses have to go through timely and costly procedures (Harvie & Lee, 2005).

3.3.2.4 Competition

When enterprises find a new market, they seek competitive advantages because they are considered a key for corporate success. For most of the startups, competition poses a threat to survival, but these threats drive the business towards productivity improvements and general growth (Kritikos, 2014).

In the case of Kosovo, the main threat for SMEs in terms of competition is informal economy. Even though they have to compete with large enterprises, because Kosovo has import oriented economy and they have to face other obstacles like complex taxation system, and inconsistent public service providence, still the main obstacle remains informal economy, which has remained almost at the same level throughout the years.

3.3.2.5 Globalization

One of the most significant sources of change that is influencing enterprises nowadays is an increasing globalization. The globalization as an occurrence is mainly driven by the businesses which through globalization try to increase their sales and reduce the costs. Competition is another reason why firms are becoming internationally active, and are growing faster than businesses operating in domestic markets. Even though many SMEs do

not have the resources to internationalize their brand, they still face the pressure to remain competitive and develop business strategies (Robaro & Mamuzo, 2012).

4 METHODOLOGY AND EMPIRICAL RESEARCH

This research project relies both on primary and secondary sources. For the purpose of elaborating the problem, we used the exploratory approach. The research design includes a combination of desktop and empirical research. Theoretical knowledge and concepts are derived from the online research such as journals, articles, publications, reports from organizations, books and reliable internet sources. Quantitative research method was used for this research project. The analyses, regarding the influence of entrepreneurship and SMEs on economic growth in Kosovo, are presented based on the results obtained from the primary research.

4.1 Research questions

The purpose of this study was to address the following questions, which are the key concepts upon which the whole research of the Master Thesis was built.

1. What is the impact of entrepreneurship and SMEs on job creation?
2. Is entrepreneurship a solution to high unemployment rates in Kosovo?
3. What is the role of entrepreneurship in increasing competition?

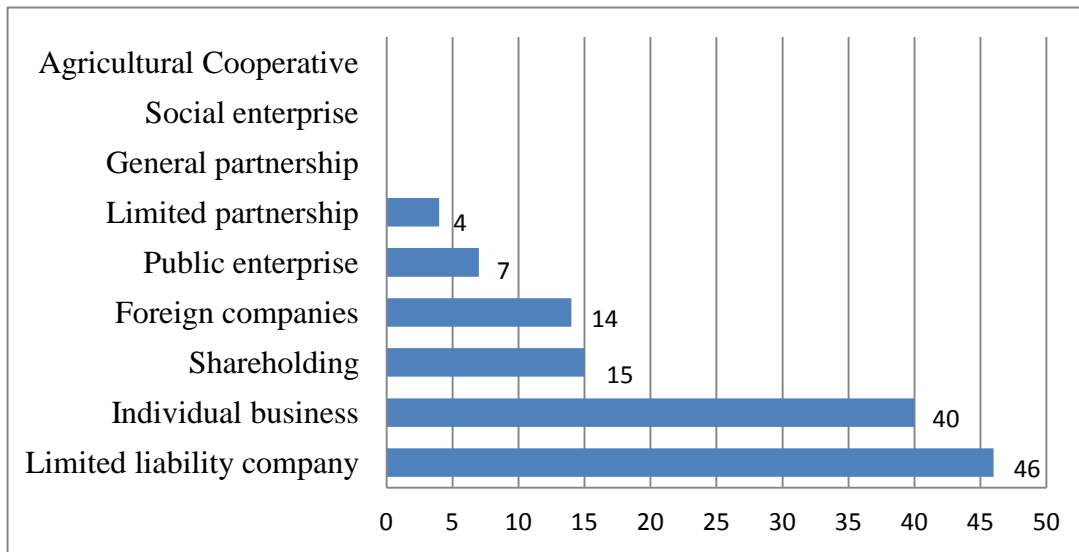
4.2 Questionnaire design and distribution

For the purpose of enhancing this research study by providing empirical evidence, questionnaires were delivered to 350 randomly chosen companies derived from registry of the Agency for Business Registration, which resulted in having 126 respondents. Through the questionnaire, we tried to obtain different data such as, the legal status and the activity of the SMEs, number of employees, average salary, the year of business registration, turnover, and the obstacles and difficulties of the entrepreneurs.

4.3 Research analysis and results

The results are generated based on the data gathered from the above mentioned questionnaire. The first question seeks to find out the legal status of the enterprise. Out of 126 companies, 46 were limited liability companies, 40 individual business, 15 shareholding, 14 foreign companies, 7 public enterprises, and 4 limited partnerships.

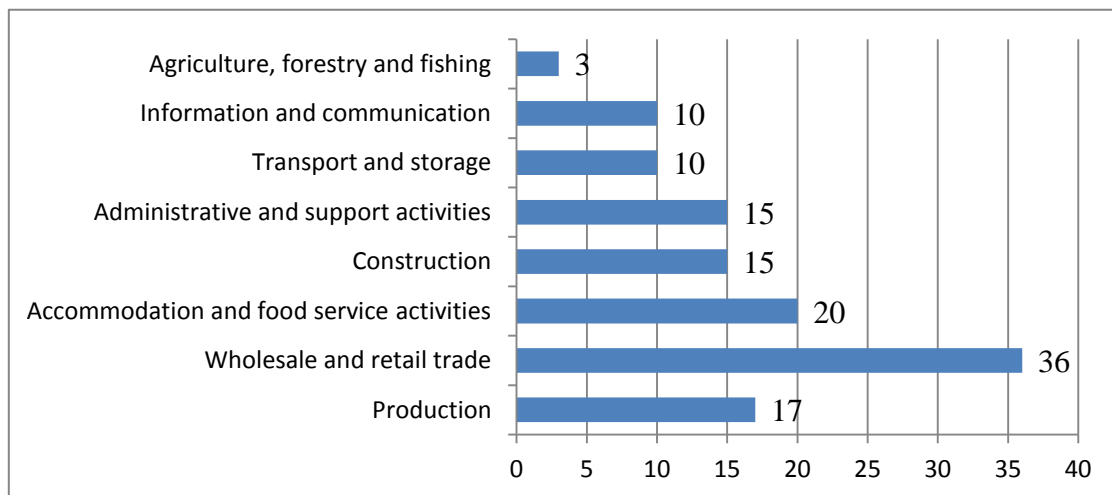
Figure 12. The legal status of the enterprise.



Question about the activity of the company was answered by 126 companies, where 29% of the companies belong to the sector of wholesale and retail trade, 16% accommodation and food service activities, 13% production, 12% construction, 12% administrative and support activities, 8% transport and storage, 8% information and communication, and 2% agriculture, forestry and fishing.

Furthermore, this part of the questionnaire shows contribution and the influence of the SMEs to the particular sector of the industry, and also indirectly provides information regarding the employment generation in these industries.

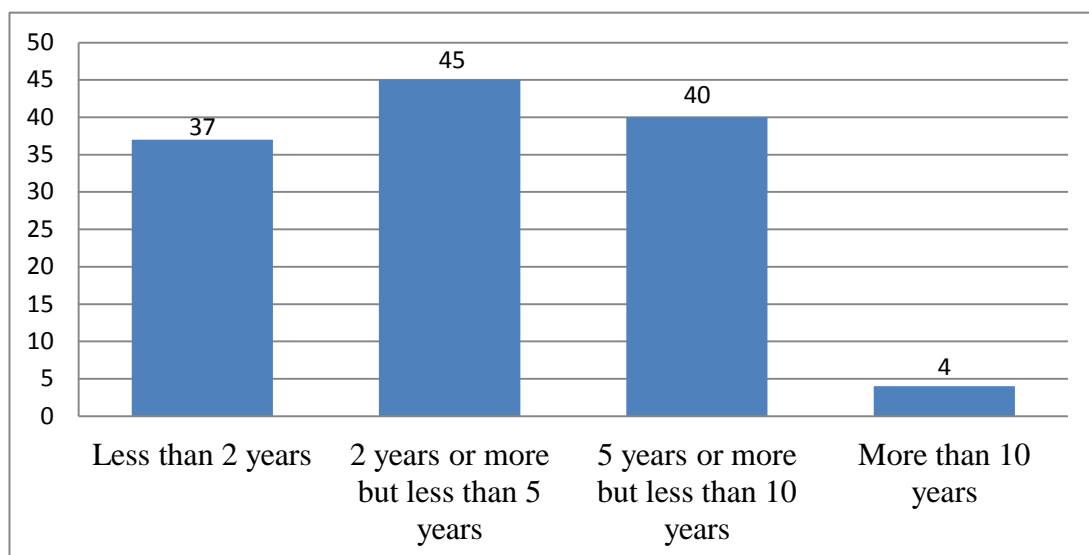
Figure 13. The main activity of the company.



Through this part of the questionnaire, we were seeking to find out the year of the registry of the enterprises and the process of their development by considering their turnover. Thus, 37 enterprises were registered in less than 2 years, 45 enterprises had 2 years or more but less than 5 years' experience, 40 enterprises had 5 years or more but less than 10 years, and 4 enterprises had more than 10 years from the year of the registry.

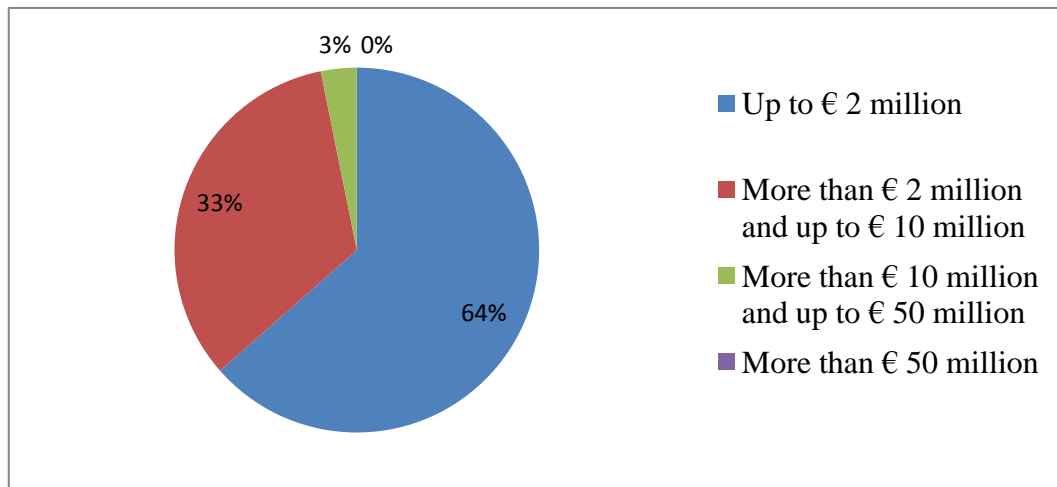
As predicted, the turnover of the enterprises associated with the year of the registration because enterprises that had less than 2 years after registration and from 2 to 5 years had annual turnover up to € 2 million, whereas enterprises that had from 5 to 10 years' experience and those with more than 10 years had the annual turnover from € 2 to € 10 million and a few of them more than € 10 million and up to € 50 million.

Figure 14. The year of the business registry.



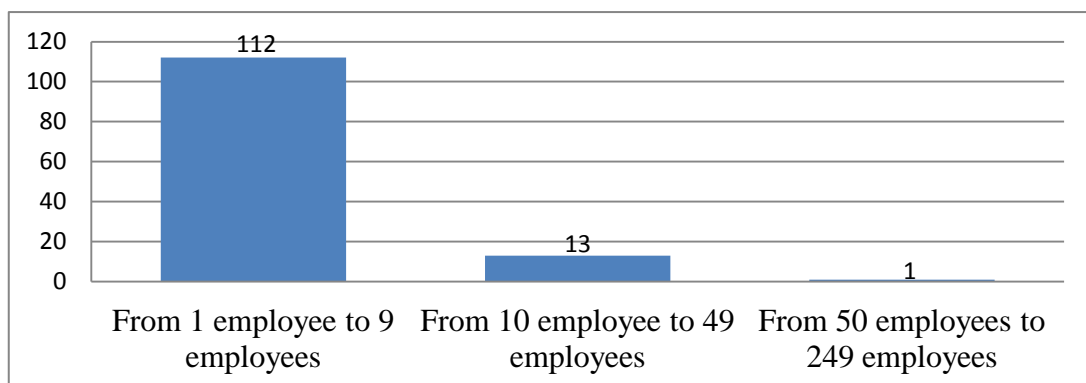
We were also interested to gain more information about the annual turnover of the companies in order to create an idea regarding their contribution to the economic growth. For confidential purposes respondents did not have to provide information, such as the business name, owners name or CEO, specified location, and so on. It resulted that 64% of the enterprises have an annual turnover up to € 2 million, 33% of the enterprises have more than € 2 million and up to € 10 million annual turnover, 3% of the enterprises have more than € 10 million and up to € 50 million annual turnover, and there is no enterprise with more than € 50 million annual turnover.

Figure 15. Annual turnover of enterprises in 2014.



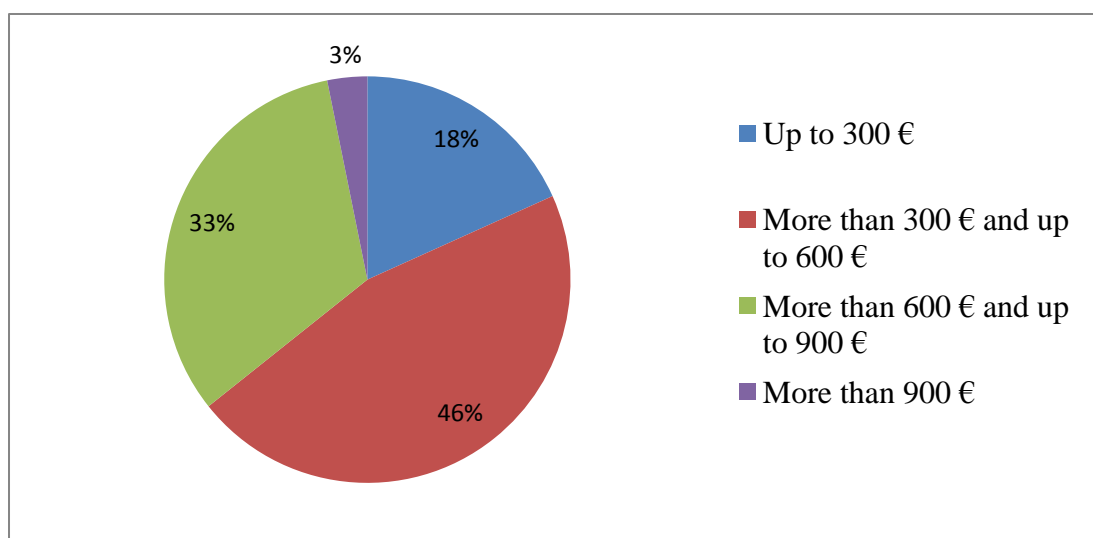
Companies were asked about the number of persons they employ, full time or part time in all locations. Through this question, we wanted to find out the contribution of the SMEs in job creation and as we found out 112 enterprises employ from 1 to 9 employees, 13 employ from 10 to 49 employees, and 1 enterprise employs from 50 to 249 employees. Thus, in terms of job creation and employment SMEs have the highest rate, which further supports the idea of considering the entrepreneurship as an opportunity for job creation and economic growth.

Figure 16. The number of employees.



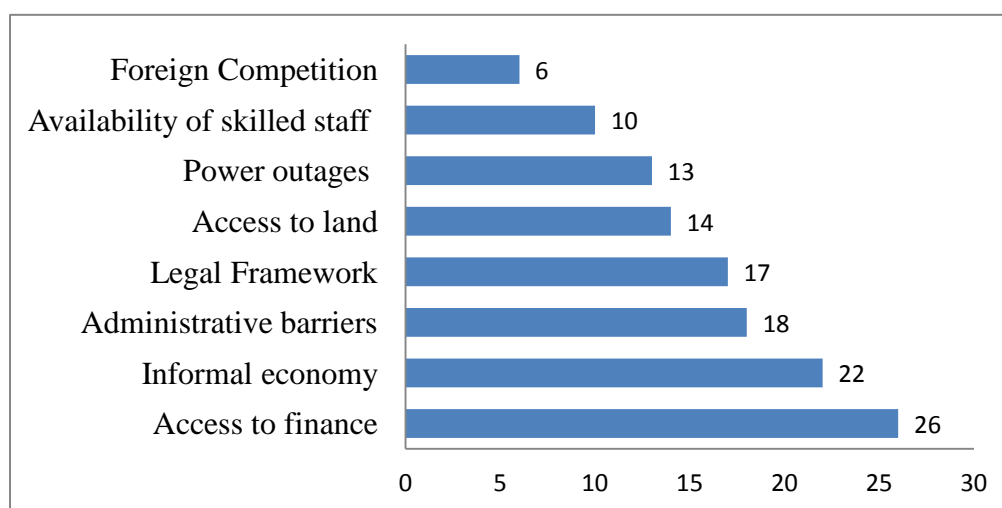
Through this questionnaire, we were also interested to find out the average salary of employees in enterprises by showing the contribution of entrepreneurship in income generation in Kosovo. Hence, 18% of the enterprises have an average reaching up to 300 €, 46% of the enterprises have an average salary of more than 300 € and up to 600 €, 33% of the enterprises have an average salary of more than 600 € and up to 900 €, and 3% of the enterprises have an average salary reaching more than 900 €.

Figure 17. Average salary of the employees.



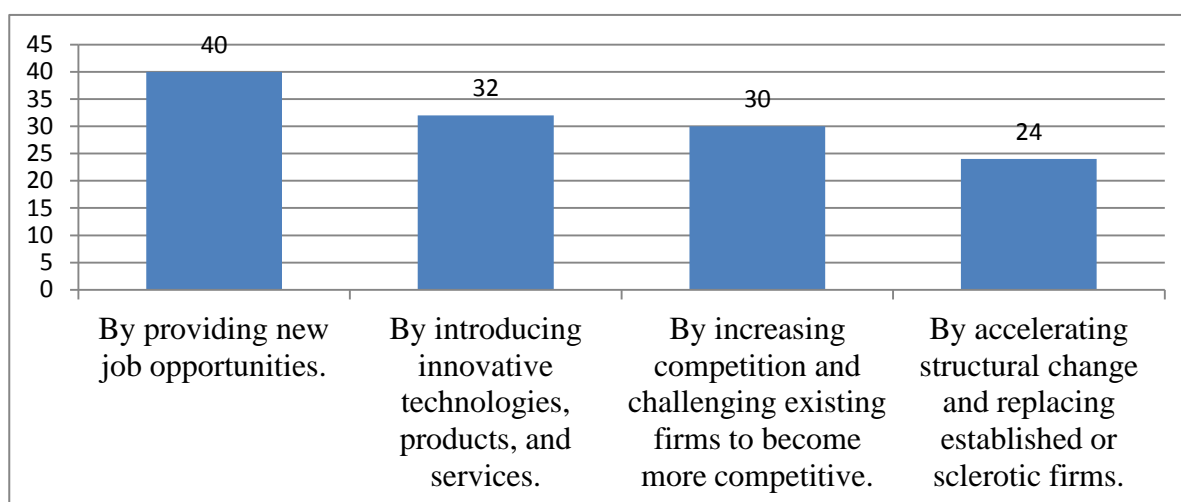
When conducting the questionnaire we were also interested to know more about the obstacles of the businesses in their attempts to reach sustainable growth. Based on the data we received, 26 enterprises have chosen access to finance as the main obstacle, 22 informal economy, 18 administrative barriers, 17 legal framework, 14 access to land, 13 power outages, 10 availability of skilled staff, and 6 foreign competition.

Figure 18. Obstacles of enterprises in the process of growing in Kosovo.



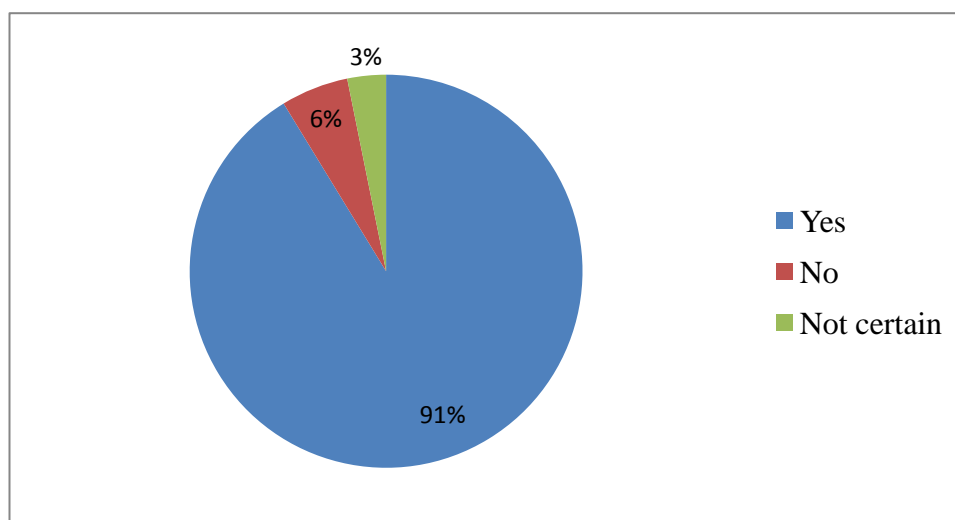
When asked about the way entrepreneurship influences the economy of Kosovo, 40 respondents decided that entrepreneurship influences the economy of Kosovo by providing new job opportunities, 32 respondents by introducing innovative technologies, products, and services, 30 respondents by increasing competition and challenging existing firms to become more competitive, and 24 respondents by accelerating structural change and replacing established or sclerotic firms.

Figure 19. Entrepreneurship influence in the economy of Kosovo



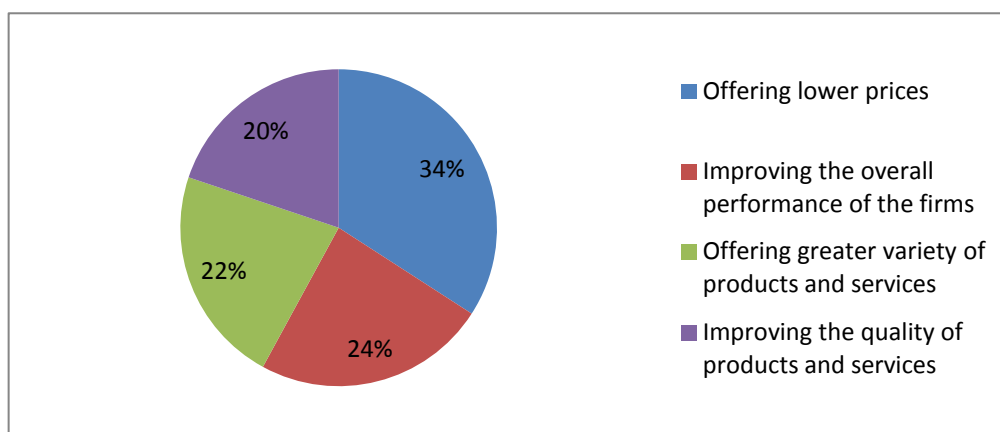
When asked whether entrepreneurship can increase competition or not, 91% of the respondents are convinced that entrepreneurship can increase the competition, 6% think that entrepreneurship cannot increase competition, whereas 3% are not certain.

Figure 20. Entrepreneurship and competition.



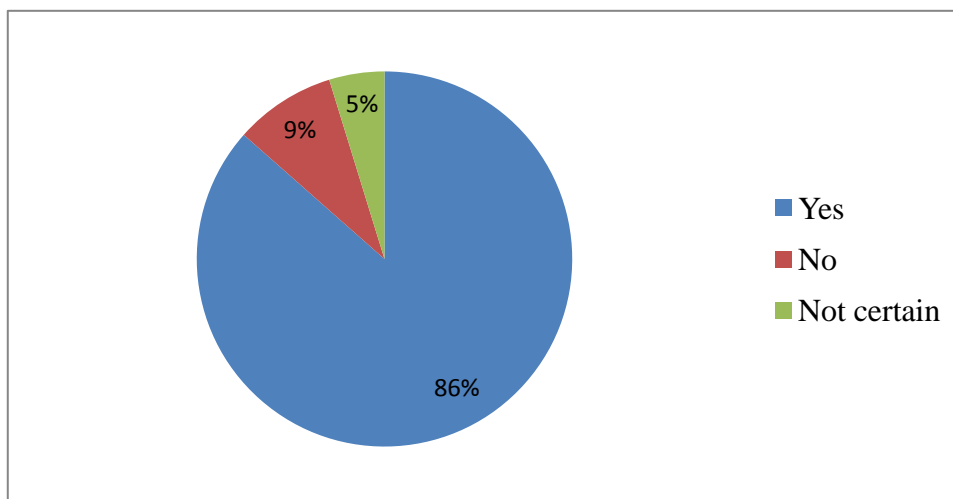
Through this research we were also focused to determine the role of entrepreneurship in increasing competition. Thus, 34% of the respondents believe that entrepreneurship is an important factor in increasing competition by offering lower prices, 24% think that the role of entrepreneurship in competition is to improve the overall performance of the firms, 22% decided that the role of entrepreneurship in competition is to offer greater variety of products and services, and 20% chose improving the quality of products and services as the main role of entrepreneurship in increasing competition.

Figure 21. Role of entrepreneurship in increasing competition.



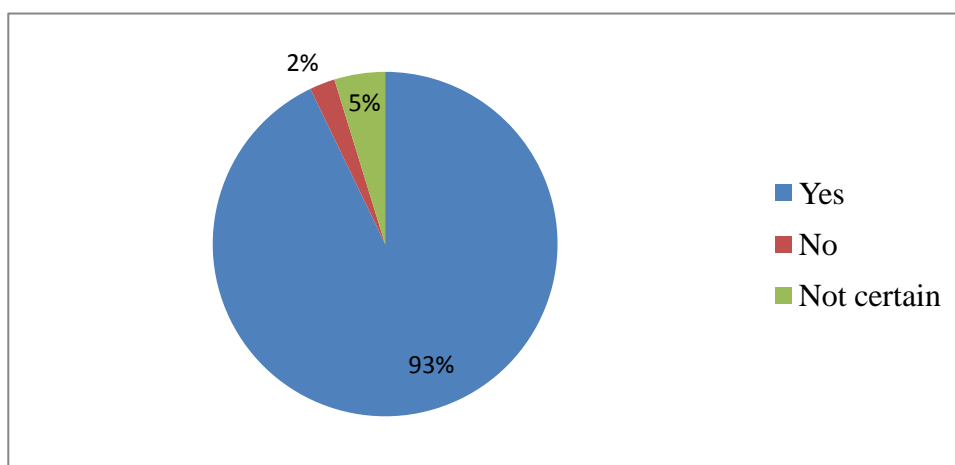
We also wanted to find out whether entrepreneurship is an important factor in job creation or not. Thus, the results showed that 86% of the respondents believe that entrepreneurship is an important factor in job creation in Kosovo, 9% of the respondents believe that entrepreneurship is not an important factor in job creation in Kosovo, whereas 5% are not sure.

Figure 22. Entrepreneurship and job creation in Kosovo.



Since unemployment rate is considered as one of the main problems in Kosovo, it was relevant to assess whether entrepreneurship is considered as a solution for this problem. Thus, 93% of the respondents consider entrepreneurship as a solution to the high unemployment rate in Kosovo, 2% do not consider entrepreneurship as a solution, and 5% are not certain.

Figure 23. Entrepreneurship as a solution for high unemployment rates in Kosovo.



RECOMMENDATIONS

Based on the results of the survey and research analysis we found out relevant matters that would significantly help on improving the position of the entrepreneurs in Kosovo but also the overall development of the SME sector. These recommendations are listed as follows:

- It is relevant for the economy of the country to establish an environment where entrepreneurs and family businesses can develop and entrepreneurship is rewarded. This can be achieved by creating legal and business friendly environment and by facilitating SMEs access to finance. The focus should be on the establishment of better regulatory framework which would help in developing further SMEs by removing entry and exit barriers, improving regulations, laws, licenses, etc.
- By the introducing effective regulatory procedures for businesses, a large number of SMEs will be encouraged to move from informal to formal economy. Furthermore, it will provide to SMEs greater opportunities for access to resources and financing loans and commercial dispute resolution, while on the other hand it will contribute to the overall development of the economy and the creation of jobs in the SME sector.
- A convenient environment, where entrepreneurs have the opportunity to enter and exit the market, has a direct influence on the growth of the businesses but also increases the competition among the businesses. Bureaucratic and legal obstacles have to be removed in order to improve the procedures for entrepreneurs that are willing to start and develop a business in Kosovo. The removal of these procedures

would also help in attracting investors and foreign companies that are willing to open and invest in business opportunities in Kosovo.

- One of the country's success stories is considered the banking sector since there was substantial and qualitative growth. Even though they are perceived as a success story, businesses in Kosovo continually complain about high interest rates. Banking sector is increasing and the value of loans is still experiencing substantial liquidity, whereas there are just a few incentives for banks to provide loans to SMEs. As a part of the platform for improving SMEs access to finances, there should also be included reforms in the cadastral system, fast processing of bank requests, improving registration system for loans and collaterals, and overall law enforcement.
- Since diaspora has always been a significant contributor to the economy of Kosovo, the attraction of the diaspora funds for development of SMEs should be the priority in the strategic development of SMEs in Kosovo. Government of Kosovo and other relevant institutions have to create a favorable environment to attract people that are living abroad to invest in business opportunities in Kosovo because diaspora has been actively participating in the economic process in Kosovo, such as the process of privatization and direct investments even though some of them have been disappointed with the business environment. Hence, in order to increase diaspora's investments and partnership, more financial and administrative incentives are needed.
- Education for entrepreneurship and business skills should be on the focus of the curriculums for all forms of education. This means, changing attitudes and skills for entrepreneurial education, expressed through general education. Furthermore, this method shall help students to develop into independent citizens who know how to take initiative and collaborate with others in developing business ideas. The main idea is to create a basis for choosing entrepreneurship as a career option but in order to do that the Government of Kosovo have to create an entrepreneurship qualification scheme, increase the number of students completing cooperative education in SMEs, and encourage the creation of business incubators within universities.
- The focus of policy makers should be on creating an environment in which entrepreneurs are free to introduce their products and to compete. This can be done by helping SMEs to benefit more from the opportunities offered by the single market, and encouraging and supporting SMEs to benefit from the growth of markets. Development of SMEs is considered as a priority by all donors and institutions in Kosovo. Furthermore, Kosovo is continually becoming part of the

regional market and local businesses that want to develop have to offer quality products and be serious to compete with other foreign companies. In order to address these issues, further work is needed in increasing technical and managerial skills, promoting innovation and quality, introducing accepted international quality standards, substituting imports with domestic products, and facilitating SMEs' access to regional markets and other foreign markets.

- Kosovar institutions are not doing enough to overcome the problems in the SME sector, and, they are not aware about the role of SMEs as creators of new jobs and income generators. Kosovo institutions will need to adopt a partnership approach with SMEs. In fact, SMEs are the solution for many problems that are occurring in Kosovo. All public institutions as tax administration, customs, public services, etc., should consider the impact of their activities in the development of SMEs.
- There is a need for designing a special strategy which exceeds economic effects and in addition, it specifically refers to aspects of entrepreneurship among women, youth, minorities and marginalized groups. Despite the fact that women constitute more than 50% of the overall population of Kosovo, there is an extremely low participation of women in entrepreneurship activity, proving an unbalanced position of female entrepreneurs. Thus, considering the Report on SMEs in Kosovo 2014, female entrepreneurs make up only 13% of the total entrepreneurs and 3% of them have the status of shareholders. This percentage is significantly low if compared to other developed economies of Western countries, where the share of women entrepreneurs ranges from 30% up to 45%.
- Kosovo economy is characterized with high rate of unemployment estimated to be around 45%, whereas approximately 35,000 young people enter each year for the first time in the labor market. There are sufficient reasons to consider entrepreneurship as a solution for young people as only viable solution to address the problem of youth unemployment. For this purpose, specific objectives should be developed with an aim to encourage a greater number of young people to establish their own enterprises.

CONCLUSION

Entrepreneurship is considered as one of the main factors influencing the economic development of Kosovo. Innovation, competition and job creation are major entrepreneurial outcomes that influence the economic growth. Considering the latest data published by the Kosovo Statistics Agency, it results that SMEs make up 62.24% of the

total employment in Kosovo where trade is the leading sector in terms of employment generation with 27%.

The number of businesses registered in 2014 was 9,405 businesses, whereas 9,421 businesses were registered in 2013. The number of entrants to the market shows an increased competition especially in the sector of trade, production, accommodation and services, and agriculture. The role of the entrepreneurship in creating competitive environment in Kosovo is significant considering the new businesses that enter to the market and the contribution they give to competitiveness by bringing new products and services to the market.

SMEs are considered to be the main sources of employment and income generation in Kosovo. Their development and contribution was significant especially after the war of 1999, particularly on the revitalization of the country's economy. By promoting innovation and enhancing the competition, the development of the SMEs in Kosovo contributed in increasing the employment rate, and bringing innovative products and services to the market. SMEs in Kosovo have a vital role in the job creation and in increasing country's employment rate. They have an influential role on the economic growth of Kosovo as they make up 99.97% of the enterprises.

Hence, SMEs and entrepreneurship, as a concept, play a significant role in increasing competition and production, which have an important role in achieving national and regional economic sustainability.

Thus, even though SMEs are the generators of the economic growth in Kosovo, it is evident that there are obstacles related to their development and normal activity, such as informal economy, access to finance and land, power outages, administrative barriers, and legal framework.

Most of the problems are a product of political instability and transnational economy, but there is a need for immediate solutions in order to create a more favorable environment for the establishment and development of business in Kosovo. In order to achieve this, the Government of Kosovo and all implicated factors have to consider the best examples from the countries that have succeeded in achieving economic growth by prompting entrepreneurship.

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APPENDIXES

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Appendix A: The number of persons employed, by sector in 2013.

	Enterprises		Persons employed	
	Number	Share	Number	Share
Manufacturing	4,825	10.5%	30,810	16.2%
Construction	3,289	7.1%	20,682	10.9%
Wholesale and retail trade	19,672	42.7%	61,790	32.6%
Transporting and storage	2,602	5.7%	10,513	5.5%
Accommodation & food services	3,499	7.6%	10,356	5.5%
Business services	4,716	10.2%	25,109	13.2%
Personal services	4,376	9.5%	12,558	6.6%
Other sectors	3,053	6.6%	17,805	9.4%
Total	46,032	100.00%	189,623	100.00%

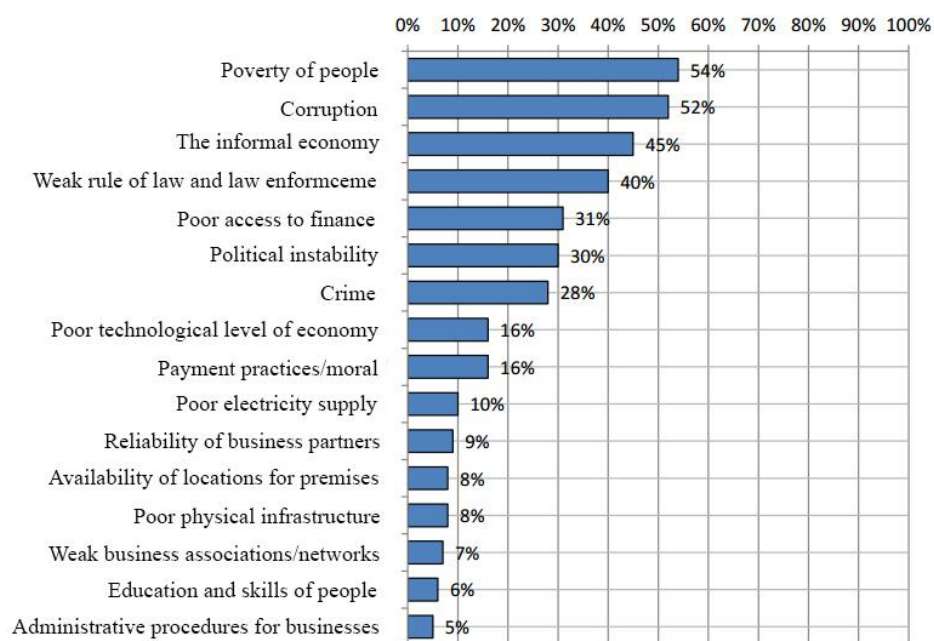
Source: Thomas Oberholzner, *Report on SMEs in Kosovo 2014*, 2014, p. 6, Table 4.

Appendix B: Number of private sector enterprises and persons employed by regions in 2013.

	Enterprises		Persons employed	
	Number	Share	Number	Share
Ferizaj Region	5,411	11.8%	15,709	8.3%
Gjakova Region	4,597	10.0%	12,753	6.7%
Gjilan Region	4,917	10.7%	14,130	7.5%
Mitrovica Region	3,743	8.1%	13,509	7.1%
Peja Region	4,191	9.1%	16,135	8.5%
Prishtina Region	16,181	35.2%	95,666	50.5%
Prizren Region	6,992	15.2%	21,721	11.5%
Total	46,032	100.0%	189,623	100.0%

Source: Thomas Oberholzner, *Report on SMEs in Kosovo 2014*, 2014, p. 8, Table 6.

Appendix D: Major problems/constraints for doing business.



Source: Thomas Oberholzner, *Report on SMEs in Kosovo 2014*, 2014, p. 40, Figure 23.

Appendix F: Questionnaire

What is the legal status of your enterprise?

- a) Limited liability company
- b) Individual business
- c) Shareholding
- d) Foreign company
- e) Public enterprise
- f) Limited partnership
- g) General partnership
- h) Social enterprise
- i) Agricultural Cooperative

What is the main activity of your company?

- a) Production
- b) Wholesale and retail trade
- c) Accommodation and food service activities
- d) Construction
- e) Administrative and support activities
- f) Transport and storage
- g) Information and communication
- h) Agriculture, forestry and fishing

Which year was your firm registered in?

- a) Less than 2 years
- b) 2 years or more but less than 5 years
- c) 5 years or more but less than 10 years
- d) More than 10 years

What was the annual turnover of your enterprise in 2014?

- a) Up to € 2 million
- b) More than € 2 million and up to € 10 million
- c) More than € 10 million and up to € 50 million
- d) More than € 50 million

How many persons does your company currently employ at all locations?

- a) From 1 employee to 9 employees
- b) From 10 employees to 49 employees
- c) From 50 employees to 249 employees
- d) More than 250 employees

What is the average monthly salary in your company?

- a) Up to 300 €
- b) More than 300 € and up to 600 €
- c) More than 600 € and up to 900 €
- d) More than 900 €

What do you consider as the main obstacle for your company?

- a) Access to finance
- b) Unfavorable market conditions
- c) Administrative barriers
- d) Legal Framework
- e) Access to land
- f) Power outages
- g) Availability of skilled staff
- h) Foreign Competition

How do you think entrepreneurship influences the economy of Kosovo?

- a) By introducing innovative technologies, products, and services.
- b) By increasing competition and challenging existing firms to become more competitive.
- c) By providing new job opportunities.
- d) By accelerating structural change and replacing established or sclerotic firms.

Do you believe entrepreneurship can increase competition?

Yes

No

Not certain

What do you believe is the role of entrepreneurship in increasing competition?

- a) Offering lower prices
- b) Offering greater variety of products and services
- c) Improving the quality of products and services
- d) Improving the overall performance of the firms

Do you believe that entrepreneurship is an important factor in job creation in Kosovo?

Yes

No

Not certain

Do you consider entrepreneurship as a solution for high unemployment rates in Kosovo?

Yes

No

Not certain