

UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS

MASTER'S THESIS

**THE ROLE OF ENTREPRENEURSHIP AND STRATEGIC
MANAGEMENT IN KOSOVO SME SECTOR**

Ljubljana, June 2017

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ACRONYMS

KBRA - Kosovo Business Registration Agency

TAK - Tax Administration of Kosovo

BSCK- Business Support Centre Kosovo

CBK - Central Bank of Kosovo

CEO - Chief Executive Officer (Manager/Executive Director of the Company)

EU - European Union

FDI - Foreign Direct Investment

GDP - Gross Domestic Product

ICK – Innovation Centre of Kosovo

JSC – Joint Stock Company

KIESA - Kosovo Investment Enterprise Support Agency

LLC- Limited Liability Company

MF - Ministry of Finance

MTI - Ministry of Trade and Industry

OECD - Organization for Economic Cooperation and Development

PPP - Public Private Partnership

R&D - Research and Development

SAA – Stabilization Association Agreement

SME - Small and Medium Enterprises

SPSS - Statistical Package for the Social Sciences (Software Program)

TE - Transition Economies

VAT - Value Added Tax

Wider - World Institute for Development Economics Research

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ABSTRACT

This Master Thesis is about the examination of the impact of the activities of Entrepreneurship and Strategic Management in the SME sector in Kosovo. The subject will be developed based on a broad literature and practices in the SME development sector, and the great importance of Strategic activities in the direction of firms' growth.

While preparing the thesis, various methods were utilized for researching and studying strategic economic development, with the focal points in SME development. It is well known that the purpose of Strategic development for Entrepreneurship is to develop the capacity for local economic development, to strengthen the future of economy and life quality for all citizens. During this process, the SME sector, public institutions, and partners in the private and non-governmental sectors cooperate to facilitate economic growth and employment.

This study focuses on enhancing the competitiveness of SMEs in Kosovo, to ensure a sustainable economic growth of the SME sector and the economy. The model will include the functions of the internationalization of SMEs, human resources management, innovation strategies of SMEs, information technology and business environment.

Research, within the overall development of the enterprise sector and strategic management, is directed by worldwide field-experience and studies of strategic management, leadership, and opportunities to use resource-optimization strategies. The research work was also directed by empirical support studies in management and business strategies of organizational learning theories of entrepreneurship and scientific evidence that supports entrepreneurial thinking in creating and promoting growth.

Key words: entrepreneurship, strategy and strategic activities, SME competitiveness, innovation, internationalization, orientation towards growth, and business environment

1. INTRODUCTION

The goal of strategic development for SMEs is to develop capacity for local economic development, to improve the economic future and quality of life for all citizens. During this process, the SME sector, public institutions, private sector partners and non-governmental sectors cooperate to facilitate the conditions for economic growth and employment. This study focuses on enhancing the competitiveness of SMEs in Kosovo, to ensure a sustainable economic growth of the SMEs. The model will include the functions of the internationalization of SMEs, human resources management, innovation strategies of SMEs, information technology, business environment and the development of social capital.

The research work will be conducted using a sample of BSCK, which was done in 2013 and will analyse the results of this research. The primary goal of the study will be to define the combination of Entrepreneurship and strategic management activities in creation of joint ventures and research shows that founders of enterprises use leadership skills and management strategies to increase the firm's assets.

Having in mind the variations in both political and economic system, in the post-war period in Kosovo, this paper will affect decision-makers in establishing regulations that would improve the business environment and doing business in Kosovo.

1.1 Research Problem and Research Area

Based on similarities between entrepreneurship and strategic management (Ireland, Hitt, Camp and Sexton, 2001) recommended six areas (Innovation, Networking, Internationalization, Organizational Learning, Top Management Teams and Governance, Growth Orientation) are essential to firms' efforts for profit making. In developing economies, the SME-s are the primary engines of job creation, for income growth and poverty reduction. Therefore, the government should support entrepreneurship as well as business educational aspect for economic development (Krasniqi, 2012). Another important dimension of entrepreneurship literature is the challenge of interaction with the business environment (Begley et al, 2005). As it will be confirmed later, Baumol changed the focus of research from individuals to institutions and the business environment.

It is well known that the purpose of Strategic development for Entrepreneurship is to develop the capacity for local economic development, to improve the economic future and quality of life for all citizens. This is a process in which the SME sector, public institutions, and partners in the private and nongovernmental sectors work together to create better conditions for economic growth and employment.

Entrepreneurship and strategic management are linked to the behaviour and performance of companies. Strategic management seeks to create and exploit competitive advantages for companies within a particular environmental context. Entrepreneurship promotes the

search for competitive advantages by bringing products, processes and innovations to market. Entrepreneurial and strategic activities seek new markets or strategic competitive position for firms in order to create profits.

Firms try to find fundamentally new ways of doing business that will disrupt an industry's existing competitive rules, and lead to the development of new business models that create new forms of competitive life (Hamel, 2000). The degree to which a firm acts entrepreneurially in terms of innovativeness, risk taking, and proactive behaviour is related to dimensions of strategic management (Barringer and Bluedorn, 1999).

This study will explore the meaning and methods that can help CEOs achieve development and growth for their companies in the era of globalization. During the recent few years, the economy of Kosovo has significantly progressed in transitioning to a market-based system and maintaining macroeconomic stability, but the international community and the Diaspora still play an important role for financial and technical assistance.

Kosovo is an important location for business development, due to its comparative advantages such as: a young and well-qualified population, natural resources, favourable climatic conditions, new infrastructure, a fiscal policy with the lowest taxation in the region, a geographic position with access to the regional markets, and new possibilities after signing of Stability Association Agreement with the European Union.

Businesses in Kosovo face many managerial issues, which if neglected, will negatively affect their efficiency. Small businesses, in comparison to large ones are more prone to the risk because they are not able to change often, they do not have sufficient capital to contend with the reduction or loss of market revenues, and they have higher operating costs per unit of revenue. But fortunately, one advantage of small businesses is the flexibility and ease of adapting to the nature of changes. This is the reason why they need managerial advice.

It is worth mentioning that we were a part of BSCK research team in sample development in 2013, and the findings imply that factors such as: SME management, central and local government leadership, conditions of financial sector, structure of the SME sector, the business environment, and approaches to regional markets condition successful Entrepreneurship and SME Strategic Development.

1.2 Research Goals and Hypothesis

Specific goals of the Master Thesis include description of:

1. The role of Entrepreneurship in SME development
2. The impact of Strategic management in SME.

Considering the specific goals, we define two basic research questions:

- a) Do entrepreneurs use Strategic Management tools in doing business in Kosovo?
- b) What are the main drivers for choosing entrepreneurship?

1.3 Methodology

In order to accomplish this master thesis, methodology was a key factor. The working methodology consists of a combination of primary and secondary data, through examination of literature and empirical studies. In order to accomplish this work, the empirical part relied on collecting and processing data in the field, through surveys. The focus of our survey was on 500 enterprises from different regions of Kosovo. The survey was supported in completing the questions given in a questionnaire designed specifically for this study. The objective of this survey was to take information regarding the work of these SMEs and their contribution to the new jobs opportunities and a specific objective was to find out the impact of Strategic Management in SME sector.

The other objective was to study the business environment where these companies operate and the challenges and obstacles that they face during their operation. During the survey, it was made clear that in the survey be significantly included businesses from all main sectors. The questionnaire was designed in such a manner and form in order to enable the achievement of our goals. The empirical part or the primary data collection was conducted through this survey, whereas the secondary data were collected from the literature of various authors who explicate the same topic subject. Secondary data aim to review the previous studies by various authors and this serves for the realization of the theoretical part of the paper. Types of information, the primary and secondary data, have helped the working methodology in observing the positive effects of the SME development on the economic stability of Kosovo and main constraints that they face during their operation.

More specifically the theses are based on statistical analysis of data collected from a sample developed by the Business Support Centre Kosovo (BSCK) in 2014, including 500 companies in Kosovo (BSCK, 2014). Experts of the field conducted the processes of drafting the questionnaire and sample selection. Interviews were conducted with key persons from companies, mainly managers-owners or financial managers. The questionnaire gathered quantitative and qualitative data (growth motives, firm performance, business environment perception and entrepreneurship and strategic management activities information). A random-selected sample was created from the business register list of the Kosovo Business Registration Agency (KBRA) which is a body of the Ministry of Trade and Industry (MTI). The random selection of sample size and the companies to be interviewed was made by software programs such as Excel TopCaats (Sample and Sample stratification).

After several phases of testing the sample size of selected companies, it was decided to organize the distribution of the sample according to two categories: the size of the company and the sector in which the business operates. In general, the response rates of business managers were from 90-95% (from 447 – 486 respondents, but in some specific questions, the response rates were lower).

1.4 Structure of Master Thesis

The master thesis is developed in several different steps. We begin by introducing the content of the thesis, which is followed by theoretical aspects of the role of entrepreneurship and strategic management in SME sector. The main economic indicators and growth of private sector in Kosovo are another issue, which is addressed in this thesis. A study research on the strategic management activities for SME Growth is also presented. The statistical SPSS analysis results of entrepreneurship and strategic management factors are explained and illustrated. Finally, we have presented the conclusion and some recommendations regarding the topic, with main focus on hypothesis and results. The last part of this paper is the bibliography, which adds credibility to our work.

2. THEORETICAL ASPECTS OF ROLE OF ENTREPRENEURSHIP AND STRATEGIC MANAGEMENT IN SME SECTOR

The concept of entrepreneurship has been studied as a separate discipline in the early 20th century. It is believed that, the term entrepreneur originated from the French language to describe a person "who undertakes innovations and finances business aiming to transform innovations into economic benefits". For Schumpeter, the **entrepreneur** is the person who is able to transform new ideas or innovations in creativity for creating new products. Schumpeter sees the entrepreneur as a creative-destructive force. Entrepreneur makes new combinations to help existing industries in becoming old by new coming trends (Schumpeter, 1912).

The economics expert Peter Drucker has pushed this idea further. Drucker explains the entrepreneur as a person who looks for changes, has the responsibility for making the changes and explores the changes as an opportunity (Krasniqi, 2012).

In 2003, The OECD Annual Report (OECD, 2003) issued a series of recommendations as Policies to promote entrepreneur essentially as a creator for new jobs and economic growth. Official government should provide incentives that encourage entrepreneurs to take the risk of creating new enterprises. The government needs to functionalize law enforcement for property rights and encourage a competitive market system.

Different scholars, such as Shane, describe the entrepreneur as someone who among others assumes the risk in his work and initiative (Shane, 2003).

Entrepreneurship enables a person to contribute in different ways; younger entrepreneurs contribute in the development of local-level economy. Innovations from some of them improve the overall society. Steve Jobs is an example of such an entrepreneur who co-established Apple in 1976 and created a revolution in the technology of personal computers (Holden, 2011). Entrepreneurs vary from one another, as they may have different backgrounds. Successful entrepreneurs may have different age and income; different race and some others originate from countries that have not the same economic system and development. They also differ in academic and general experience. But researchers indicate that many entrepreneurs have special native attributes such as creativity, commitment, flexibility, leadership, passion, and self-confidence.

2.1 Entrepreneurship in the Context of Transition Economies

In the early 1990s, there were many theoretical and empirical researches, which show a low efficiency of the planning system in the socialist countries. The abandonment of that system and the transition to the system of market economy and free private initiative confirmed that expectations for significantly improved economic performance of these countries, at the macro and micro level, became desperate (Roland, 2000). Also, it was proved that if the state as entrepreneur was not better than private sector, the role of institutions in creating of conditions for entrepreneurship was crucial. Moreover, an unexpected crisis was encountered because of the arrival of the market economy and economic freedom. It was obvious that the freedom to deal with the entrepreneur in terms of removing state constraints does not mean that state institutions should not be active as a regulator; otherwise, a situation of entrepreneurship chaos can continue.

Systematic changes, which occurred in transition economies, opened up opportunities for the development of entrepreneurship. As a result of the removal of legal restrictions on private enterprises, in transition economies, entrepreneurs began moving to transformation in various stages and different ways. It is understood that these entrepreneurs started small-owned businesses with little-oriented growth. In the beginning, these entrepreneurs were more oriented towards trade and service sector, and later in other stages of the transition from small retailers, they shifted to a view of the commitment to long-term economic activities. The difference between these two types of Entrepreneurs is very important for making policy proposals to promote entrepreneurship and the growth of SMEs in various stages of transition. So, in this case, it is worth mentioning the role of government institutions in promoting entrepreneurship and, in particular, the key sectors which are essential for the country development.

During the period of transition from centrally planned economy to a market economy, there have been many entrances of new firms, where most of them were small and medium and were newly created. According to this, it is very important to address the question about what kind of entrepreneurs come in transition economies and what are the

characteristics of individuals and environmental conditions in which they develop entrepreneurial activities, and which are the main functions of entrepreneurs. Addressing these questions will enable us to identify the level at which these entrepreneurs are different from those in market-developed economies. Then, it is important to recognize the role of small firms and their performance in economic development (Dahlberg, 2003).

Entrepreneurship and small enterprises play an important role in the economies in transition. These small enterprises respond to the opportunities created by systemic changes rather than large firms created in that time. Another value was also that these small firms absorbed a large number of workers, left out by large firms and the privatization process. In order to address this question, it is necessary to analyze the nature of entrepreneurship and entrepreneurs engaged under different types of environmental conditions of economics and scales of institutional and economic development.

However, not all newly created firms play a crucial role in economic growth. Later stages of transition, characterized by macroeconomic stability, low inflation and reduction of uncertainty, were opportunities for entrepreneurial Schumpeter type innovative with longer time horizons (Estrien, 2012). The above discussions regarding the types of entrepreneurs offer some important insights not only about differences between Enterprise "oriented necessity" and "oriented possibility" but in terms of their contribution to economic growth (Estrien, 2012).

From this perspective, it is important to note that the contribution of small firms in transition economies is over evaluated without taking into consideration that a large number of SMEs are self-employed without providing work for others, and these small firms are not growth-oriented. (Santarelli, 2006), highlights the difference between "entrepreneurs" and "proprietorship" in transition economies; the main difference between these two categories of entrepreneurs is the psychology of the business owner, his positions on trade and their orientation towards the capital accumulation. This refers to the business owner's commitment to the creation of welfare, capital accumulation and business growth. If this view is compared with those discussed above, it can be understood that this type of entrepreneur is closed to Schumpeter's interpretation (Krasniqi, 2012).

On the other hand, the entrepreneur - proprietorship is not growth-oriented and it typically includes businesses that serve their owners to cover the costs of living or the achievement of a style or standard of living. Most of the profit generated by this type of entrepreneurs is consumed, rather than re-invested in the business. The following table shows a continuity of individual activity within the SME sector (McIntyre, 2001).

Table 1. SMEs activity forms

Survival/small trading	Proprietorship	Entrepreneurship
Low income Trading only	Maintenance orientation Niche entrepreneurship of a generally transient type	Systemic entrepreneurship Economic entrepreneurship (classical)
No cumulative growth	Surplus generated predominantly for personal consumption purposes	Long-term goals Capital accumulation
Health damage		Personal austerity in order to build business

Source: R. McIntyre, *The Role of Small and Medium Enterprises in Transition: Growth and Entrepreneurship*, 2001, p. 17, Table 1

A study from Slovenia, which investigates the contribution of SMEs to employment generation shows that small firms were the main employers in the transition period (Krasniqi B, 2012). In this case, it should be noted that a high percentage of job creation and reallocation of employees was observed in developed countries. For example, (Gautier, 1997) had found that the percentage of creation and reallocation of jobs was higher in small firms than in large ones. Also, (Hijzen, 2007), using a database from 1997 to 2005 for the United Kingdom (UK), shows that one-third of jobs were created by the entry of new firms into the market, while half of the lost working places was therefore from fading and failing firms (Krasniqi B, 2012).

Our research, done for businesses registered in Kosovo in the period 2007-2013, shows that micro and small enterprises have been the main contributors to job creation, i.e. the micro enterprises contributed with 63.95%, while together with small enterprises, they contributed with 74.76 %, whereas the rest of 25.24 % was the contribution of medium and big enterprises. These data are presented in more details in the following table:

Table 2. SMEs registered in the period of 2007-2013 according to number of employees

Classification by size	By number of employees	By number of enterprises	%	By number of employees	%
Micro	1 – 9	47,999	98.14	75,580	63.95
Small	10 – 49	756	1.55	12,779	10.81
Medium	50 – 249	129	0.26	14,137	11.96
Big	>250	24	0.05	15,693	13.28
Total		48,908	100	118,189	100.00

Source: E. Krasniqi, *Integration of entrepreneurship activities and strategic management of SMEs in Kosovo*, 2013, p. 39, Table 4

2.2 Impact of Institution in Entrepreneurship in Transition Economies

Recent literature has begun to pay particular attention to the role and influence of institutions on entrepreneurial behaviour (Peter J. Boettke, 2013). (North, 1991) makes a clear distinction between formal and informal institutions that have an impact on system innovations in a society. In particular, it is important to make a distinction between formal institutions such as creation of new laws, procedures and framework for property rights, and social institutions (informal), which are embedded, in social life of entrepreneurs and society as a whole. Informal institutions are embodied with the values and norms of the people.

The role of informal institutions should be seen as complementary in the context of the role of other institutions (North, 2003). At the initial stage of transition to a market economy, the application of new legislation creates opportunities for private enterprise to grow, but on the other hand the lack of legal infrastructure hinders entrepreneurship (F. Welter, 2010). It is understood that at this stage of transition new businesses contribute to economic growth (mainly through employment generation and self-employment), but in the later stages institutional development needs to be modified, with the aim of creating required conditions for entrepreneurship development (Smallbone, 2010).

2.3 Role of Entrepreneurship and Strategic Management in Firm Growth

The entrepreneurship and strategic management are related to decisions made by general managers who have the responsibility for their business in general. While strategic management is linked to factors that affect the performance of the enterprise (i.e. environmental strategies and sustainable sources of competitive advantages); entrepreneurship is concerned with processes that lead to the creation of the enterprise (Hitt, et al. 2001).

For this reason, entrepreneurial and strategic actions are at the core of wealth creation for firms or enterprises. Entrepreneurial actions are a fundamental behaviour of firms with which they move into new markets, acquire new customers and combine existing resources in new ways (Hagen, et al. 2005).

On the other hand, strategic actions have been taken to select and implement firm's strategies. Strategic actions provide the context in which innovations are developed and commercialized (Hitt, et al. 2001). Thus, there are intersections between entrepreneurship and strategic management. Creating wealth is related to the development of sustainable incomes and generating a growth (Reiljan, 2005).

Hitt, et al. (2001) claimed that all types of organizations can practice entrepreneurship. Large organizations that were founded earlier (i.e. GE), enterprises established later (i.e.

Dell & Cisco Systems), and newly established enterprises can use entrepreneurial actions to create wealth. Enterprises, established as the largest-ever, transform themselves through entrepreneurial activities and resulting innovations. For example, Nokia uses entrepreneurial and strategic actions as a basis for the transformation from a widely-diversified conglomerate into a leading global manufacturer of mobile phones (Hitt, et al. 2001).

The study conducted by Ireland, Hitt, Camp & Sexton (2001) suggested six areas for integrating entrepreneurial and strategic actions. The study of these authors also examines the attitudes of American CEOs differing order of these areas. Ultimately, organizations will face new critical issues as challenges to change the imperative need for strategic flexibility and potential problems in the implementation of recommended and integrated process. Regularly, their study examines perceptions of CEOs participation in the ranking of potential generic challenges as well as specific strategies to effectively address these potential challenges.

These areas are proposed by Hitt, Ireland and Hoskisson (2001), and include:

1. Innovation,
2. Networking,
3. Internationalization,
4. Organizational Learning,
5. Top management teams and governance,
6. Orientation towards growth.

Innovations are resulting from the firm's effective development and use of new technologies or knowledge for market opportunities (Afuah, 2003). Research and Development (R&D) are the primary source of firms' inventions (bringing something new from the existing one) and innovation (symbolizing bringing something new to use). It was thought that the R&D is more pronounced in large firms or corporations. But, the opposite happens that many small enterprises are more focused on research than development (Hagen, et al, 2005). So, it happens that new innovations or the more radical ones often come from small than from large enterprises (Frattini et.al. , 2012).

Networking brings or joins companies and people together. Networking is a model relationship between individuals and groups (Weigl, 2008). It can take various forms including strategic alliances, joint ventures, licensing agreements, sub contracting, joint research and development, joint efforts and marketing activities, etc. (Hitt, et al. 2001). A networking organization is a voluntary agreement between two or more firms that includes sustainable exchange, sharing or joint development of new products and technologies, starting with firm's capital, technology and other specific assets which are examples of what partners can engage in networking.

Moreover, these networking extend beyond the country's borders (Badry, 2009). Advantages from networking include rapid penetration in markets, financial risk sharing, and increased production efficiency and innovation capacity extensions. In short, networking allows firms to learn new skills and gain access to the needed resources. Most entrepreneurial ventures, especially in the initial phase, are based on effective networking for survival (Ireland, et al. 2001).

Internationalization is a tool that expands the firm's scope and potential. Due to the rapid development of global markets, managers at all levels should be actively involved in internationalization (Hitt, et al. 2001). Firms can use various forms of intervention to internationalize their operations in an effort to create 'economic growth (e.g. exports, licensing, acquisitions, strategic alliances and Foreign Direct Investment). One approach to create firm's growth can be international diversification. However, international diversification can be non-productive if the firm lacks infrastructure and entrepreneurial ability to face with the complexity of actions in different Markets (Hitt, et al. 1997).

Organizational Learning is the development of new knowledge that has the potential to influence the behaviour of firms and assist them in creating growth or wealth. Organizational learning flows through knowledge transfer. The degree to which a firm is devoted to learning is its strategic choice, because learning is a skill, and requires the skills and processes that should be activated for developed and distributed knowledge. In a large number of enterprises, the decision to emphasize organizational learning is reflected in their official position that puts them in the first place of learning (Yeung, 2002).

Fast transfer of knowledge is also vital in entrepreneurial activities, particularly in international markets (Hitt, et al. 2006). Organizational learning is a precondition for innovation and creation of new companies or business operations (Richard T. Harrison, 2008). Researchers in the field of entrepreneurship and strategic management have found that organizational learning is the firm's capability to refresh and continually develop competitive advantages.

Top Management Teams and Governance have the ultimate responsibility for the firm's choice of strategies and ensure their implementation in ways that promote growth and competitive advantage. Top management is responsible for the strategic actions taken by external environmental threats and exploit opportunities effectively using resources and unique capabilities of the firm. The selection and implementation of strategic action is important in both cases to entrepreneurial activities as well as for large established corporations (Lukeš, 2012). In addition, top managers become key players in networking by supporting entrepreneurial and strategic actions (Hagen, et al. 2005).

In market-based economies, satisfaction of shareholders is a great concern of government decisions. Basically, the government decisions determine the relationship between all stakeholders in the performance of the firm. Different views among the parties about the preferred outcomes or dividend should be addressed (Coombs, 2014). The Board of Directors is also a significant source of government decisions. For instance, (Matej Blasko, et al. 2000) found that the Board's decisions affect firm's performance in terms of growth or wealth creation. For example, the actions of the Daimler Chrysler Board had a negative effect on the firm's ability to generate growth or wealth. As a result, about 60 percent of the value of corporate shares were lost between January, 1999 and end of 2000 (Gilson, 2010).

Orientation Towards Growth can be achieved by several ways in which companies can achieve growth. For example, mergers and acquisitions generate rapid growth for large established organizations; many firms competing in the global economy often use such strategic options. Successful mergers and acquisitions can help firms to generate additional wealth (Hitt, et al, 2001). Growth is also a main target for entrepreneurial activities. In this context, growth or wealth creation is a result of activity growth oriented entrepreneurs. Innovation, risk taking and proactive behaviour often lie behind Entrepreneurship (Carsrud, 2009). Effective integration of strategic actions, those entrepreneurs, and these high-growth enterprises use unique patterns of different strategies to generate growth or wealth (Ireland & Hitt, 1999).

2.4 Enterprise, Innovations and Competition

Small enterprises in most countries are considered as a source of technological changes and innovations in the economy. Zoltan & Audretsch, show that the rate of innovation in 1000 workers, on average, is higher in small firms than in large ones (Zoltan & Audretsch, 2009 & 2010). The logic of this statement lies in the fact that small firms have to implement innovative strategies in order to survive in the marketplace. So, these companies benefit from the advantage of being more flexible to adapt to changes in the external environment, including technological, political, institutional and competitive factors.

These changing conditions of external environment may also act as an incentive for small firms to apply their relative responsiveness and flexibility to innovate, risk, and become more entrepreneurial (Levy, 2004). Increased competition and environmental change are seen as the main reasons for the small firms' innovation in the modern economy. Increased competition also encourages firms to generate new ideas and facilitates the entry of new enterprises specialized in particular in the markets "niche" (OECD, 2003). Small segment of a market that is particularly suitable as a target audience for a specific product.

Generally, a market "niche" offers significant potential for sales of the product and is often cheaper than competitors for specific products. For example, a car manufacturer can produce a car that is much less expensive than its competitors and then the call is sent only to those

automotive market customers who are interested in buying a cheap car. Although the target audience for free cars represents only a small percentage of the total number of car buyers, this audience can be even considerable and sufficient to allow car manufacturers to form a "niche" and have profit. This is because small firms can produce complementary products, which serve as basic offerings for large enterprises, while avoiding at the same time competition with these firms.

However, it should be emphasized that small firms compete with large firms and between them. With increasing competition, small firms can increase productivity in the given industry (Parker, 2009). Strong competition puts pressure on firms to innovate, offering new goods and services with the most modern and effective methods of production. In this way, small firms can reach their full potential of innovation in Schumpeter's sense, serving as an "agent of change" thus contributing to the economic change and growth.

2.4.1 Entrepreneurship and Firm Growth

In recent years, the role of entrepreneurship in economic growth is acknowledged by modern theories of economic growth. This happened because growth explanation was limited by neoclassical models that considered that economic growth is exogenous (originating from outside), and is based traditionally on factors of production (usually work and capital) and technological changes.

According to the new theory of economic growth, in modern economies that are based on knowledge, not only the knowledge itself but its effects are critical for economic growth. As you can see, not directly related to the role of entrepreneurship, Romer (1990) highlighted the role of knowledge as a modern factor of economic growth that implicitly creates the possibility for the inclusion of entrepreneurship in new theories of economic growth (Holcombe, 2014). In conclusion, we can say that small firms have a critical role in the modern economy and thus deserve greater attention for policy makers and researchers.

2.4.2 Neoclassical Theory of Firm Growth

Until today, there is no single theoretical model that explains the growth of firms. Theoretical and empirical studies in this area have used different approaches paying particular attention to the separation between neoclassical and economic industrial theory (Krasniqi, 2012). Neoclassical theory suggests that firms tend to grow until they reach the maximum or optimum profit. From a neoclassical assumption of perfect competition, the optimal size is the level of output in the economy of scale that is used and the long-term average cost curve has reached its minimum (Carlton, 2015).

According to this, if the firm behaves rationally, it will reach optimal size and there will not be a tendency to increase after this point. The implication of this theory is that small firms

grow faster than large ones. In fact, distribution of firms within modern industrial organizations tends to be biased more towards domination of the small number of large firms. This theory encourages authors to deal with the research of firms in specific industries. As an example, (Chandler, 2009) explains that by the world of imperfect market as uncertainty and informational asymmetries. So, this theory appears to be consistent with an increase in documenting good vertical integration and post-war conglomerate.

In the most competitive markets, in which large firms can benefit from outsourcing resources thus offering more opportunities for small firms to act, Piore and Sabel, in 1984, prove that flexible specialization of small firms and the restructuring of manufacturing industries enable small firms to become more present in concentrated industries (Niosi, 2014). Zoltan J. Acs & Audretsch, are among the first to develop an empirical test of this hypothesis and found supporting evidence, concluding that flexible production attempts to promote relative viability of small firms. Their findings suggest that the size of the firm tends to diminish in some industries such as engineering where flexible production is based on programmed robots and automatic production while inflexible production is promoted in large firms (Zoltan & Audretsch, 2009&2010).

Neoclassical theory seems to have a limited field of the explanations of other increasing firms' aspects especially in purchases (acquisitions) in the context of vertical integration. This theory seems to help a little in explaining the growth of small firms (mergers and acquisitions). This is because the interest of researchers for the growth of small firms has been focusing more on their organic growth rather than growth by acquisition or mergers.

Audretsch et al. (2004) proved that two issues for explanation of the growth of firms confronted with neoclassical theory. The first one did not explain why firms differ from each other and, the second one, did not explain why people establish their firms which are not optimal in the case of that they are very small to realize in a longer term.

2.4.3 Penrose Theory of Firm Growth

Penrose Theory (1959) became known as the theory of approach "based on sources "which was later adopted by scholars of strategic management (Morana, 2013). Thus, this (Penrose) theory of firm growth, based on the expansion of firms, is largely determined by the availability of firm knowledge (Nothnagel, 2008). So, firms can accumulate knowledge by learning to use existing knowledge more effectively within the firm and the opening of productive opportunities or creation of new knowledge from external sources, but conditioned by the absorption of domestic firms (Krasniqi, 2012).

The rate of growth of firms is limited by the speed with which new knowledge and resources are accumulated and by the ability of managers to learn and respond quickly to accommodate and expand the field in the activity of firms (Sapienza et al., 2004). So, in keeping with the

Penrose theory, knowledge and learning are seen as essential factors of growth of firms (Audretsch, 2009).

With the purpose of effective use of knowledge, small and new firms should create relationships learning from external sources of knowledge (Thérin, 2014). Among the most important forms of external interconnections between firms are forms of cooperation, strategic alliances, joint research projects, consultancy, exchange of information and experiences through the association in specific industrial associations at national and international level.

2.4.4 Life Cycle Model

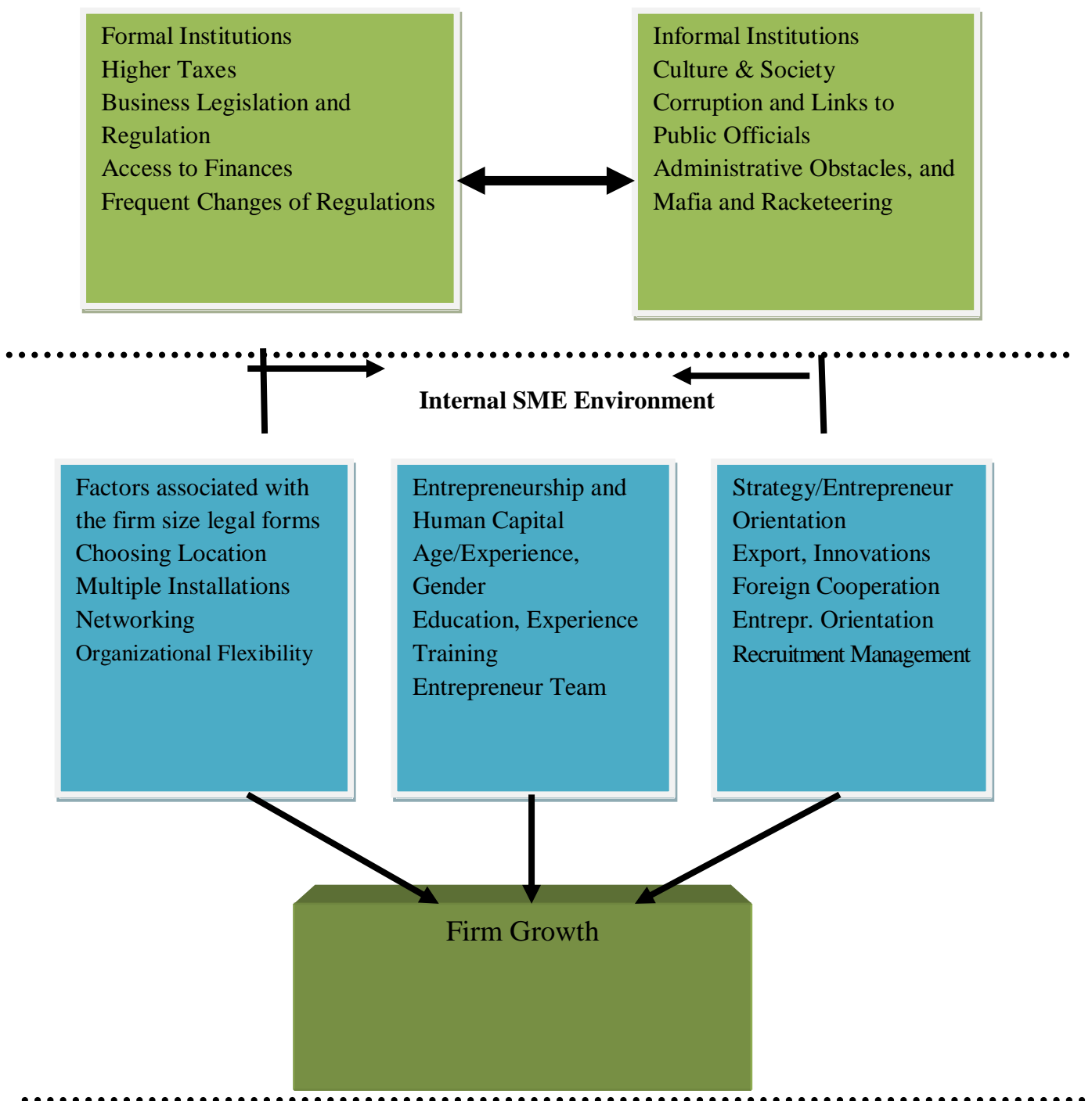
The lifecycle model is not based on the economic theory but has received much attention from organization theories that treat the organization as evolving through life cycle or stages of growth, and therefore the need for significant changes to managerial capacities of firms (Gupta, et al, 2013). At each stage firms face distinct challenges and managerial problems that must be solved in order to pass to the next stage.

For example, a small and new firm faces problems and challenges of capacity of leadership characterized as creative because the problem becomes more difficult to manage during evolution by a single person's decision-making. If the firm is able to have more professional managers able to solve the problems, it sends it to the next stage but further challenged with the need for delegation and coordination (Bhaired, 2010). Having more professional managers in a firm can have a positive effect on the growth of that firm. The model of stage growth has a crucial role in explaining the growth of small businesses because it provides a firm basis of analysis of the initial phase.

2.4.5 Determinants of Firm Growth

Determinants of growth of firms have been the subject of numerous analyzes in economic theories. Factors that influence the growth can be many and different through which is analyzed interaction between each other and their impact on the growth of small businesses. Many approaches or models have been developed for the study of business growth, the stochastic, evolutionary, resource-based, learning and deterministic approach (Fadahunsi, 2012). Taking into account the characteristics of the small firms and also the characteristics of transition economies (Gancarczyk, 2015), the research framework is proposed that is established by Storey (1994) and Smallbone and Wyear (2000). This framework is illustrated in the following figure:

Figure 1. SME Environment - Research framework for analysis of small firm growth



Source: D. Smallbone, *Entrepreneurship and Institutional Change in Transitional Economy*, 2000, p. 45, Fig. 1

Regarding the characteristics that are associated with the firm, begins with the importance of the size of firms that are usually described as the context of "Gibret's law" and the age of the company in context of the "Theory of learning" of Jovanovic (Krasniqi, 2012).

Theories mentioned so far, regarding the growth of the firm, help us develop an integrated model to search for the firm growth, particularly for the economies in transition countries, such as Kosovo. Firstly, we can conclude that entrepreneurship and SME sector contributes to the economy in the form of job creation, technological innovation, and economic growth. Neoclassical theory failed to explain the modern challenges of growth of firms, particularly small businesses. These theories or approaches are improved by Penrose's theory, which became the cornerstone of the theory or approach based on human resources (Krasniqi, 2012). The following table explains growth of firms by different authors:

Table 3. Review of models to explain the growth of firms by different authors

Innovations	Model - Explanation	Economic Growth	Model – Explanation
Acs & Audreusch (1987)	Show that the percentage of innovation on 1,000 workers, on average, is higher in small firms than in large ones. The logic of this statement lies in the fact that <i>small firms need to implement innovative strategies</i> in order to survive in the market.	Romer (1990, 1994)	Argued that " economic growth is the endogenous result of the economic system" and not an exogenous result of factors of production as the neoclassical models (of foreign origin) were, traditionally based on factors of production (usually labour and capital) and technological changes.
OECD, 2003	Increased competition also encourages firms to generate new ideas and facilitates the entry for new enterprises specialized in particular in the "niche "markets.	Romer (1990)	Also, highlighted the role of wisdom or knowledge as a modern factor of economic growth which implicitly creates the possibility for the inclusion of entrepreneurship in new theories of economic growth.
Neoclassical Theory of Firm Growth	From a neoclassical assumption of perfect competition, the optimal size is the level of output in the economy of scale that is applied and the long-term average cost curve has reached its minimum. Neoclassical theory seems to have a limited explanation field of other aspects for firm growth, more firms especially in mergers and acquisitions in context of vertical integration (Coad, 2007).	Acs and Audretsch (1998)	These two authors are among the first to develop an empirical test of this hypothesis and they found evidence supporting and concluding that flexible production attempts to promote relative viability of small firms.

(table continues)

(continued)

Piore and Sabel (1984)	Piore and Sabel (1984) prove that the flexible specialization of small firms and the restructuring of manufacturing industries enables small firms to become more present in concentrated industries.	Audretsch et al. (2004)	These authors confirmed that two issues for explanation of the growth of firms confronted with neoclassical theory. The first one, did not explain why firms differ from each other and, the second one, did not explain why people establish their firms that are not optimal in the case of that they are very small to survive in a longer term.
Piore and Sabel (1984)	Piore and Sabel (1984) prove that the flexible specialization of small firms and the restructuring of manufacturing industries enables small firms to become more present in concentrated industries.	Acs and Audretsch (1998)	These authors are among the first to develop an empirical test of this hypothesis and found supporting evidence concluding that relative production attempts to promote flexible viability of small firms.
Penrose Theory (1959) became popular as the “based-on-resources” approach (Sapienza et al., 2004).	Scholars of strategic management such as: Wernefelt (1984), Barney (1986, 1991) and others, adopted this theory later. So, this (Penrose) theory of growth of firms is based on the expansion of firms largely determined by the availability of firm knowledge. The rate of growth of firms is limited by the speed with which new knowledge and resources are accumulated, and the ability of managers to learn and respond quickly to accommodate and expand the field in the activity of firms.	Audretsch et al. (2004) (Powel et al., 1996; Zahra and George, 2002).	These authors confirmed that two issues for explanation of growth of firms confronted with neoclassical theory. The first one, did not explain why firms differ from each other and, the second one, did not explain why people establish their firms that are not optimal in the case of that they are very small to survive in a longer term. So, in keeping with the Penrose theory, knowledge and learning are seen as essential factors of growth of firms. With the purpose of effective use of knowledge, small firms should create new learning relationships from external sources of knowledge.
Brown et al. (2005)	Determined 4 defined categories of factors: finance, human capital, technical assistance and external factors of constitutive end of the business environment, such as legal framework, strengthening of contracts, property rights, bureaucracy and corruption.	Life Cycle Model	This model has received much attention from organizational theories that treat the organization as evolving through lifecycle or stages of growth, and therefore, the need for significant changes to the managerial capacities of firms (Van de Ven and Poole, 1995).

Source: E. Krasniqi, *Integration of entrepreneurship activities and strategic management of SMEs in Kosovo*, 2013, p. 46-47, Table 5

2.5 Strategy and Strategic Management

The strategy is a set of activities undertaken by managers in order to increase the performance of their company in comparison to other competitive companies and businesses.

The word “strategy” derives from the Greek word *stratēg* (*ós*); derives from two words:

- "*strat* (*ós*)" – meaning army.
- "*ēgos*" –is the ancient Greek for leading/guiding/moving (Kadi, 2008).

Dobson, Starkey and Richards, authors of strategic management, also explain the definition of the strategy by talking about its roots which are from the army. According to them, the strategy defined itself as a term of drafted plan for wars that shaped individually the individuals who are ready to face the enemy in battle. Strategy means the art of war, more precisely, “General’s Art ” key decision makers (Dobson et.al, 2009).

Further, Dobson, Starkey, and Richards continue by bringing and making comparisons between business and war, because, according to them, the business is at "war" since the competition day by day is being strengthened and becoming more violent/aggressive, threatening business or companies’ survival (Dobson et.al. 2009).

Moreover, companies and armies have much in common. Both, armies and strategies have to create protective force, offensive, and alliances. Strategic thinking is a lot influenced by military thinking, which is thinking about the goals, policies and programs. Strategy automatically sets the agenda for future activities, strategic goals, what will be achieved and when it will be achieved (but not by asking how it is going to be achieved).

Policies establish guidelines and targets for activity, following strategic goals and specific programs undertaken step-by-step, indispensable activities to achieve the main objectives of which progress can be measured.

Well-defined strategy integrates key business plans, objectives, policies, programs, and commitment to a united-cohesive whole, like Marshalls allocate their resources in the best way possible, which is defined as a unique environment analysis, which can be found in the strength, weakness, opportunity and threat. This makes us understand how to approach and deal with potential activities of intelligent opponents (Dobson et al, 2009).

Today the strategy is "a major issue" - upper levels of organization in general are involved in preparation of plans - issues of finance, increases from acquisitions, and innovations in products, developing new markets and building internal efficiency. Last promotions of the company "Apple" are as a result of the combination of these (Ritson, 201

2.5.1 Definition of Strategic Management

Definitions of strategy are countless and if we browse any more material, we always may encounter the unread or unheard definitions about the strategy and its description. The selection of an accurate and adequate definition of strategy is a task that requires time and great commitment into finding the exact definition. Despite vast research made on the strategy and its application to management, we must first focus on the origin and understanding of the word from researchers who have devoted a professional life to studying the strategy. In the next section, we will provide some of the maxims and definitions of strategy, which are:

A strategy is: "Art of War" (Ritson, 2013), especially planning troop movements and shipping etc., in a more favourable position, the action plans or policies in business or in politics, etc. We usually do not use a dictionary in academic works - but it is history or etymology of the word strategy.

Hofer and Schendel termed it as "interventionist force or 'match' between the organization and the environment" (Nutt, 1987). Alfred Chandler Jr. suggested: "Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" (Chandler, 2009) - Alfred Chandler Jr. is one of the most famous researchers of strategy.

Porter connects strategy with the success of a company "obtaining competitive positions or services of competitive positions that provides stable performance and high finance" (Porter, 1991).

Quinn defines it as: "Model or plan that integrates a large view of the organization, policies and action sequences entirely united. The strategy helps in maintaining order and collects the resources of an organization with a unique and viable approach" (Quinn, 1980). Andrews notes, "Model of the objectives, goals and major policy and plans for achieving these goals, set out in such a way as to define that in what condition is the business, the company or what is expected to be and the type of company that is and will be" (Andrew, 1971).

Mintzberg gives an opinion about the strategy in the special form, addressing: "Ask someone to define a clear strategy and by him/her you can get the answer that the strategy is a Plan or something equivalent - a direction, guidance or a action which stimulates activities for the future, a path which leads from here to there. Then ask also any other person to submit or to define the strategy that an organization or business of his/her has implemented in the past five years - if they intended or planned to go by any kind of strategy but if they really did". According to Mintzberg, this enables us to see that most people are happy to answer the question about strategy but clearly, we can understand that the definition changes because almost every person can give a different version of strategic management (Mintzberg, 1998).

David suggests that strategic management can be defined as the art and science of formulating, implementing and evaluating functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on the integration management, marketing, finance/accounting, production/activities, research and development and information systems to achieve organizational success. The term "strategic management" in this text is used in a synonymous (same) way as the term 'strategic planning'. The last term (strategic planning) is used more often in the business world, while the former is more an academic term. Sometimes strategic management term is used to refer to strategy formulation, implementation and evaluation, with strategic planning referring only to strategy formulation. The purpose of strategic management is to use and to create different opportunities and new possibilities for tomorrow; wide planning, on the contrary, tries to optimize the trends of today for tomorrow (David, 2011).

2.5.2 Strategy and Strategic Management Schools

Ten schools represent various processes in strategy making, evaluation and exploitation. At the same time, these schools represent different parts of the same process (Mintzberg & Lampel, 1999). The main difference that is encountered among these schools is the descriptive and prescriptive approach. The prescriptive approach includes the design, planning and positioning of schools, and its environment is considered fairly stable. However, empirical studies show that in unstable/turbulent environments as those in transition economies, prescriptive approach is not enough because it can lead to the severity (Fredrickson, 1983-1989, Weigl 2008).

According to (Drejer, 2002), who represents schools of strategic management; there are 3 schools that are most controversial:

- The 'planning' school
- The 'positional' school
- The 'resource based' school

According to Andrews & Ansoff, the planning management school may occur and aims to:

- be based on past trends, forecasts and stable structures and environments,
- use a very bureaucratic and rational manner,
- try to achieve a fit between the organizational strategy and its environment,
- require detailed and inflexible planning not suitable in turbulent markets (Andrews 1971, Ansoff, 1965).

Table 4. Ansoff Matrix

	The existing product	The new product
Actual Market	Growth and Introduction to the Market	Product Development and Innovation
New Market	Market Development and Market Exploitation	Diversification/Diversity

Source: N. Ritson, *Strategic Management*, 2013, p. 24, Table 4.1

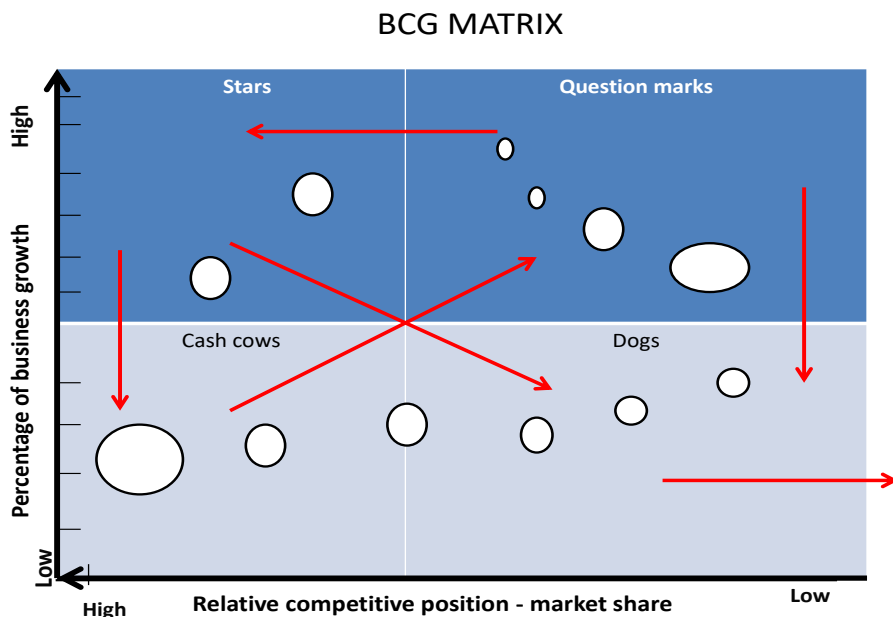
The Positioning Management School is another school, which includes the following steps:

- Focus on rational and analytical approach of strategy-making,
- Giving effort to establish the organization and its products in a more favourable commercial environment,
- It is based on performance measures and decision-making tools,
- Emphasis on competitive advantage.

Descriptive examples, to better understand the positioning of school, include:

1. The work of Porter (1980): "The five forces model of industry; The internal "value chain"; and "Generic" or general strategies,
2. Boston Consulting Group Matrix- BCG is divided into four cells: the stars, the cows, the dogs and the question marks.

Figure 2. Boston Consulting Group Matrix



Source: N. Ritson, *Strategic Management*, 2013, p. 25, Figure 4.2

Resource Based Management is the third school (Barney, 1991) and is described as follows:

- Sees or observes indoors of countries where the business operates,
- Incorporates access to "core competencies" of Prahalad and Hamel (Hamel & Prahalad, 2009),
- Based on an inside-out approach suggests that an organization's competitive advantage is based on its own distinctive resources, opportunities and powers.

However, Grants and others do not consider Culture and Human Resource Management as the risk of ignoring the external environment.

2.6 Managing in Different Growth Contexts

Existing frameworks on growth do not distinguish between the managerial challenges of different growth contexts; they place considerable emphasis on the overall quality of companies' portfolios of strategic units, but less on how different units should be managed according to the growth context they are in. Growth management challenges generated in the context of low growth are much different from those of growth management in the context of high growth (Prats, 2012).

In this section, a framework matrix will be presented which includes four scenarios of growth, in which firms' sectors can draft themselves in these scenarios, and then describe the main obstacles they face in each of these scenarios and actions required to overcome these obstacles (Krasniqi, 2013).

The growth of companies is a loaded and durable to understand phenomenon. Wiklund & Mckelvie suggest a classification of preliminary research in three broad aspects, which can be listed as follows:

1. Increase as a result;
2. The result of the increase; and
3. The process of growth (Wiklund & Mckelvie, 2010).

So, researchers at the current reviews describe a number of problems linked with the growth of firms, and admit that they were unsuccessful to develop a cumulative body regarding the knowledge on growth (Coad, 2007).

The problem of inconsistent results shows the need for a greater focus on research approaches that try to throw light on certain aspects of growth, rather than on multidimensional growth phenomenon as an entire issue. As a significant need, in future research, different speed of growth in a certain industry should be emphasized and the effects it has on managing the growth of firms (Krasniqi, 2013).

One important category of growth frames are stages of growth models, which deal with internal transformations through which goes a firm while growing. The second category is

represented by contingent frames such as those of Igor Ansoff (Matrix of the product's mission), Matrix of growth rate of BCG, GE Matrix or McKinsey's business's mirror (GE Business Screen), or "SHELL" management policy matrix. Large contingent perspectives help managers make a strategic choice. While researchers combine an external dimension with an internal one, they focus mainly on supporting resource allocation decisions based on the attractiveness of the business units within a portfolio and the quality of the overall portfolio (Prats, 2012).

So, researchers cannot describe how to manage the business units within a certain context. A summary of knowledge represented by the recent literature on growth points two key needs: application of more thorough analysis of units, and studying these units in the context of the various increases, resulting from a combination of internal growth rates of units of the company with growth rates of external product segments.

Various authors have argued that the study of interactions of deeper levels of analysis is the best approach to understand any factor or phenomenon impact. Research on innovation experienced a significant progress when it was realized in the levels of product's subsystem, avoiding the confusion that the most overall level of product resulted on a more understandable effect of internal innovation capabilities and complementary nature of the assets.

The study of Prats, et al. (2012) with the CEOs of 62 European technological companies, which includes the period 2004-2010, explores the various challenges involved in generated and managed growth. According to the study, these CEOs met every 4 months in groups of 8-12 participants to introduce to their colleagues the challenges related to strategies, business models, governance, internationalization, new product development, marketing and sales, finance, strategic partnerships and human resources management (Prats, et al. 2012).

Also, on this occasion, they highlighted the necessary activities to overcome these challenges and these data were given in a written format. Four months later, and every four months till December, 2010, the implementation of activities and their consequences were recorded. Further, a survey of annual performance was done in which CEOs gave information regarding the increase in revenue, employees, finances and profits, acquisitions and potential expansions (potential acquisitions and divestments), measurements of consumer channels, internationalization, partnerships, the structure of the board, and data on compensation.

Also, a more in-depth sub-questionnaire with 28 CEOs was done, interviewing them about issues that went beyond discussions of their usual communications. So, additional interviews were conducted with other informants, including company employees, board members, investors and industry experts of relevant industries (Krasniqi, E 2013).

A cross sectional study was conducted as well, which studied the characteristics, behaviours, and strategies of CEOs and senior managers (growth leaders) in eleven units of firms in medium enterprises and fourteen units in big European corporations who had managed to generate growth and sustainable organic growth rates on average segments of their respective industries in extended periods of time. These researchers also had access in the data collected in the US for this project from their partners. Interviews were conducted using a semi-structured questionnaire. For purposes of verifying the data (triangulation/triangulations), the leaders of growth were also interviewed with the same dimensions. Examples of the European sample were companies like General Electric, Samsung, Otis Elevators, UBS, Continental, and Microsoft.

In total, 152 in-depth interviews were conducted which were distributed as follows: 35 interviews with executives in units of companies in large organizations, 48 interviews with CEOs and top-managers of middle-sized companies, and 69 interviews with leaders of small firms. Finally, with a group of 12 CEOs of small companies and 35 Division leaders of a list of European companies which operate in the segments of multiple products and those dealing with the challenges of different kinds of growth contexts at the same time. On top of that, sessions of focus groups were held twice to discuss and to get their input in the framework of the present case.

Their research, therefore, did not resist the prejudice of success. As verified or tracked companies performed in different ways and in different contexts of growth, some units of firms went from high-growth to low-growth rates, some others the opposite, some were able to maintain their position as high-growth-rate companies, and some others never made to overcome the low-growth rate. In their sample, they also had companies which went out of business. As an illustration of some of their findings, they wrote twelve cases covering four quadrants of their framework. Given the international diversity of the sample, their focus was on combinations of product segments (in a number of different geographical areas of industries), and it is believed that the generalization of their intervention was high.

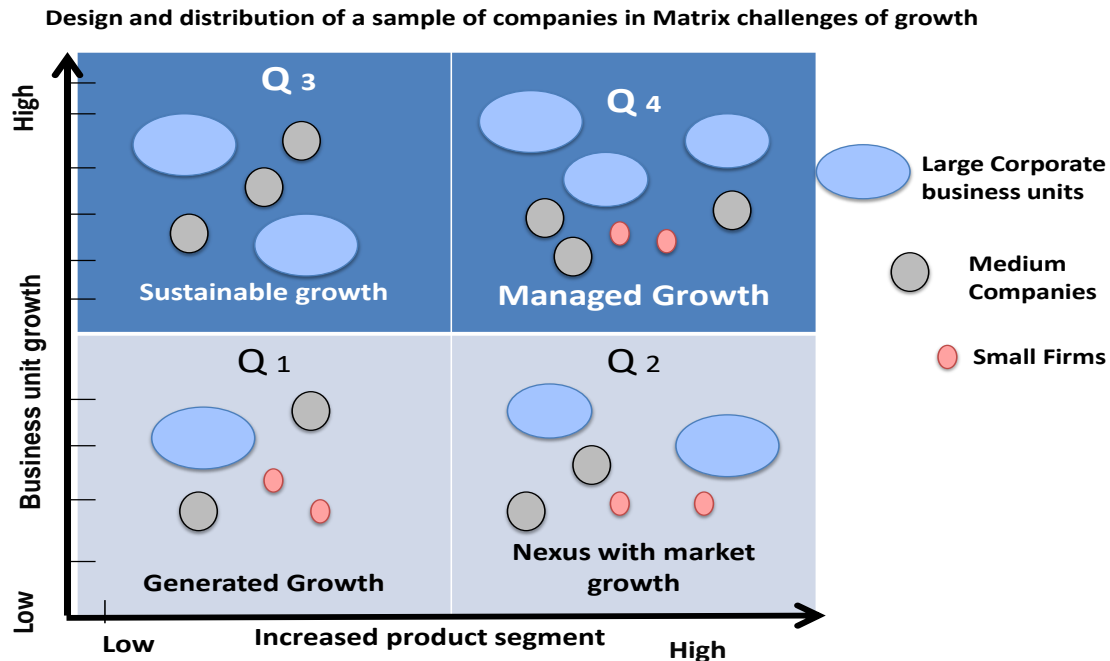
2.6.1 Challenges of Growth Matrix

The results of this research guide to the coverage of the two-by-two frames out of four growth scenarios (Fig. 4). Each of the four quadrants reflects the most important general challenge that managers should tackle:

- Small firm unit / low growing product segment, where the challenge is to generate growth;
- Small firm unit / high growth product segment, where the challenge consists of connecting growth product segments;
- Large firm unit / low growing product segment, where the challenge is to maintain the differential growth rate in relation to other competitors in the segment of the product;

- Large firm unit / high growth product segment, where the challenge is to handle rapid growth and to make sure that the firm's growth keeps, at least, the same rate with that of the product segment.

Figure 3. Distribution of the companies in the sample matrix



Source: E. Krasniqi, *Integration of entrepreneurship and strategic management activities of SMEs in Kosovo*, 2013, p. 59, Figure 4

Exploring growth models in all their samples resulted in that the basic challenges which managers in each of the four quadrants face are very different. While certain issues can be useful across different scenarios, they focused on those most important in each sector and offered some significant considerations for leaders who face these barriers.

An issue they had to determine in their early research was how to categorize a sample of firms in four quadrants. The team of authors of the abovementioned study made a quantitative and qualitative evaluation of each unit of firms to determine their growth context.

This study was based on statistics from interviews on increasing income for the company and product segment. In addition, industry reports are studied and complementary market research was conducted for the purpose of data triangulation (Prats, et al. 2012). An entity that constantly grows by 30 percent and has a product segment growing by less than 6 per cent annually is obviously a candidate for Q3. However, a company that grows by 30 percent, while product segment increases by 100 percent, then it is a case for Q2. In this manner, the researchers were competent to evidently categorize firms into one of the four growth scenarios at any given point in time (see Figure 4 above). Following the framework of stakeholders as an organizing principle, they addressed the challenges related with local

firms, including top-management team and employees, customers, suppliers and strategic partners; as well as competitors.

The first quadrant Q1 – the challenge of generated growth - If growth in the product segment as well as in the firm's unit is minimal, then the challenges are analogous to attempting to sail in a calm sea. This quadrant is a known certainty to units of firms in mature product segments and with products that are in later stages of their life cycle. Exiting from this quadrant often requires a substantial reconfiguration of existing offers and organizational activities (Prats, et al. 2012).

The second quadrant Q2 - the challenge of interconnecting to market growth - Units of firms in this situation face with a number of challenges comparable to those in first quadrant, but the situation is very serious because of the competition that has started to grow, leading the company to a loss of market share. Their findings on the incapability of the unit of firm to utilize external growth opportunities can be classified as follows: purely internal matter of personal and interpersonal level, infrastructure level; and interference between firm units with its external environment, specifically with strategic partners and customers.

An ordinary reason for the subjects that are in this situation is a basic issue with their offers, but the researchers also came to the fact that firms were caught in surprise when new market segments were opened and they found themselves merely not ready to respond to growth. Firm managers should examine why their firm units were withdrawn from the market developments and act with necessity because any further delay widens the gap (Prats, et al. 2012).

The third quadrant Q3 - the challenge of sustainable differential growth - Units of firms in this sector are raising quicker than their product segments and their major challenge is to support the large differential high-growth rate over their competitors. This represents a varied set of problems compared to the first quadrant and the second. Whereas one can say that these are "the challenges of being privileged", it can be a reproduction ground for main issues that will come later (Prats, et al. 2012).

Challenges in this quadrant are often scheduled as issues associated to capacity (in domestic market as well as with foreign partners), dealing with the need to maintain quality in all functions, monitoring of internal difficulty levels and cost coordination, and enlarged competitive pressure. Resistance to change while succeeding is also an ordinary issue for the business unit as well as for its leadership. Executives know best what should be positioned into the system, recruiting people and investing to accommodate and maintain the large increase in the firm.

Another successful strategy is between companies in the above-mentioned example, which moved forward effectively and in a controlled way by introducing innovation in one

dimension (or a new product in the market, or business model) and the growth of key assets to strengthen their main product or service. In this approach, an enterprise can benefit from existing synergies promote its brand without distracting the organization from the growth opportunities that are not connected only with its crucial activity (Prats, et al. 2012).

The fourth quadrant Q4 - the challenge of managing growth - Entities/firms in this quadrant face a situation in which there are not enough incentives to raise the market opportunities available, and in this case managers face challenges of fully exploiting these opportunities. This scenario is categorized by a series of lost markets, which also were described by the researchers of this study. So, in this quadrant researchers moved from the aspects they followed in the three earlier cases (barriers and actions).

2.6.2 Four Key Characteristics of Strategic Management

The First Characteristic - Strategic management aims to lead the company in the direction of achieving the main goals and objectives. For this, all forces should be persistent to attain overall progress not only in a functional area. Some researchers refer to this as a perception called "individual versus organizational consistency" or better said as the use of synergies (each individual contributes in achieving the common goal).

The Second Characteristic - Strategic management involves many stakeholders in decision-making process for the good of the company. Managers should incorporate/include claims of these individuals, who may be several, when taking decisions. Shareholders are people who have shares/stake in the company including owners, employees, customers, suppliers, and others. Managers should know well the overall goals and objectives by adapting the decision-making strategy that will enable the achievement of success which is expected and required from them.

The Third Characteristic - Strategic management requires the inclusion of both plans together; long-term and short-term plan. Peter M. Senge, a researcher and author of the leadership of strategic management from Massachusetts' Institute of Technology (MIT) refers to the incorporation of both plans as a "creative tension". This according to him, encourages managers to hold together the vision for the future of the organization and also focus on the current operational requirements. However, all managers should adhere to the strategic management perspective and at the same time estimate how their activities affect the achievement of company goals (Senge, 2010).

The Fourth Characteristic - Strategic management includes recognition of decision making in situations where ingenuity is required to balance between effectiveness and efficiency. For this issue, some scholars and authors refer to it as the difference between "doing the right thing" (effectiveness) and "doing things well" (efficiency). This requires from managers and also verifies whether they use or are using things wisely and whether they are channelling

works in the right direction towards achieving the goals of the company. Managers who are focused entirely on achieving short term plans and targeting them may fail to achieve the goals of the broader level of the company, so managers must be vigilant in balancing effectiveness and efficiency and achieving the objectives completely (Dess, et.al. 2012).

3. THE MAIN ECONOMIC INDICATORS AND GROWTH OF PRIVATE SECTOR IN KOSOVO

According to the Macro-Economic Report from CBK, the average economic growth rate of Western Balkan countries in 2014 was 1.5 percent, compared with the annual growth of 2.6 percent in 2013.

Positive growth rate, same as the region countries characterized Kosovo, during 2014; Kosovo economy was characterized by lower growth rate compared to the previous year. The real economic growth rate in Kosovo, during 2014, according to the preliminary estimates of KAS was 0.9 percent while the publication of the official assessment of GDP for 2014 is expected to be done by KAS, in November 2015. Based on the KAS estimates, the economic growth in 2014 was a result of the increased consumption and investments, while net exports had a negative impact on the economic growth.

CBK estimates, however, suggest that the economic growth in 2014 was higher than 0.9 percent. The main difference between the CBK and the KAS estimates is due to the higher CBK estimates on consumption growth in 2014. Regarding investments, the CBK estimates show that investments in 2014 were characterized by a decline of 7.6 percent. The average inflation rate in 2014 was 0.4 percent, representing the lowest inflation level in the recent years (CBK, 2015).

In 2014, Kosovo budget registered a primary deficit of euro 131 million compared to euro 150 million deficits marked in the previous year. The general government debt, in December, 2014, was euro 582.9 million or 10.6 percent of GDP compared to euro 476.3 million or 9.1 percent of GDP in 2013. The crediting structure of enterprises remains the same as in the previous years, where loans designated to trade sector represent the largest category with a share of 53.4 percent to total loans to enterprises. The total value of exported goods from Kosovo, in 2014, amounted to euro 324.5 million, which corresponds to an annual growth rate of 10.4 percent.

The growth value of exported goods, in 2014, mainly reflects the price growth of the main metal that Kosovo exports (nickel), and the activity growth in some economic sectors during this period. Meanwhile, goods imported into the country were characterized with an annual growth rate of 3.6 percent, amounting to euro 2.5 billion. The total amount of remittances received in Kosovo reached euro 693.7 million in 2014, thus continuing to represent a sustainable source of financing the consumption in Kosovo.

Foreign Direct Investments (FDI) in Kosovo reached a value of euro 151.2 million compared to the value of euro 280.2 million in 2013 (CBK, 2015).

3.1 Development Strategy of SME Sector in Kosovo

The process of formulating the strategy for 2012-2016 was initiated in December, 2010 and continued until October, 2011, conducted in two phases. The first phase was until June, 2011 and resulted with the completion of the Strategy for SMEs. In the second phase from June to October, 2011, the Implementation Plan of the Strategy was developed and completed.

The MTI and Agency for SME Support got technical assistance from EU-funded project “SME Support through Ministry of Trade and Industry” (EU SME). This project has four main components:

1. Improving the Business Climate;
2. Setting Public-Private Dialogue and Donor Coordination;
3. Improving Competitiveness of SMEs in Kosovo; and
4. Public Information Campaign (MTI, 2012-2016).

The strategy is based on two main pillars:

- The EU Small Business Act (SBA) that Kosovo is committed to implement, and
- The EU Competitiveness and Innovation Program (CIP) in which Kosovo aspires to participate in the near future.

The SME Strategy identifies measures (Strategic Goals and Objectives) to be undertaken aiming to advance reforms that will lead to a dynamic sector of SMEs that will create employment in Kosovo.

Table 5. Planned macroeconomic indicators in the period of 2008-2014 in million Euros

Description	2008	2009	2010	2011	2012	2013	2014
Consumption	4,345.0	4,280.0	4,760.0	5,074.0	5,336.0	5,545.0	5,819.0
Investment	1,094.0	1,166.0	1,213.0	1,433.0	1,620.0	1,704.0	1,756.0
Net Export	(1,587.0)	(1,534.0)	(1,684.0)	(1,867.0)	(1,979.0)	(2,035.0)	(2,075.0)

(table continues)

(table continued)

Export of goods and services	612.0	820.0	875.0	933.0	995.0	1,049.0	1,049.0
Import of goods and services	(2,156.0)	(2,146.0)	(2,504.0)	(2,742.0)	2,912.0	(3,030.0)	(3,124.0)
GDP	3,905.0	3,912.0	4,289.0	4,639.0	4,978.0	5,214.0	5,501.0
Real increase of GDP in %	6.9	2.9	4.0	5.3	5.1	5.4	6.0
GDP per capita	1,847.0	1,848.0	1,966.0	2,127.0	2,249.0	2,321.0	2,412.0
Inflation	9.2	-2.4	3.5	5.3	2.1	1.5	1.4

GAP Institute, *SME Development Strategy for Kosova 2012 - 2016 with Vision to 2020*, 2011, p. 9, Table 1.

3.2 Overview of the SME Sector in Kosovo

According to Kosovo Business Registration Agency - KBRA - the number of SMEs registered on 31 December 2013 was 128,345, which employ 268,180 workers, or 79.59 % of total employees in private sector and 62.24 % of total employees in Kosovo.

The size of SMEs in Kosovo is defined by the Law no. 2005/02-L5 and in the Law no. 03/L-031 on Supporting Small and Medium Enterprises. The number of employees is the sole criteria for classification of enterprises. This differs comparing to EU countries, where in addition to the number of employees, annual turnover is taken into account. The spectrum of registered enterprises in Kosovo, on the basis of number of employees, is presented in table 6:

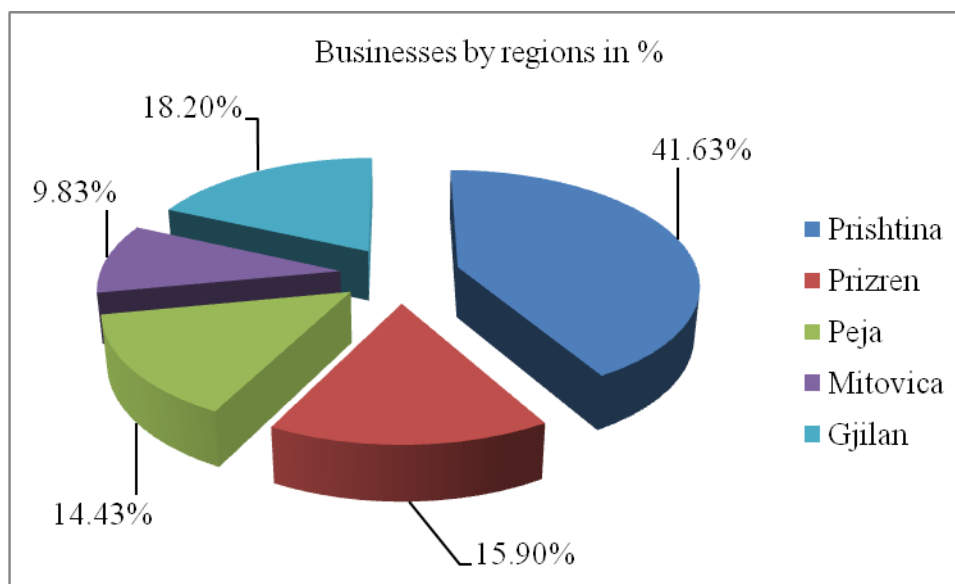
Table 6. Enterprise registration by size or number of enterprises in 2013

Classification by size	By employees	No. of enterprises	Participation in %
Micro	1 – 9	126,261	98.38
Small	10 – 49	1,739	1.36
Medium	50 – 249	273	0.21
Big	>250	72	0.06
Total		128,345	100.00

Source: Ministry of Trade and Industry, *Small and Medium Enterprises Research*, 2014, p. 17, Table 4.

If an overview of registered enterprises by regions in Kosovo is taken into account, it is noted that the region of Prishtina has about 36.96 % of registered businesses at the national level, and then follows the region of Gjilan with 20.78%, Prizren with 15.18%, then Peja with 16.45% and, finally, Mitrovica with 10.64%.

Figure 4. Registered SMEs in Kosovo by regions in %



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Data from the Kosovo Business Registration Agency/Ministry of Trade and Industry presented in the following table provide information related to the ownership structure of registered enterprises in Kosovo. Individual Businesses clearly dominate the ownership structure with 89.8 %. The rest of the companies are general partnerships (3.26 %) and limited liability companies (5.95 %), foreign-owned enterprises 0.47 % and joint stock 0.35%.

Certainly, the type of ownership presented in the following table, shows the shortcomings of SMEs in Kosovo, because it shows the unwillingness of SME owners to join financial and human capital in the most advanced forms of business.

Table 7. Enterprises by ownership in Kosovo

Type/ No	Type of ownership	No of enterprises	% in total
1.	Individual Business	115,201	89.76

(table continues)

(table continued)

2.	General partnership	4,185	3.26
3.	Partnership	111	0.09
4.	Limited Liability Company (L.L.C)	7,632	5.95
5.	Joint Stock Company (J.S.C.).	455	0.35
6.	Foreign Company	601	0.47
7.	Socially Owned Enterprise	20	0.02
8.	Public Enterprise	15	0.01
9.	Agricultural Cooperative	84	0.07
10.	Others – in jurisdiction of KPA	41	0.03
	<i>Total</i>	128,345	100.00

Source: Ministry of Trade and Industry, *Small and Medium Enterprises Research*, 2014, p. 17-18, Table 5.

The average of Businesses, which failed in the period 2007- 2013, is from 8.5-10% of total registered businesses in this period. Regarding the businesses that failed, we must emphasize that this data should be taken with great reserve because under actual laws, if a business wants to change the form of ownership, it first must close the business, then register in another form of ownership.

Table 8. SMEs registered in the period of 2007-2013 based on number of enterprises

Classification by size	By # of employees	# of enterprises	%
Micro Enterprises	1 – 9	47,999	98.14
Small	10 – 49	756	1.55
Medium	50 – 249	129	0.26
Big	More than 250	24	0.05
Total		48,908	100.00

Source: E. Krasniqi, *Integration of entrepreneurship and strategic management activities of SMEs in Kosovo*, 2013, p. 39, Table 4.

The informal economy prevents fair competition and increases the relative costs of enterprises operating in the formal sector. The informal labour contracts and systematic evasion of social contributions are declining the protection of workers and their social gains. They also have a negative impact on the fiscal budget and in all social infrastructures due to falling revenues and a subsequent reduction of proper public services.

According to the report of “Government Program for the prevention of the informal economy in Kosovo 2010-2012”, the estimated size of the informal economy ranges from 39 to 50 percent of GDP.

3.3 Role of SMEs in the Economic Development of Kosovo

The size of the SMEs in Kosovo is defined by the Law no. 2005/02-L5 and the Law no. 03/L031 on the Support of Small and Medium Enterprises. The number of employees is the only criterion used for classification of SMEs in Kosovo. Enterprises with the number of employees from 1 to 9 are considered as micro enterprises, enterprises with the number of employees from 10 to 49 are considered small enterprises, whereas enterprises with number of employees from 50 to 250 are in the group of medium enterprises.

The development of small and medium enterprises in Kosovo is considered as the main factor of economic growth and industrial development trend, and the production in these enterprises is of great importance. They are a vital part of the economy of Kosovo and participate with about 43% (2012) in the building of GDP of the country. The development of this sector is considered to be the main source of income and job creation, which can assist Kosovo in the process of economic recovery.

According to Kosovo Business Registration Agency, at the end of 2012 the number of recorded micro, small, medium and large enterprises was about 111,590 with 288,075 employees, representing approximately 65% of the total employees in Kosovo. From the total of enterprises, small and medium enterprises represent around 99.9% of enterprises with 80% employed in the private sector. As for the organizational form of enterprise, many SMEs in Kosovo are individual enterprises with more than 90%. Besides the role of SMEs in creating jobs and reducing poverty in Kosovo, they make an important contribution in the production of GDP.

Table 9. Number of SMEs and employees in Kosovo (year 2012)

Enterprises according to no. of employees	No. of enterprises		No. of employees	
Total	111,590	100 %	288,075	100.0%
Micro (1-9)	109,800	98.3 %	185,129	64.3%
Small (10-49)	1,508	1.4 %	24,877	8.6%
Medium (50-249)	224	0.2 %	22,411	7.8%
Large	58	0.05 %	55,658	19.3%

Source: Task Force for European Integration, *Discussion Material of the Field of Industry and SMEs*, 2012, p. 5, Table 3.

Based on data from the Tax Administration of Kosovo (TAK), shown in Table 10, the total turnover of the SMEs in 2010 was 1,693,926,734.31 (€) or 43.30% of GDP. Total turnover of all enterprises was 2,222,485,094.15 (56.81 of GDP). However, a problem that remains to be solved is the informal economy, which based on “Government Program for Prevention of Informal Economy in Kosovo 2011 – 2012” constitutes 39 of 50% of GDP - in Kosovo.

Table 10. Participation of enterprises on the creation of the country's GDP (%)

Size of enterprise	Turnover (€)	Participation GDP (%)
Micro	656,885,164.33	16.79
Small	667,585,914.82	17.07
Middle	369,455,655.16	9.44
Large	528,558,359.84	13.51
Total	2,222,485,094.15	56.81

Source: E. Krasniqi, *Integration of entrepreneurship activities and strategic management of SMEs in Kosovo*, 2013, p. 107, Table 12.

The participation of SMEs in creating GDP - is quite large, which gives this sector a special role in the economic development of the country, despite the obstacles that they face. Therefore, the facilitation on the creation of SMEs will have a significant effect on the economic development and in the increasing participation in Kosovo GDP. Whereas, as for the spread of the SMEs across sectors, wholesale and retail trade represent the largest number of enterprises, with about 50% of the total. Then, the services sector has a share of 40% of the total SMEs, while production represents a smaller number of around 10%. The trade sector, as for the number of employees, ranks first with about 33% of the total, then rank the service and producing sector.

Table 11. Percentage of SMEs– in Kosovo, according to size and sector

Sector	Micro	Small	Middle	Total	% of sector
Production	95.2%	2.4%	2.4%	100.0%	10.1%
Service	97.0%	1.3%	1.3%	100.0%	40.0%
Trade	98.7%	0.6%	0.6%	100.0%	50.0%

Source: Business Support Centre Kosova, *SME Research 2014*, 2015, p. 13, Table 1.1.

Despite the large contribution that small and medium enterprises have in the economy of Kosovo, they are still faced daily with obstacles and limitations that are imposed by the business environment. The local production in Kosovo is not at a satisfactory level, and as a result, it fails to cover the local demand for products and services. Therefore, an important challenge remains the import substitution and export growth in the country. Estimates of the business environment in Kosovo report an unfavourable climate that inhibits the formation and development of local businesses and discourages foreign investors.

This environment is the one that is imposing each change in the activities of these enterprises. The weak rule of law, the large number of informal activities, corruption and uncertainty over property rights are the main obstacles to the development of Kosovo economy. The economy of the country is not stimulating the growth of these enterprises, but rather it is hindering it, even though with much effort it has been managed to develop some supportive aspects, again there are different types of barriers that inhibit the activity of these enterprises.

Most of SMEs in Kosovo are oriented towards growth, but the external environment hinders their desire or ability to achieve their full potential. The creation of a favourable or convenient climate for enterprises in Kosovo, in the first place means a favourable macroeconomic situation as well as the creation of a legal and physical infrastructure, to

ensure for the latter an opportunity to lower the transaction costs and development of a free and unobstructed activity.

A primary role is played by the stability situation of macroeconomic indicators in the country, the stability which is a prerequisite for a sustainable long-term business. Unexpected changes, and especially the deterioration of the macroeconomic situation, directly affect the 'contraction' of business and discourage businesses to increase investment. Due to the fact that these enterprises are crucial to the overall process of economic development, the government should take adequate measures to take care and support the creation and development of SMEs in Kosovo.

3.4 Doing Business in Kosovo

A new report by the World Bank Group shows that, in the period of 2013 - 2015, Kosovo has further improved the regulatory environment for entrepreneurs, adding to the gains recorded in the last two years. In particular, Kosovo has made dealing with construction permits easier, by establishing a new phased inspection scheme and substantially reducing the building-permit fee. This follows the reform trend, as this is the fourth consecutive-year Kosovo has implemented a reform in one or more areas measured by *Doing Business*.

However, the reform implemented this year is at a slower pace than the one from two years ago, when the economy implemented three reforms and from the year when it implemented two. It also made enforcing contracts easier by introducing a private bailiff system. However, Kosovo has made transferring property more difficult by increasing the fee for the registration of property transactions (Ranking of economies - Doing Business - World Bank Group, 2016).

3.4.1 SWOT Analysis of SME Sector in Kosovo

SWOT analysis is one of the many models of forecasting or assessment of the situation of enterprises, which can create a system that presents a practical approach for making that information to internal and external factors related to business unit. This analysis is a very useful instrument to determine the internal and external factors, which have their impact on the development of SMEs. The above-mentioned technique represents one of the techniques that serve to undertake an analysis of the structural business environment, aiming to formulating a strategy for SMEs. While analysing the Feasibility Study Report done by Kosovo Business Registration Agency (KBRA), we summarized the external and internal factors of SME sector in Kosovo.

Table 12. SWOT Analysis of SME Sector in Kosovo-Strengths and Weaknesses

Strengths	Weaknesses
Adoption of the European Charter for Small Businesses (SBA) confirms the commitment of the Government of Kosovo for SME development	Lack of a clear strategy framework for SME development
Increased harmonization of the Kosovo SME policies with EU support programs for SMEs	Not well coordinated System of Information Management for monitoring and evaluation for the SME sector
Continued relative growth of GDP	Insufficient rule of law
Energy Strategy (2009-2018) has being implemented	Lack of implementation of existing legislation
Effective collection of customs and tax at the border	Lack of investment promotion policies
Kosovo is a member of the World Bank and the International Monetary Fund	The internal business barriers
Longer entrepreneurial tradition compared with other countries in transition (since 1990)	Largest non-formal sector
Euro is the official currency, which is facilitating trade with the Euro zone	A limited number of financial products offered for SME sector
The agricultural land and not expensive inputs	High demand for collateral from financial sector
Educated workforce strength, and very familiar in multi-language field	No infrastructure for capital market
Regional Development Approach supported by a network of RDAs	Weak mechanism to support business start-ups
Pristina airport well connected with international passenger transport	Lack of creative and innovative ideas for business
Kosovo has "brain gain" for returning emigrants who have acquired new transferable skills	Low level of managerial skills
The most numerous cases of technical assistance and training for business funded by donors	Inadequate teaching of entrepreneurship in the education system
Increased exposure to international best practices of governance and doing business (since 1999)	Low level of managerial skills

(table continues)

(table continued)

Increasing the ability of the SME sector to absorb and effectively utilize government and donors	<p>Concentration on trade rather than on production</p> <p>Weak regional cooperation in Kosovo and between the Western Balkan countries</p> <p>Predominance of family-owned SMEs</p> <p>Limited understanding of modern production technologies and techniques is the marketing and business</p> <p>Large companies dominate the process of advocacy and lobbying</p> <p>Lack of awareness among consumers and SMEs on quality standards</p> <p>Low rating from the public for the importance of SMEs in jobs creating</p> <p>Corruption and crime significantly are increasing the cost of doing business</p>
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GAP Institute, *SME Development Strategy for Kosova 2012 - 2016 with Vision to 2020*, 2011, Pages 41-43, Annex 1

The SWOT Analysis of SME Sector in Kosovo shows that weaknesses are more than strengths or respectively they are 23 factors of weaknesses and 16 factors of strengths. The Kosovo Institutions have to work more on strategy framework for SME development, implementation of existing legislation, decreasing of non-formal sector, increasing investment promotion policies, avoiding internal business barriers (managerial and qualified workers skills), increasing a number of financial products offered for SME sector, increasing of awareness among consumers and SMEs on quality standards, and etc.

Table 13. SWOT Analysis of SME Sector in Kosovo-Opportunities and Threats

Opportunities	Threats
<p>Clearness and strengthening of property rights-will increase investment and loans</p> <p>Kosovo membership in WTO</p> <p>Kosovo Stabilization and Association Process to EU membership</p> <p>Increased attention of policy makers for SME sector</p>	<p>Unstable political situation resulting in smuggling and criminal activities</p> <p>Weak Implementation and inconsistent contract law discourages loans and bank lending</p>

(table continues)

(table continued)

<p>High Banking liquidity</p> <p>Approval of the Strategy and Implementation Plan for SME development</p> <p>The potential for the introduction of new financial products such as: guarantee schemes, leasing, capital to create new businesses ("venture capital")</p> <p>Investments in entrepreneurship education and entrepreneurial skills</p> <p>Improved employment of skills through education and professional training</p> <p>The growth of foreign companies that transfer their business activities in Kosovo-IT services</p> <p>Kosovo membership in the SME – EU week</p> <p>Improved links between the educational institutions and the private sector</p> <p>Improved implementation of CEFTA</p> <p>Completion of the privatization process</p> <p>Lack of exploitation of natural resources</p> <p>Development and implementation of plans for import substitutes</p> <p>Geographical and cultural central position between Europe, Middle East and Africa</p> <p>Public investment in infrastructure (i.e. Kosovo-Albania highway, the Pr. Int. Airport, transmission lines of higher en. electricity, road infrastructure, port points close to Albania)</p> <p>Increased accessibility to regional markets</p> <p>Increasing of investment in Public Private Partnership</p> <p>The rapid development of the electronic communications sectors</p>	<p>Failure to control corruption and bureaucracy discourages Entrepreneurship</p> <p>Fake products inhibit the local production and Foreign Direct Investment</p> <p>Unfair foreign competition increased due to lack of application of the rules for liberalization of foreign trade</p> <p>High rates of poverty and high unemployment reduce a local market demand</p> <p>The heavy reliance on Diaspora and International Community for technical and financial assistance discourages entrepreneurship</p> <p>The selective remittances not used for jobs creation</p> <p>Non-formal sector competes unfairly with formal sector</p> <p>Negative international perception about Kosovo affecting exporting SMEs</p>
<p>The completion of the tender process for Kosovo C</p>	
<p>Further strengthening of business relations with the Kosovo Diaspora</p> <p>Improved inter-border cooperation</p> <p>Increasing the effectiveness of public institutions and donors for SMEs support</p> <p>Expansion of business incubators and business parks and the creation of economic zones</p> <p>Flexible labour market with lower cost in Europe</p>	

GAP Institute, *SME Development Strategy for Kosova 2012 - 2016 with Vision to 2020*, 2011, p. 44-46, Annex

1.

3.4.2 World Bank Indicators of Doing Business in Kosovo

Measuring Quality and Regulatory Efficiency in Doing Business Report: noted that over the past year Kosovo has made a reform making tax payment easier for enterprises. This trend represents good news because of implemented reforms in the last four years.

In recent years, Kosovo has removed significant obstacles in doing business, as reflected in the mentioned Report. These encouraging developments translated into concrete improvements in productivity, and ultimately, the creation of new jobs, will request more focus on the challenges of socio-economic development strategy that includes several long-term political changes.

Table 14. Doing Business Report 2016

Doing Business 2016	Kosovo	Albania	Bosnia	Macedonia	Montenegro	Serbia
Starting a business	13	46	174	4	58	47
Supplying with construction permit	129	106	170	11	93	36
Power supplying	114	156	123	29	167	92
Property registration	33	106	99	48	78	56
Credit approach	20	44	44	16	7	44
Protection of minority investment	63	19	81	13	42	70
Paying taxes	43	97	133	9	57	78
Trade across borders	51	24	36	27	43	23
Contracts execution	44	116	64	36	41	61
Bankruptcy solutions	163	43	41	32	40	47
Overall assessment	60	58	81	10	51	47

Source: World Bank Group, *Ranking of economies - Doing Business – 2016*, 2016.

In the report for this year on Doing Business, there were changes in the methodology of five indicators to do with the Construction Permit, Supplying with Electricity, Execution of Contracts, Property Registration and Trading Across Borders. For example, in the area of the Property Registration, a new index for the quality of the land management measures shows the trust, transparency and geographical scope of land administration systems and solutions for disagreement aspects on issues related to land.

Methodological Changes fill a two-year effort to raise the measurement standards for the quality of regulation and efficiency of the regulatory framework for business in order to better complete its basic reality. For policy makers, dealing with the challenge of creating jobs and promoting development, it is worth studying good practises in some states on how they assign different tariffs indicators of Doing Business.

A modern economy cannot function without regulation and in the same time, it cannot be stopped due to poor and unfavourable regulations. Development challenges mean moving through narrow paths by identifying regulations that are good and necessary, and avoiding those that inhibit creativity and obstruct the functioning of small and medium enterprises.

This study Report shows how the efficiency and quality regulations of business go jointly with the creation of more competitive companies which will help the development of the national economy. The emphasis on the quality of regulation for the completion of the focus to efficiency is intended to clarify the distinction between well prepared and worse regulations.

Economies in Europe and Central Asia have achieved good results in terms of new standards for quality, while those in the region of the Middle East and North Africa have had a weak performance. In global rankings, Singapore continues to hold the first place. Among the 10 economies which have better regulations for business friendly environment are New Zealand in second place, Denmark (3), the Republic of Korea (4), Hong Kong SAR, China (5), United Kingdom (6) , the United States (6), Sweden (8), Norway (9), and Finland in the tenth place. Best ten reformers in the world economies that have implemented at least three reforms over the past year are Costa Rica, Uganda, Kenya, Cyprus, Mauritania, Kazakhstan, Uzbekistan, Jamaica, Senegal and Benin.

3.5 Small and Medium Enterprises in Kosovo

According to KAS in 2015, about 99.1% are small and medium enterprises from the total number of enterprises in Kosovo. The structure and growth of SMEs in Kosovo can be seen on the basis of analyses carried out by the SME Agency from Ministry of Trade and Industry. SMEs constitute the backbone of the economy of Kosovo. According to Kosovo Business Registration Agency (KBRA) at the end of 2015, SMEs (including micro enterprises) accounted for approximately 99.97% of all businesses operating in the country (for more details, see table no. 15).

As the table shows, from 2011 to 2015 the number of SMEs has grown at a rate of about 20% annually, while the total increase over the past five years was about 35%, but there is no data available on the number of closed and bankrupt SMEs.

Table 15. Enterprises statistics by size (2011 – 2015)

	2011		2012		2013		2014		2015	
	No.	%	No.	%	No.	%	No.	%	No.	%
Micro Enterpr.	6,744	96.79	8,242	97.50	9,798	97.48	9,420	98.00	9,919	98.40
Small Enterpr.	178	2.55	160	1.89	215	2.14	165	1.72	139	1.38
Medium Enterpr.	40	0.57	43	0.51	31	0.31	21	0.22	19	0.19
Total SME	6,962	99.91	8,445	99.91	10,044	99.93	9,606	99.94	10,077	99.97
Big Enterpr.	6	0.09	8	0.09	7	0.07	6	0.06	3	0.03
Total	6,968	100%	8,453	100%	10,051	100%	9,612	100%	10,080	100%

GAP Institute, *SME Development Strategy for Kosova 2012 - 2016 with Vision to 2020*, 2011, p. 4, Table 1.

When analyzing SMEs by ownership structure the domination of microbusinesses can be seen, and it is also increasing from 96.79% up to 98.4% of the total number of registered businesses. While the number of registered SMEs ranges from 6,962 in 2011 to 10,077 in 2015. The average of registered SMEs in the period 2011-2015 is 9,027 businesses per year. In this case, businesses that were closed in this period were not calculated, which may be approximately from 10-15% of registered businesses within the year (see table no. 16)

Table 16. Number of employees in SMEs – December, 2014

Type of SMEs by size	No. of enterprises	No of employees
Micro (1-9 employees)	109,798	185,123
Small enterprises (10-49 employees)	1,508	24,877
Medium Enterprises (50-249 employees)	224	22,411
Total SMEs	11,530	232,411
Big Enterprises (over 250 employees)	60	137,096
TOTAL	111,590	369,507

GAP Institute, *SME Development Strategy for Kosova 2012 - 2016 with Vision to 2020*, 2011, p. 18, Table 4.

A basic comparison of the data provided at the end of 2014 with those in September, 2015 (See Table no. 17) shows that there was no change in the number of employees of SMEs (an increase for only 6 employees), while the number of people employed by large enterprises seems to have had a significant decrease, estimated mainly due to failures in the process of privatization of large companies.

Table 17. Number of enterprises and employees, structure % in 2014

Description	No. of enterprises		No of employees	
	No.	%	No.	%
Type of SMEs by size				
Micro (1-9 employees)	109,800	98.40	185,129	64.00
Small enterprises (10-49 employees)	1,508	1.40	24,877	9.00
Medium Enterprises (50-249 employees)	224	0.20	22,411	8.00
Total SMEs	111,532	99.99	232,417	81.00
Big Enterprises (over 250 employees)	58	0.10	55,658	19.00
TOTAL	111,590	100.00	288,075	100.00

GAP Institute, *SME Development Strategy for Kosova 2012 - 2016 with Vision to 2020*, 2011, p. 5, Table 3.

Having in mind the scope of the SME sector in the economy, the Government of Kosovo recognizes the importance of SMEs for economic development. Inconsistency of data identified above shows that the data are not fully reliable yet mainly due to enterprises that can be inactive and relatively high domination of the informal economy.

First, this methodology should be harmonized with those used by other relevant institutions (such as the Kosovo Agency of Statistics, Central Bank of Kosovo, Ministry of Labour and Social Welfare, etc.), so that the data collected and processed be comparable. This would enable unified interpretation of trends of SME development and their contribution to employment, GDP, export and import, to the state budget and economic development in general (including the various aspects related to FDI).

Secondly, the whole process and methodology of data collection and processing should be more transparent, as this is essential for independent assessment of all aspects of such development of SMEs, while the time of their publication should be standardized.

Thirdly, this process must be significantly improved in terms of quality (including aspects of education and professional qualifications), with a view to enabling an easy comparison between different sectors of SME activity. This, furthermore, will allow easy identification of the comparative advantages of businesses in sector and better use of such qualitative data to develop policies and instruments for SME support and private sector development.

Moreover, the whole system of data collection should enable a more accurate analysis and objective dimension of the grey economy, which is a key to effectively fighting the informal economy. This is because, according to the EU, the informal economy in Kosovo is considered to be great and fuelled by weaknesses in tax and expenditure policies and in law enforcement, including the battle against corruption and organized crime. Finally, addressing such gaps would contribute for creating the stable conditions, transparent and predictable for foreign investors and thus would lead to the fulfilment of the obligations arising from the SAA.

Besides improvement of the regulatory infrastructure and environment and an increase in the use of research and innovation policies, at least attempts should focus on improving management skills of enterprises. On the other hand, the difficulties related to legal contract enforcement, unstable supply of electricity, and limited and expensive access to finance are still seriously structural obstacles to SME and private sector development.

3.5.1 Average Age of SME Managers/Owners

According to the survey of MTI, 2014, associated with the analysis of age group of firm founders in SME sector, there are included five age groups in the country level (see table no. 18). From the total number of firms, the age group 36-45 years dominates, respectively 42.7%, while the age of 46-55 was 26.8% almost the same as that in the previous years. The owners / managers with age from 26-35 years were 20.5%.

Table 18. Age structure of business owners

Group Age	%
18 – 29	18%
30 – 39	32%
40 – 49	31%
50 – 59	15%
50 +	5%
Total	100%

Source: KOSME SME Survey 2014, p. 20, Table 11.

3.5.2 Business Environment in Kosovo

According to a research from the institute (Riinvest, 2015), the SME sector is currently the most vital economic sector in the country. If the development of SMEs continues further, and if the business environment is improved (such as agricultural sectors), they will contribute through import substitution and export growth as well as with neighbouring countries.

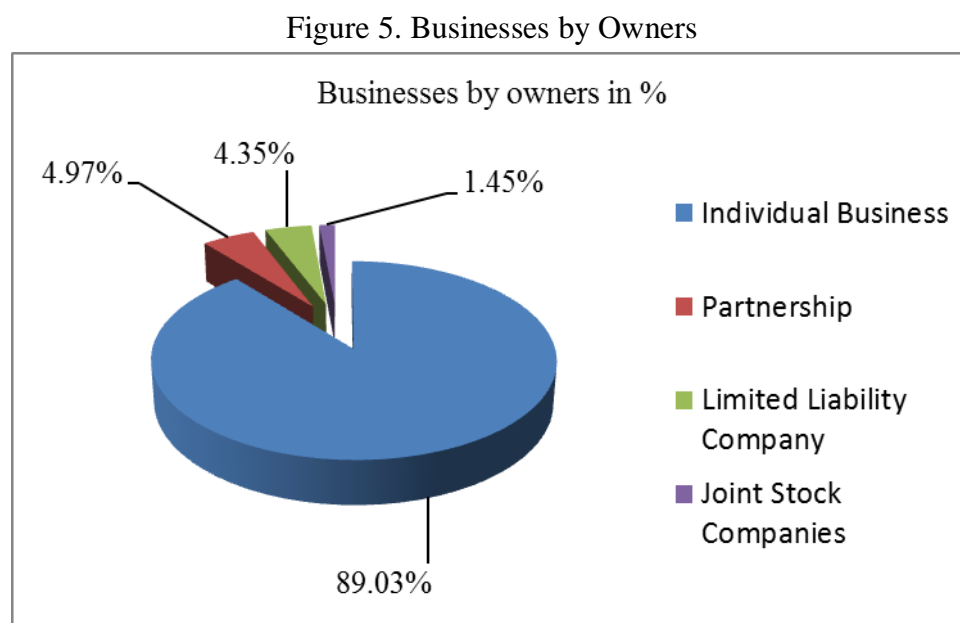
Within the traditional sectors, construction materials and industry, and services related to them, may be developed and contribute to improvement of payment balance. In the international trade exchange, the SME sector is taken as the carrier of these activities, and realizes a satisfactory participation in the overall export of Kosovo.

Only with the development of small businesses it is possible to integrate successfully the economic, social and, technological and other factors for economic development (Riinvest, 2015).

Implementation of the strategy in the future should enable the creation of more efficient environment for the business of SME sector, balancing the number of SMEs (regarding the more advanced organization such as partnership, Limited Liabilities Companies, Joint Stock Companies) and promoting faster development of those sectors. The SME strategy in Kosovo is in full compliance with the law for small Businesses (Small Business Act - document that in June, 2008 the European Commission had approved).

To better understand the level of diversity and the role of entrepreneurial and Strategic Management activities in Kosovo SMEs, the questionnaire (BSCK, 2014) was analysed with a sample of 500 interviewees. It is worth mentioning that authors of this MA study were a part of the research team of BSCK.

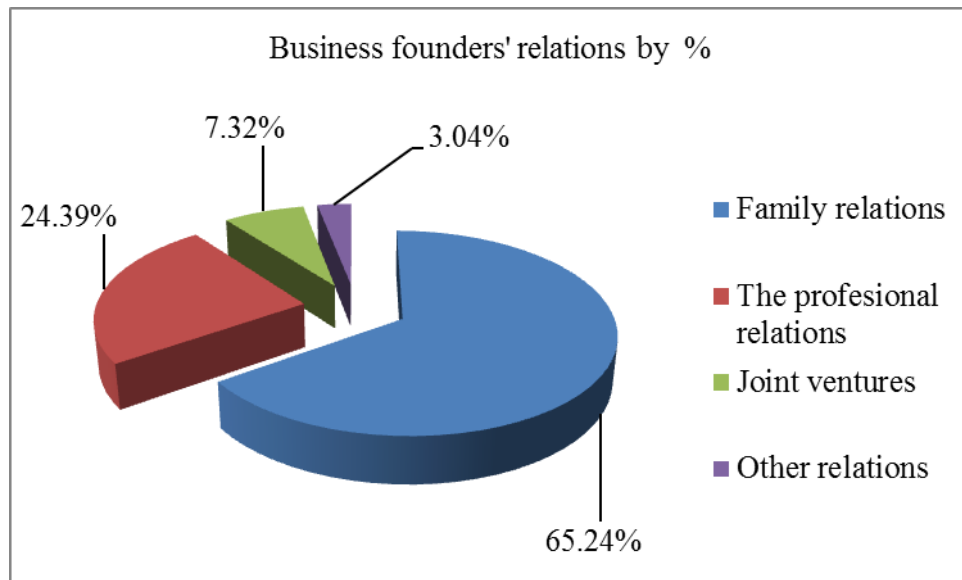
The figure below shows that individual businesses dominate respectively with 89.03% followed by partnerships with 4.97%, then LLC with 4.35 % and JSC 1.45%. It is worth mentioning that this structure corresponds to the structure of total registered businesses in Kosovo.



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Regarding figure 6, the relations between business founders, it is clear that family relations dominate (65.24%) followed by professional ties (24.39%) and joint ventures (7.32%). This overview shows clearly that a large number of enterprises in Kosovo have family liaison and partnership. Despite this, the lack of external actors in the enterprise results as an obstacle to the development of firm's strategic management where the main focus is the expansion of the company and its stability.

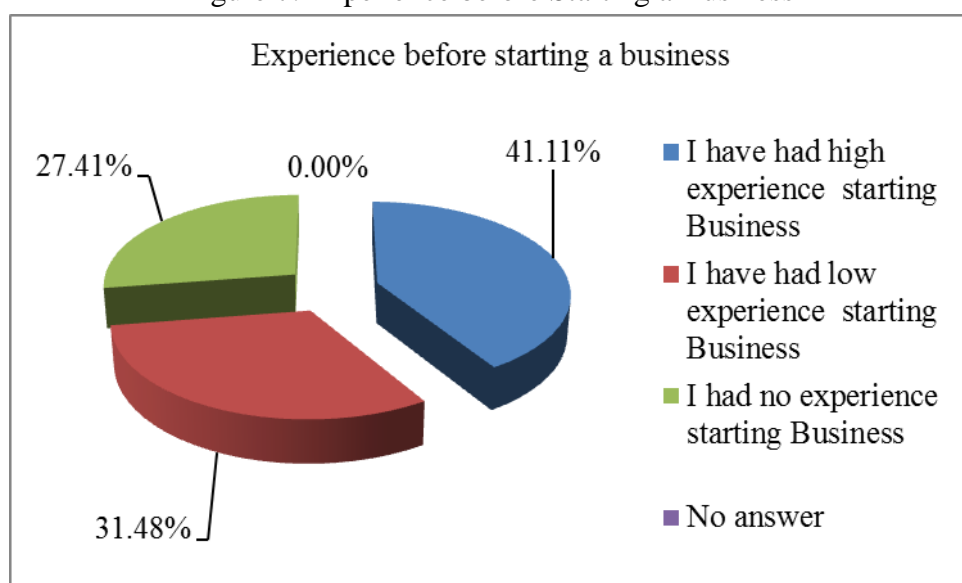
Figure 6. Business Founders' Relations



Note: Figure generated by authors based on data of the 2014 Unpublished BSKC Research

Regarding the experience of the business founders, it shows that 41.1% had experience, while 31.5% said they had little experience followed by 27.4% who declare no experience in the moment when they make a decision to establish a business.

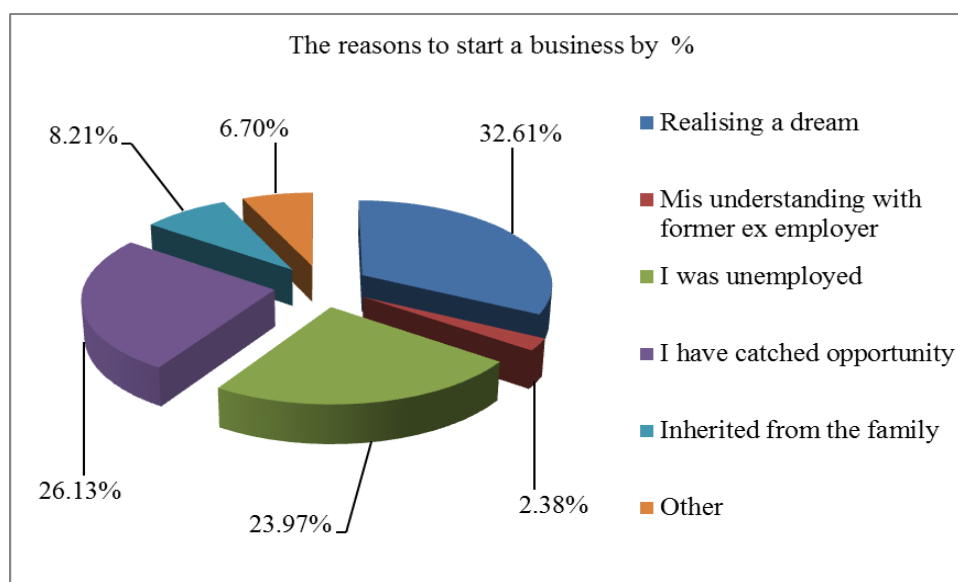
Figure 7. Experience before Starting a Business



Note: Figure generated by authors based on data of the 2014 Unpublished BSKC Research

Regarding the reasons for start-up of business, it dominates “the desire to realize their dreams, followed by “identifying opportunities for doing business”, followed by “they caught opportunities to start a new business” and “they were unemployed” or neglected by system economic changes or even as a result of the economy in transition (see figure no. 8).

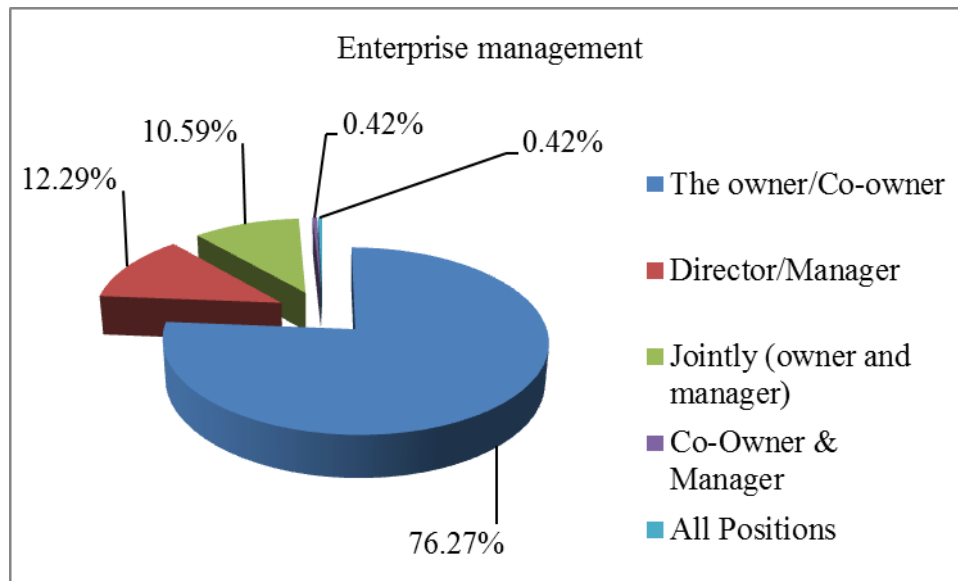
Figure 8. Reasons to start a business



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

The Descriptive data sample is providing many indicators that matched expectations and findings in the Kosovo SMEs reports. As seen in Figure 9, over 88.56% of respondents have leadership roles in their companies, where 76.27 % dominant roles of the owner. Although similar situation dominates the global level, the gender gap in decision-making in SMEs is quite pronounced. In the sample, 94% of managers/decision makers in SMEs are male and only 6 % matched with the female gender.

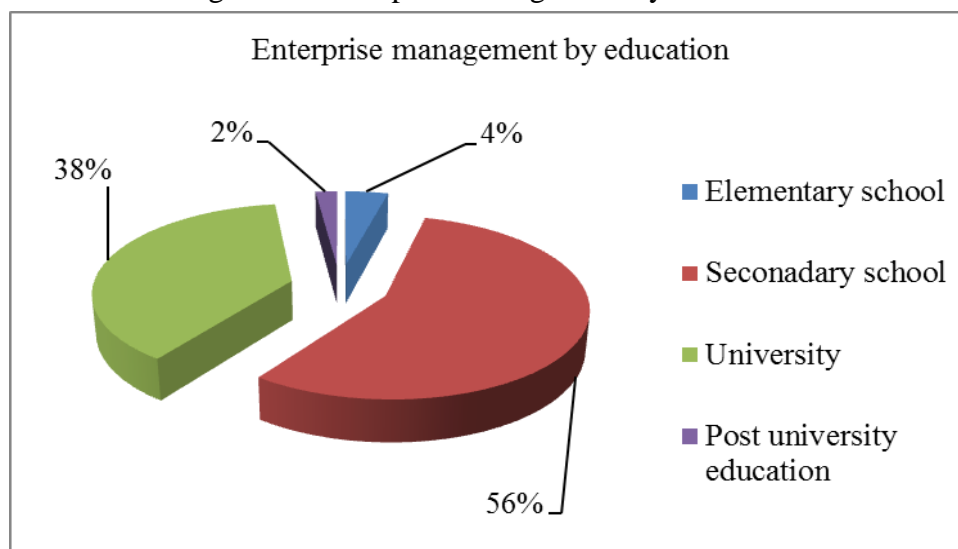
Figure 9. Enterprise Management



Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

Whereas, figure 10 shows that more than half of respondents have completed secondary school (56%), followed by university and post university education (40 %).

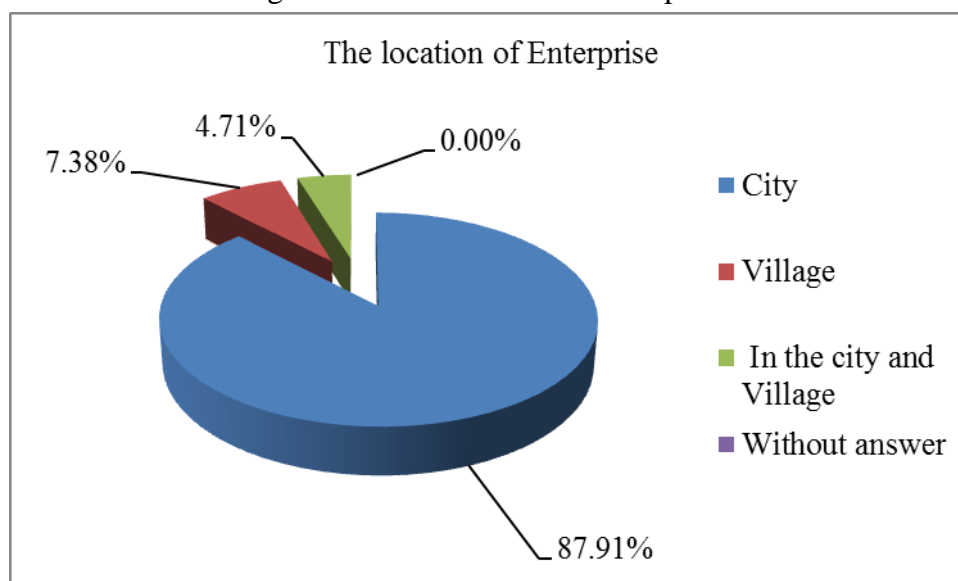
Figure 10. Enterprise management by education



Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

Trends and business developments in Kosovo have been mainly focused on urban areas, resulting in a slower growth given many cases extremely poor in rural areas. The country of operation of enterprises also evidences this. 88% of enterprises operating in the city/urban areas, leaving 7% in rural areas and 5% of businesses are located in both. The movement of population from rural to urban areas has also affected the transfer of the claim to the last ones, thus thought-provoking the offer to move to the same side (see figure no. 11).

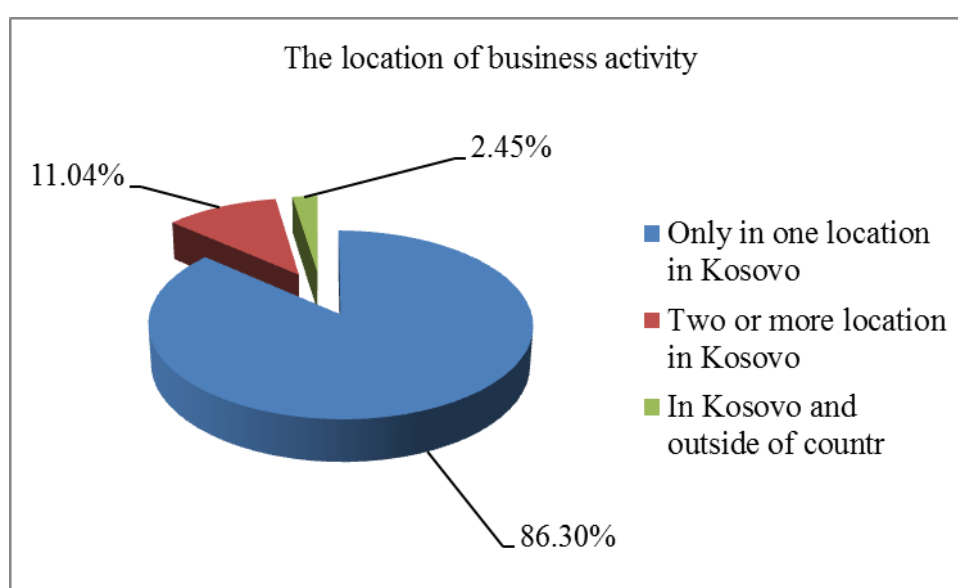
Figure 11. The Location of Enterprises



Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

As the size of enterprises mainly coincides with those of small and medium enterprises, it is clearly seen in the number of locations where these companies are operating. More than 86 % of enterprises operate only in one location in Kosovo. This number tells about many important elements of the strategic management of these enterprises. Most enterprises have a lack of proper planning and management in particular coinciding with the expansion of the enterprise. Many enterprises in Kosovo, due to the lack of strategic management are not necessarily in sound financial situation. This tells a lot about the need and importance of strategic management in the growth and sustainability of the enterprise.

Figure 12. The location of business activity

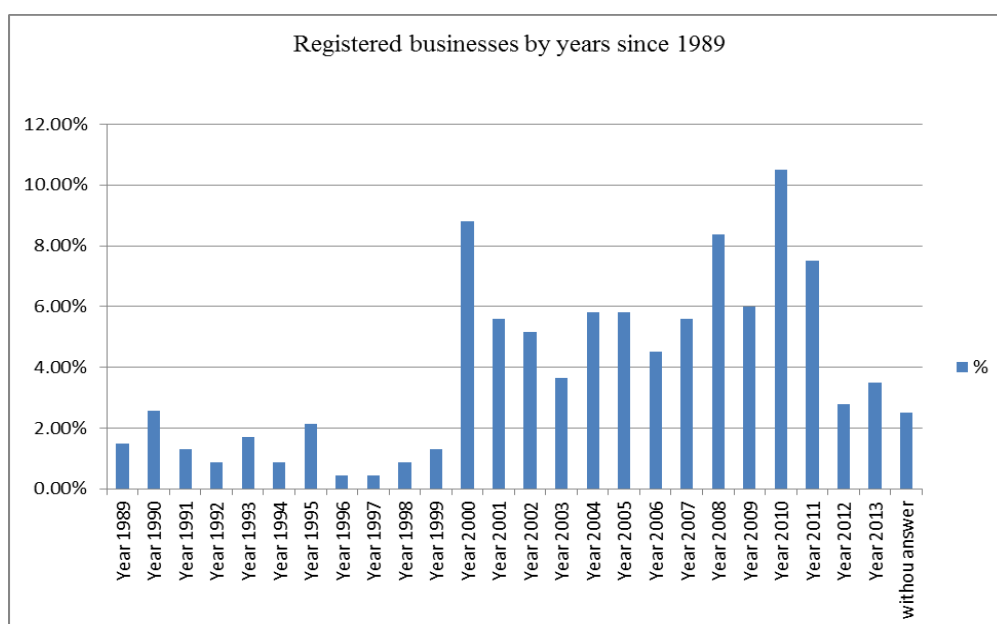


Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

3.6 Management Activities for SME Growth in Kosovo

In the last decade, SME sector has been increasing continuously in transition economies as well as in the Republic of Kosovo. According to the Agency for Support of Small and Medium Enterprises in 2007, the number of SMEs was 6,962, after 5 years (in 2011) that number has grown up to 10,007 registered SMEs. Also, according to BSCK research, we can come to a conclusion that we have same figures as in the report of KBRA. See following figures:

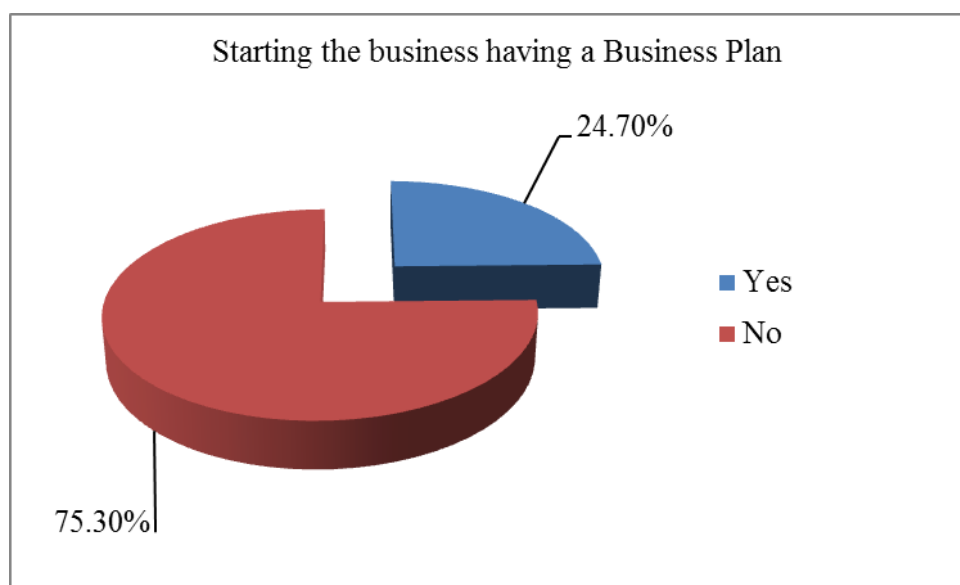
Figure 13. Registered businesses by years since 1989



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Having in mind that the majority of businesses in Kosovo in the past have started business more existentially or simply from the need to be self-employed, the results are quite understandable. From the following figure, only 24.70% started a business with a previously established plan, and that the majority of entrepreneurs or 75.3% have started doing business without a previously prepared plan (see figure 14).

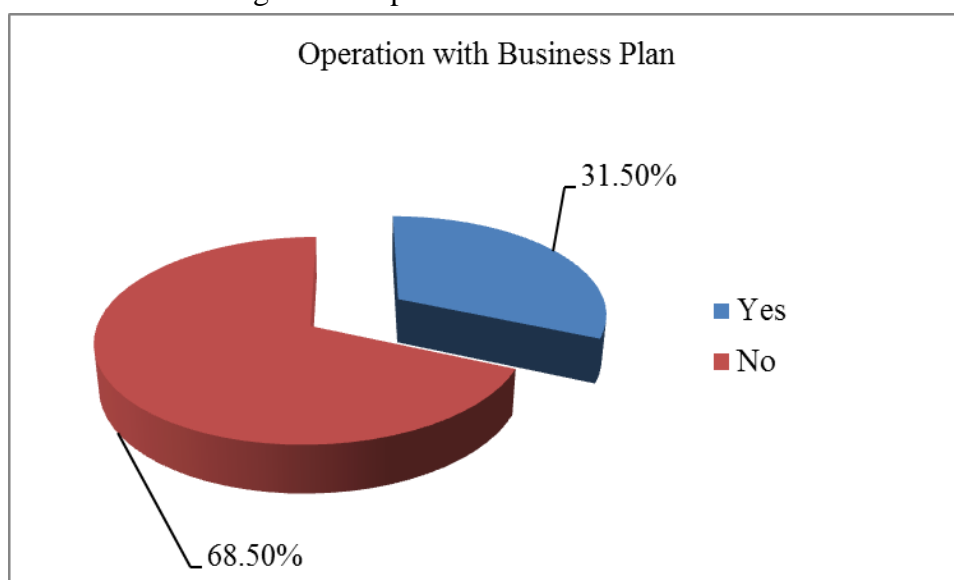
Figure 14. Starting the business having a Business Plan



Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

While following figure no. 15, it gives us encouraging results in terms of doing business with a previously established business plan. So, the importance of a business plan for SME managers or owners is seen as absolutely necessary to develop the business in the future. The research presented in figure 15, shows that entrepreneurs have realized the importance of doing business with a previously prepared business plan idea, respectively 68.5% of respondents stating that they now possess a prepared business plan.

Figure 15. Operation with Business Plan

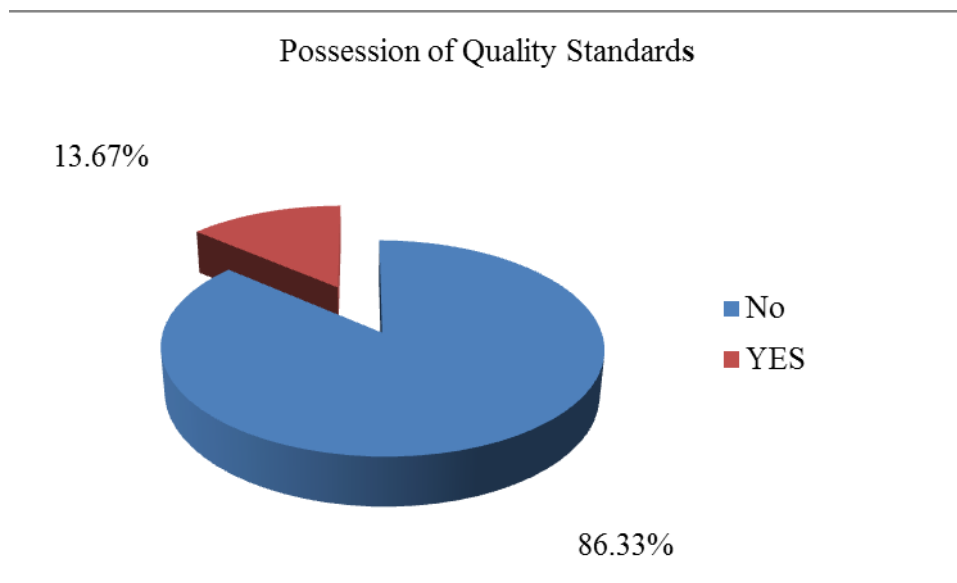


Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

In terms of quality standard certificates, only 13.67% said that they possess, and 86.33% that they don't (see figure no. 16). This fact shows that SME management is lacking proper

documentation of the quality management. The SME management needs to further define work responsibilities, improve internal communication, standardize internal procedures, as well as improve cost-efficiency of their operations due to lack of waste management documentation, procedures and control of costs in used materials. Therefore, the companies had established and done further improvements in their activities and increased their business efficiency and effectiveness.

Figure 16. Possession of Quality Standards

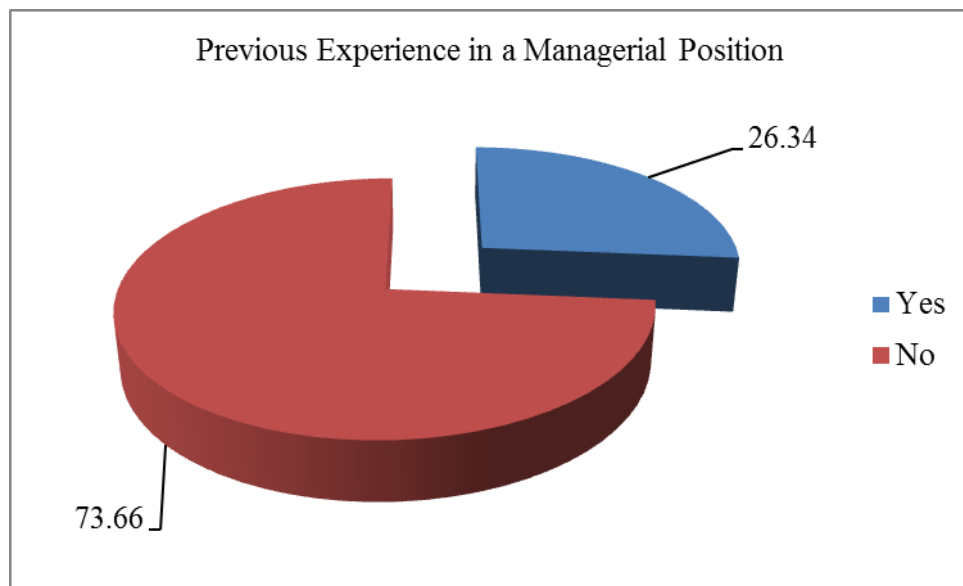


Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Regarding the previous experience in managerial position before they started business, results are as follows:

- 26.34 % had previous experience, and
- 73.66 % did not have any previous experience in managerial positions

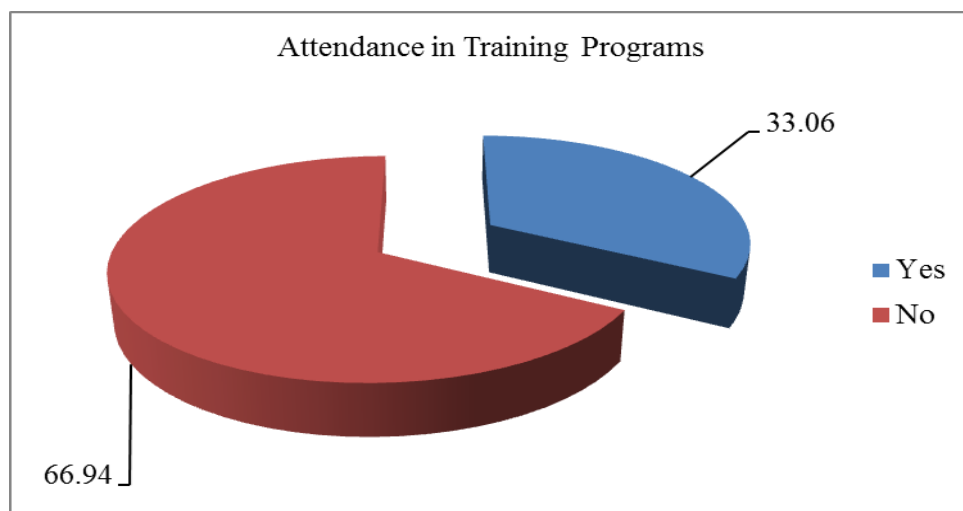
Figure 17. Previous Experience in a Managerial Position



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

On opportunities to have any training program on business or management, about 33.06 % confirmed training and 66.94 % did not have any opportunity for this training program (figure no. 18).

Figure 18. Attendance in Training Programs



Note: Figure generated by authors based on data of the 2014 Unpublished BSC Research

Based on the analysis mentioned in figure 20 related to SME sector in Kosovo and generally, economies in transition, we can say that because of the weak institutional environment, businesses in Kosovo use to trust more in family relations or in business relations than in Associations. Regarding membership in business associations, only 11.18 % of respondents

claimed to be members, while the majority have denied this, respectively 88.82 % (see figure no. 19).

Figure 19. Membership in any business association

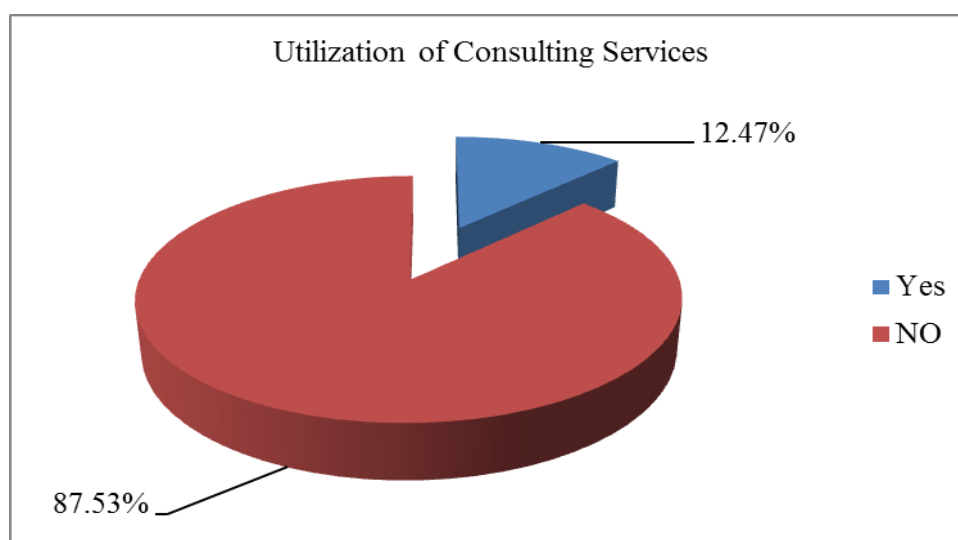


Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Regarding utilization of an opportunity to benefit from consultant services from public or private institutions, the answer is as follows:

- Only 12.47 % had the opportunity to benefit from consultancy, and
- 87.53% did not have the opportunity to benefit from any consultancy services (see figure no. 20)

Figure 20. Utilization of Consulting Services

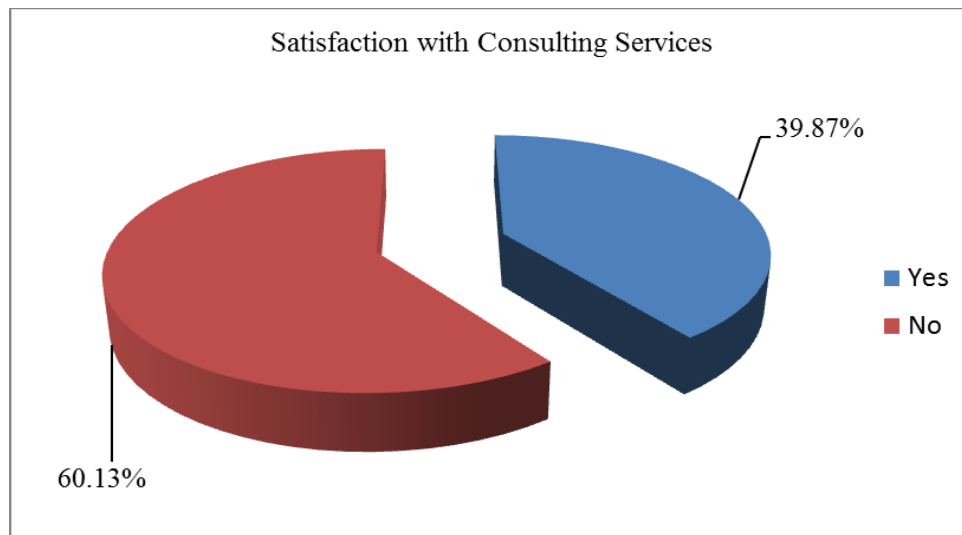


Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Regarding satisfaction from consultancy or advising services, answers are as follows:

- About 39.87 % were satisfied with advising services, and
- 60.13% were not satisfied with advising (see figure no. 21).

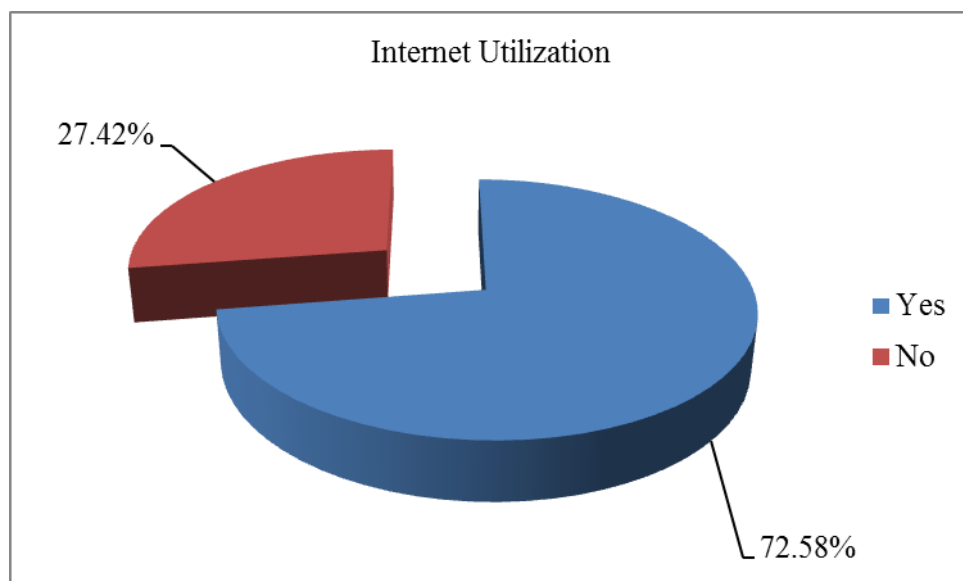
Figure 21. Satisfaction with Consulting Services



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

It is good news that a majority of businesses are using Internet services in their daily work, or about 72.6% confirmed that, and 27.42% are still not aware of Internet benefits.

Figure 22. Internet Utilization



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Regarding the aim of using internet services, about 41.8% are using internet for communication, 10.3% for market research, and 8.04% for different objectives as: market research, promotion, selling products, and e-mail communication (see table no. 19)

Table 19. Usage of internet services

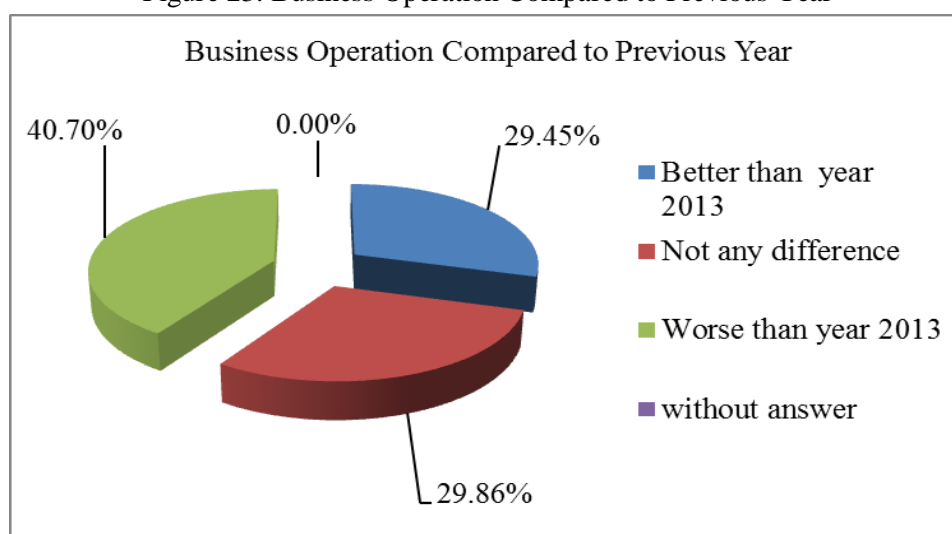
If YES, Internet is using for:	%
1. Market research	10.29%
2. Promotion	3.86%
3. Selling products	0.32%
4. E-mail communication	41.80%
5. For other business objectives (specify):	2.25%
6. Market research, Promotion	1.93%
7. Market research, Promotion, Selling products, E-mail communication	8.04%
8. Market research, Promotion, E-mail communication	9.32%
9. Market research, Selling products, E-mail communication	2.25%
10. Market research, E-mail communication	10.29%
11. Promotion, E-mail communication	2.89%
12. E-mail communication, For other business objectives	1.29%
Other services	5.47%
Total	100.00%

Note: Table generated by authors based on data of the 2014 Unpublished BSCK Research

3.6.1 SME Growth in Kosovo

Analysing the circumstances of business development, a large part of the respondents, or 40.7%, stated that their business in 2014 was worse than a year ago, while 29.45% stated that their business was better than in 2013, and 29.86 % declare no change at all compared to the previous year (see figure no. 23).

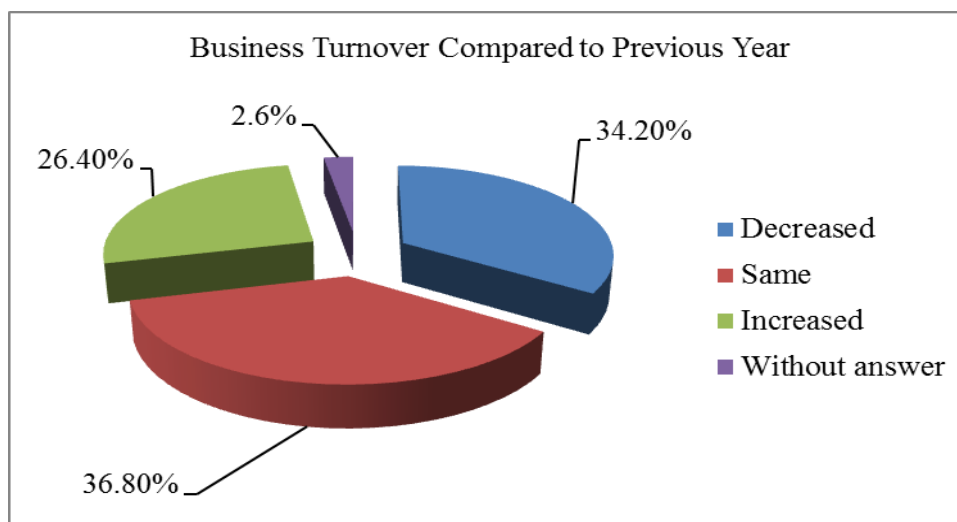
Figure 23. Business Operation Compared to Previous Year



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Regarding the overall turnover, results are as follows: 34.2% stated decrease, 36.8% declare the same situation and only 26.4% stated that overall turnover increased compared to 2013. See figure no. 24.

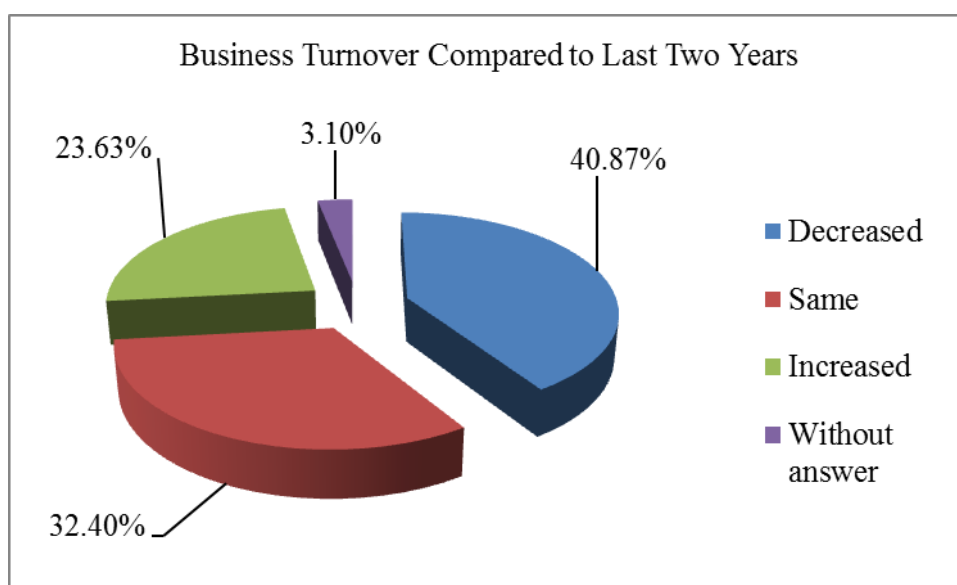
Figure 24. Business Turnover Compared to Previous Year



Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

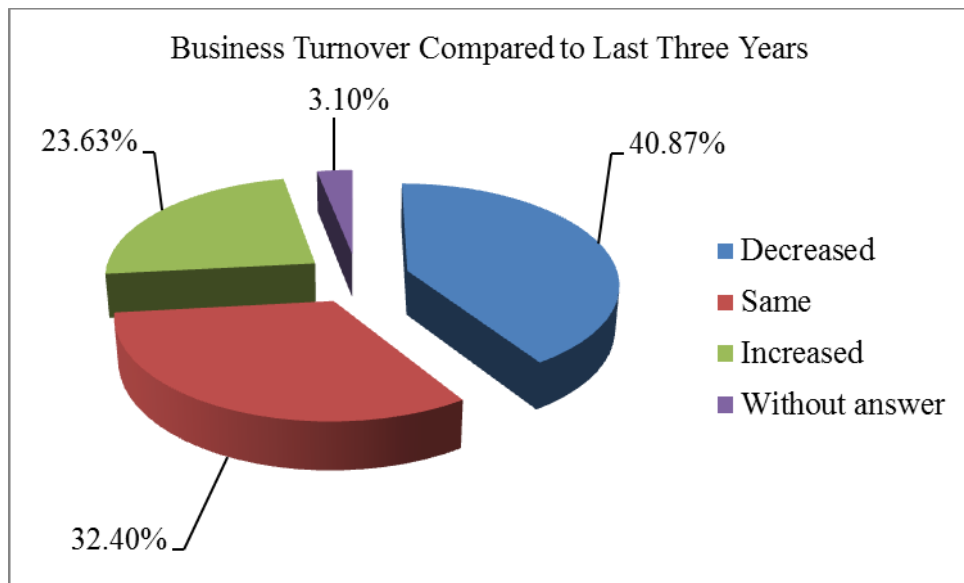
Almost with the same results were respondents' answers about overall turnover compared with last two years respectively last three years. Our opinion is that Businesses in Kosovo are operating almost in same conditions and circumstances especially regarding finance resources for their development. See figures 25 and 26.

Figure 25. Business Turnover Compared to Last Two Years



Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

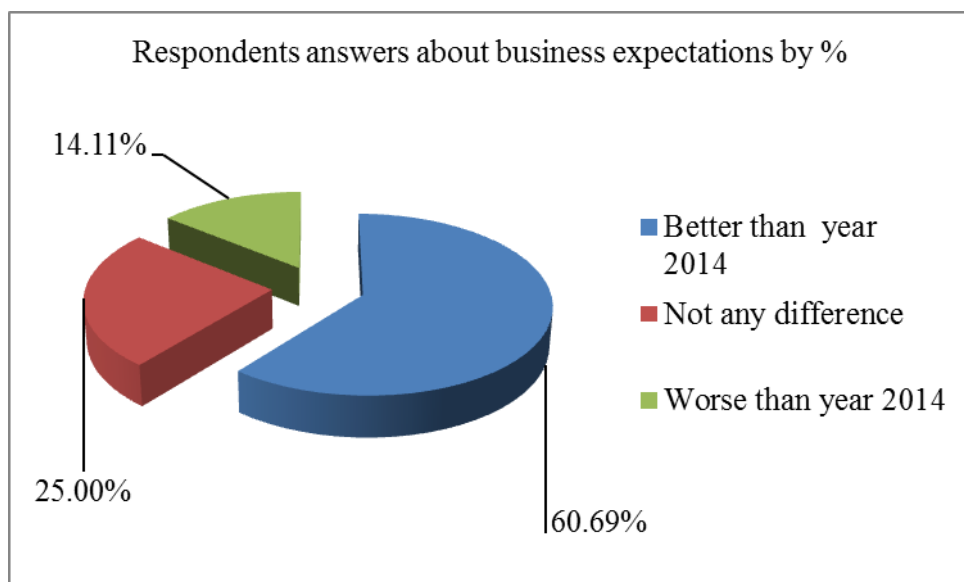
Figure 26. Business Turnover Compared to Last Three Years



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

While business optimism for 2015 was higher, about 60.69 % are expecting a better year. The rest of the respondents or 25.0 % said they are expecting no changes and 14.11% were pessimistic for 2015. See figure no.27.

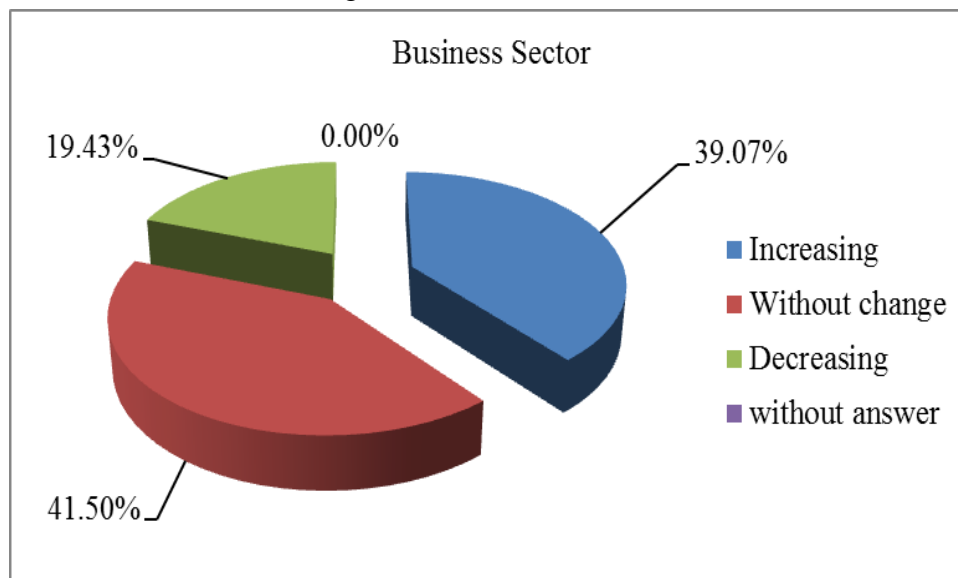
Figure 27. Business expectations by %



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

While in the terms of knowledge for the operating business sector, 39.07% of owners / managers think that there will be growth, 41.5% expect no changes and 19.43% stated that the sector in which they operate will decrease. See figure no. 28.

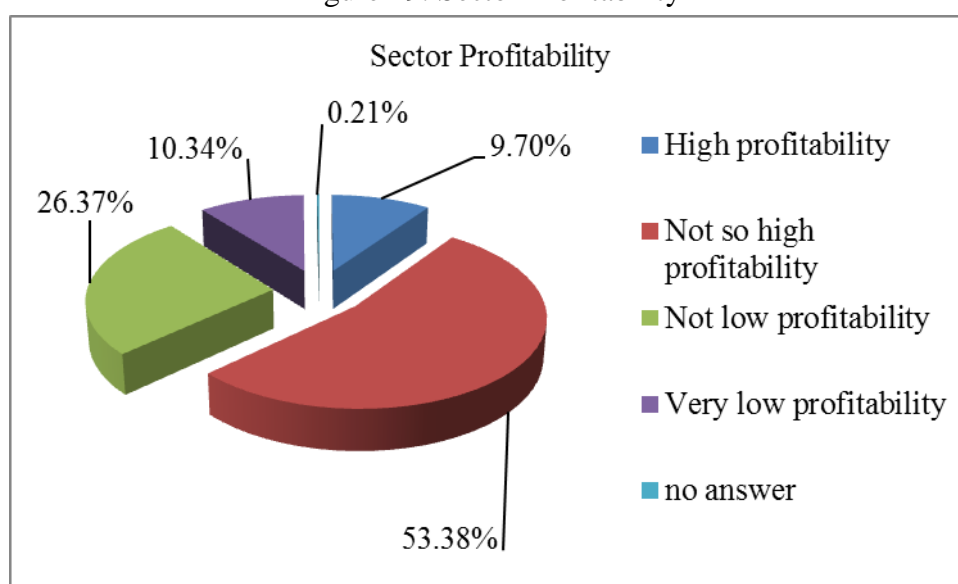
Figure 28. Business Sector



Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

Regarding the questions about operation profitability, answers were different compared to respondents' answers about overall turnover. About 53.38% stated not so high profitability, 26.37% not so low profitability, 10.34 % stated very low profitability and 9.7% declare high profit in their operation sector. The respondents' answers are understandable having in mind this sensitive question. See figure no. 29.

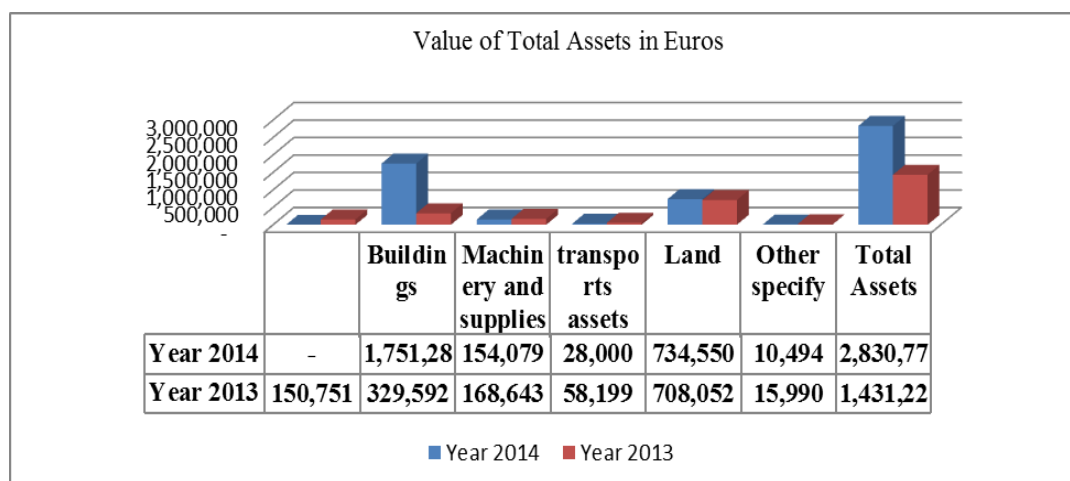
Figure 29. Sector Profitability



Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

Regarding the allocation of investments by sectors in 2014 compared to the previous year, we have a reduction of investment in supplies and transport assets and growth in the land and buildings. See figure no. 30.

Figure 30. Value of Total Assets in Euros



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

4. THE STRATEGIC MANAGEMENT ACTIVITIES FOR SME GROWTH

The main purpose of this paper work was to analyse the current situation of SMEs, aiming to identify problems, obstacles and barriers that restrain the development of their activities by identifying both the needs and demands of the community to improve the situation, and development of positive trends in strategic terms.

The BSCK questionnaire was designed with emphasis on gathering relevant information to SMEs, such as:

- The General information about the SMEs,
- Structure of SMEs
- Structure of the owners,
- The SMEs human resources,
- The use of various financial resources and capital investment orientation,
- Organization of SME associations and various business organizations, with the aim of increasing a cooperation and market expansion,
- Identification and analysis of barriers for SME development.

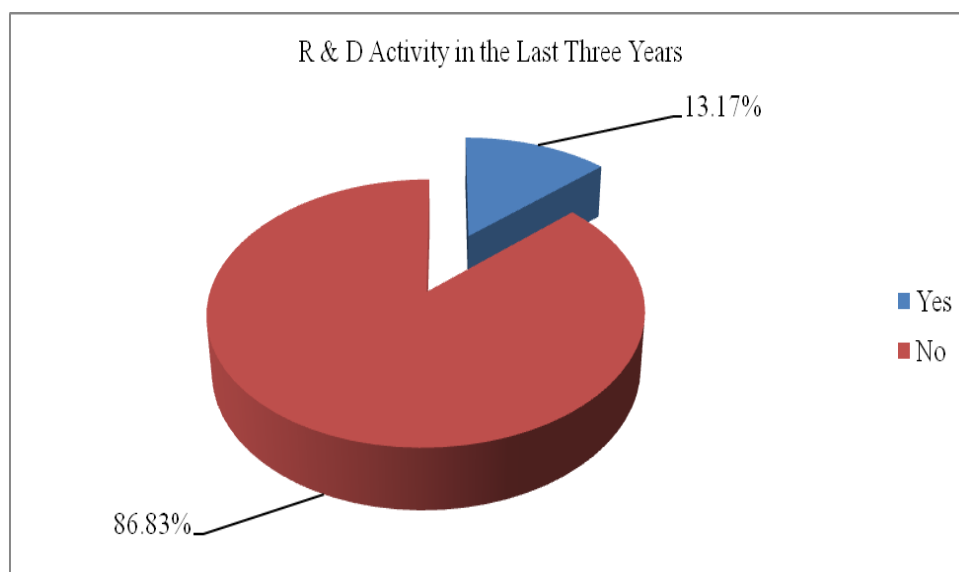
The macroeconomic and sectorial data, combined with the results of the survey, can be a guide for prioritizing support strategies and orientation of policies that will help to achieve the SME mission in creating a better environment for businesses in generally.

4.1 Strategic Aspects of R & D and Innovations

It is well known that the SME sector in Kosovo employs over 288,000 workers and is an important contributor in the creation of GDP. As in all transition countries, this sector represents the solution for many economic social problems. Consequently, trends for Entrepreneurship growth and plans for future are important for policy-makers in Kosovo. As the most vital area of each company are investment made in R & D and innovation of products or services. So, innovations are a very important factor for the enterprise development and performance.

According to the findings of research conducted in 2014, only 13.17% of SMEs stated that during the past three years they have undertaken activities of R & D for creating or modifying significant products/services or new processes. See the figure no. 31.

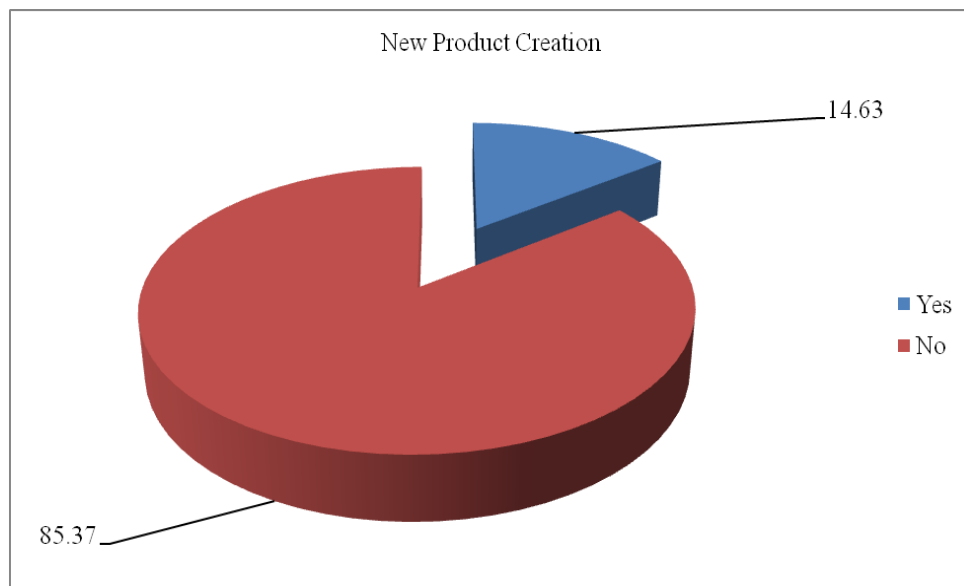
Figure 31. R & D Activity in the Last Three Years



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

According to the findings of new product/services/or process created in the past three years, only 14.63% of SMEs stated that during the past three years they have undertaken activities of new products, services, or new process creation. See figure no. 32.

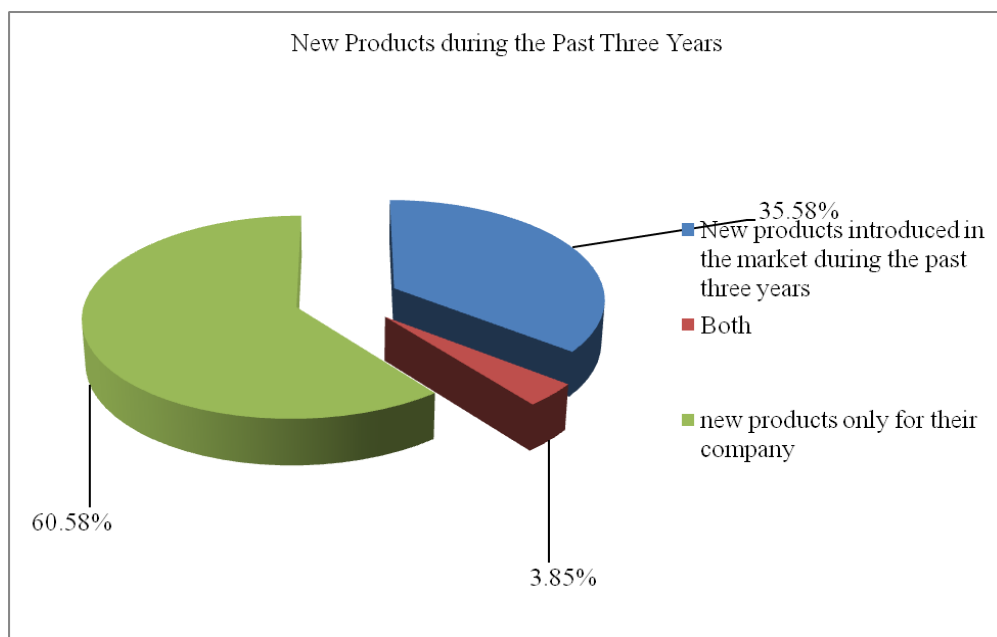
Figure 32. New Product Creation



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

New products introduced in the market during the past three years were 35.58% (not existed in Kosovo before) and 60.58% were new products only for their company (Imitation of current products in the Kosovo market) respectively 3.85% stated both new products and products or service imitation. See figure no. 33.

Figure 33. New Products during the Past Three Years

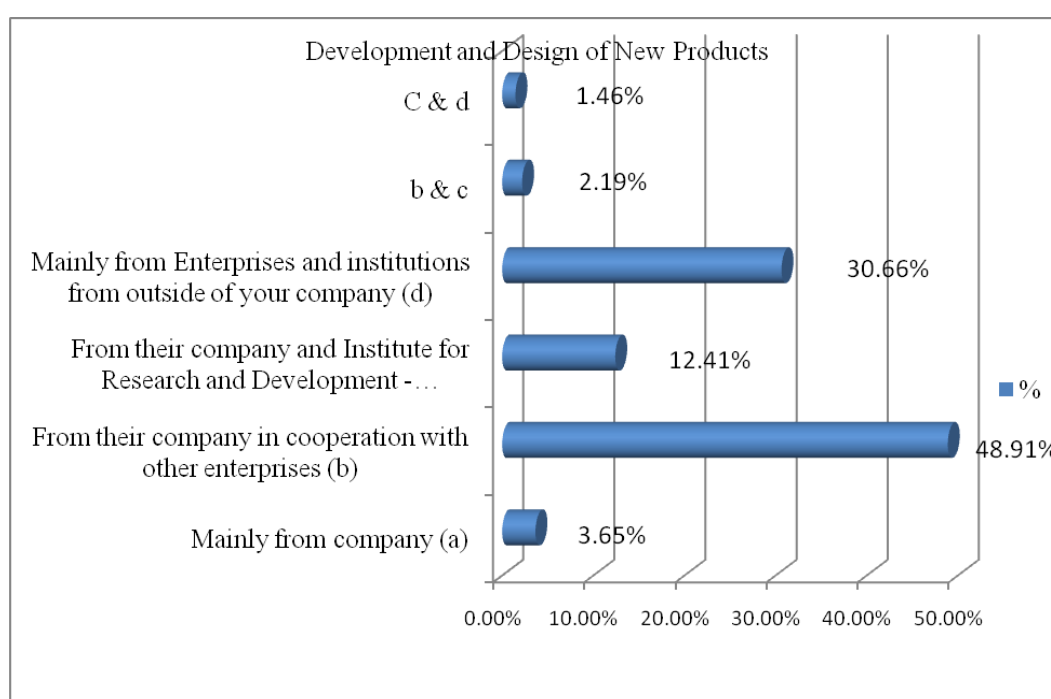


Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

The Development and design of innovative new products introduced in the market during the past three years have been made by as follows:

- a) Mainly from company, respectively 3.65%;
- b) From their company in cooperation with other enterprises, respectively 48.91%;
- c) From their company with academic institutions (Institute for Research and Development, University Research Institute, and other similar), respectively 12.41%;
- d) Mainly from Enterprises and institutions from outside of your company 30.65%, and
- e) Both (b) and (c) 2.19 and
- f) Both (c) and (d) 1.46 (see the figure no. 34).

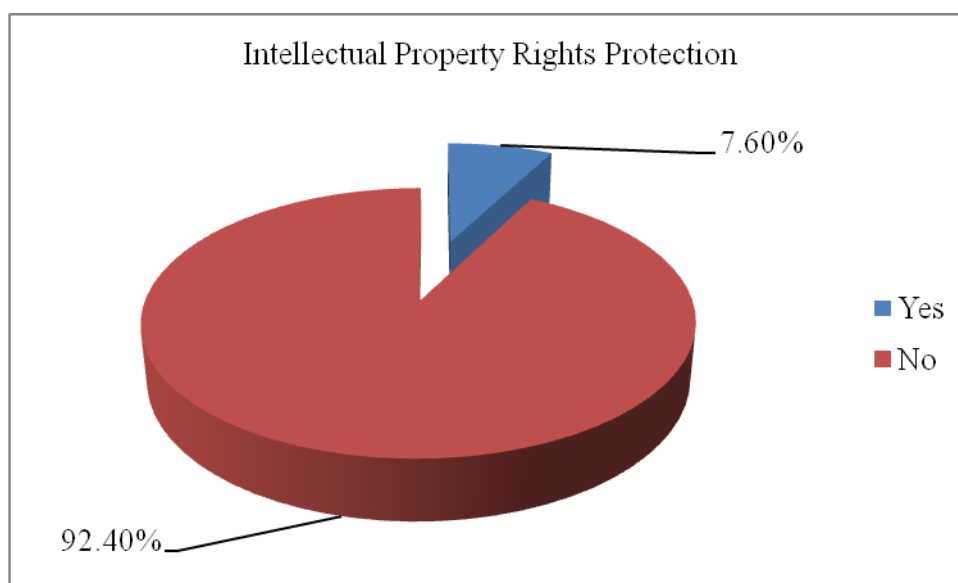
Figure 34. Development and Design of New Products



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

About protection of intellectual property rights respondent's answers were as follows: only 7.60% stated that during the past three years, they have take actions to protect intellectual property rights and 92.4% did not. See figure no. 35:

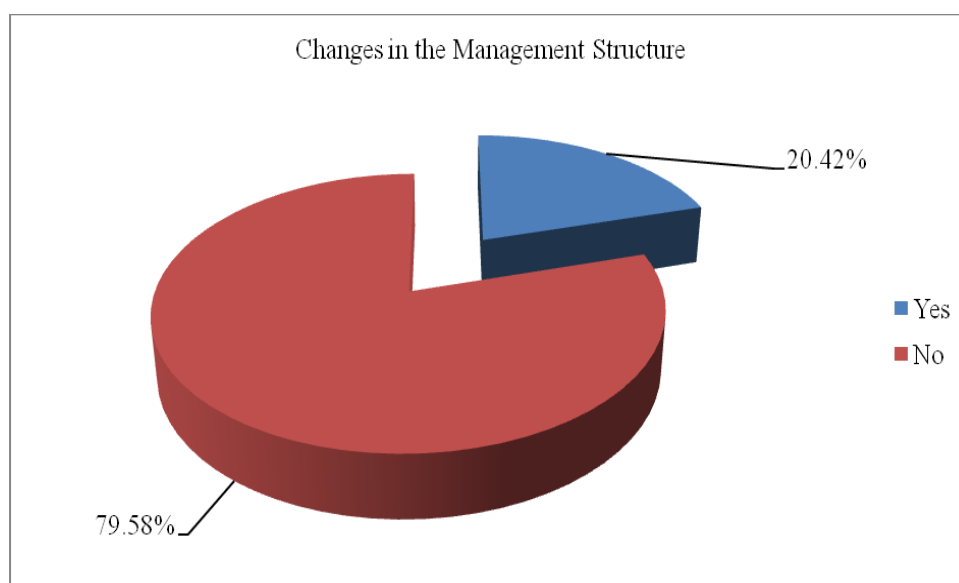
Figure 35. Intellectual Property Rights Protection



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Organizational structure refers to the way that an organization arranges people and jobs so that its work can be performed and its goals can be met. Regarding the SMEs in Kosovo only 20.42% did some changes in organizational structure of management. This is the result of the majority of SMEs which are managed by owners who are in the same time firm's managers. See figure no. 36.

Figure 36. Changes in the Management Structure

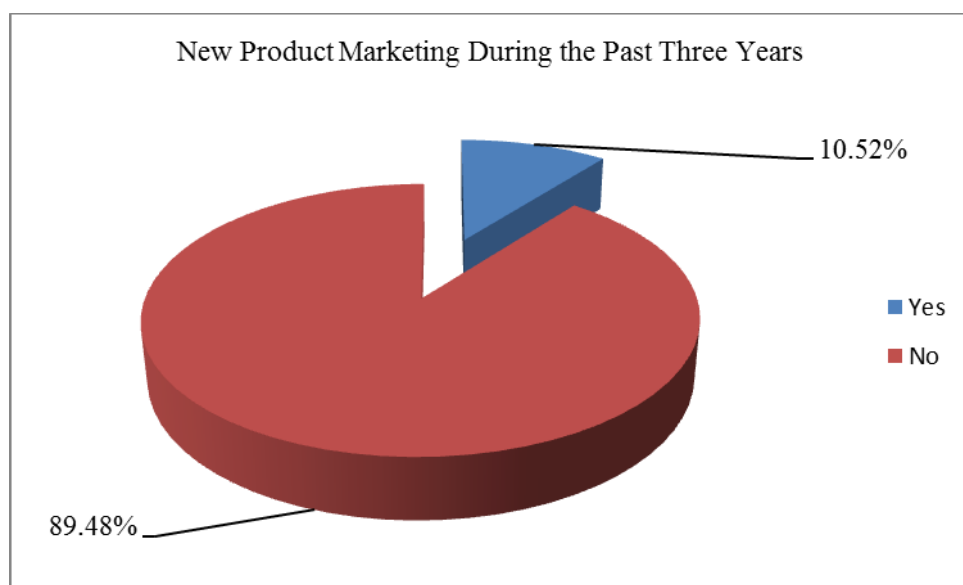


Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Companies often introduce new product marketing ideas on which they fail to do their research, or they ignore what the research tells them. Sometimes the pricing or the distribution channels are wrong. Sometimes the advertising does not communicate. Successful product launches result from an integrated process that relies heavily on research and solving up-front issues. Regarding these issues, the results of research in SME sector are as follows:

- Only 10.52 % of companies confirmed that during the past three years they introduced a full view of new product marketing, and
- 89.48% do not. See figure no. 37.

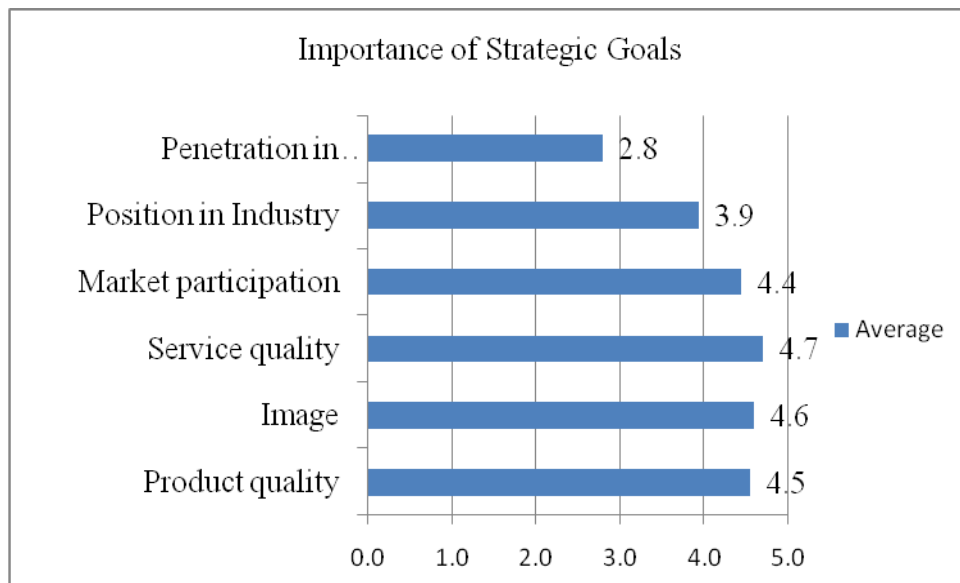
Figure 37. New Product Marketing During the Past Three Years



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

To survive in today's marketplace, SMEs must find ways to be smarter, more productive, and more cohesive than their larger competitors. Nowadays, studies show a dramatic increase in both worker and business performance when an organization effectively sets and closely ties individual employee goals to the company's overall strategic goals. Regarding the SMEs in Kosovo, respondents' answers are indicating the importance of product image (4.6) and service quality (4.7), and also the market share (4.4). See figure no. 38.

Figure 38. Importance of Strategic Goals*



Note. *Figure generated by authors based on data of the 2014 Unpublished BSCK Research (5=very important, 1= not important)

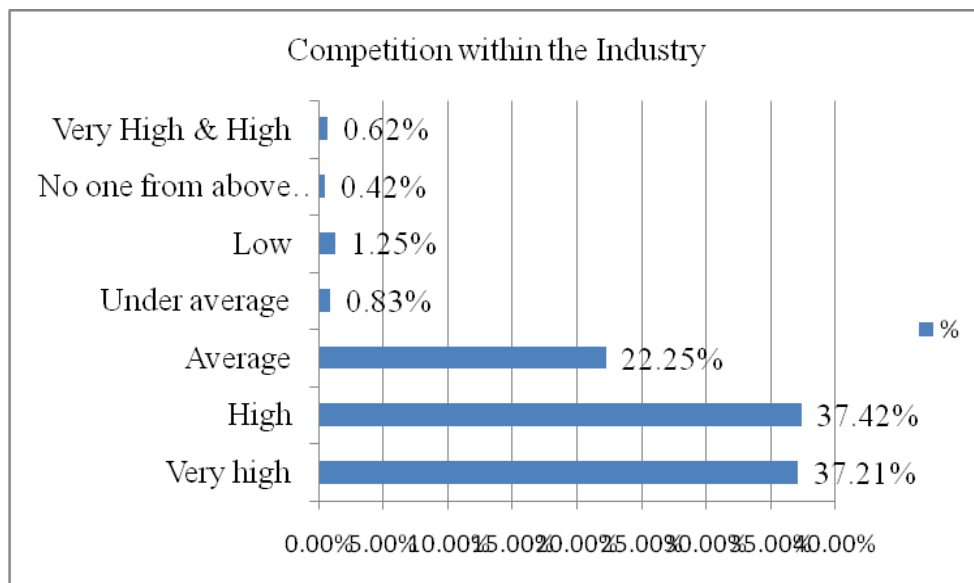
The factor of competitive rivalry has significant impact on the competitive environment a company operates in, because the degree of competitiveness has direct impact on the potential for profit that a company can expect.

In the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry. About the intensity of competition in industry where they operate, respondents' answer is as follows:

- The intensity is high about 37.42%,
- Very high about 37.21%, and
- Average about 22.25%.

The figures show the high intensity of competition in Kosovo because of lack of regional markets and long period of businesses isolation due to market share circumstances (see figure no. 39).

Figure 39. Competition within the Industry

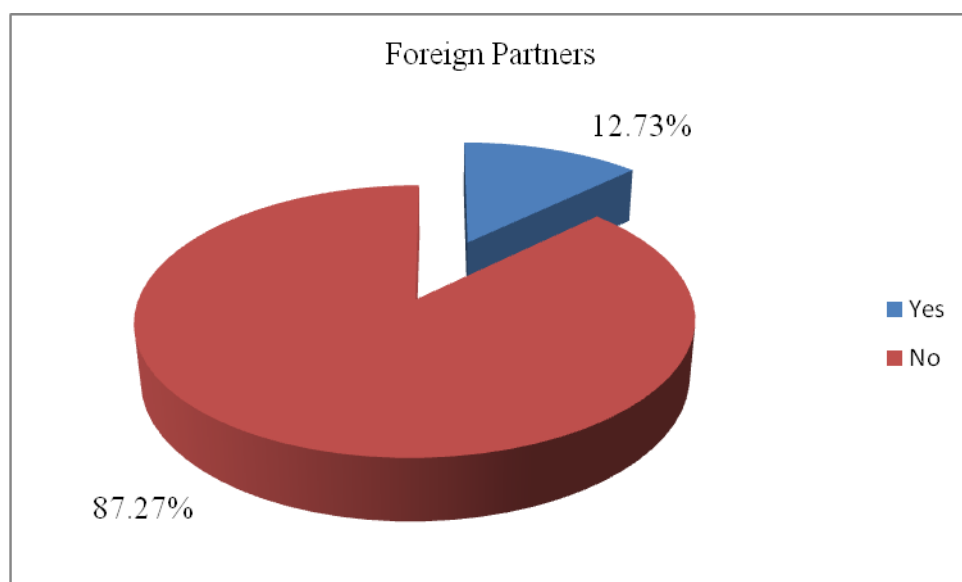


Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

Regarding the respondents' answers about having a strategic partner abroad, the results are:

- About 87.27% do not have, and
- 12.73% confirmed having a strategic partner (see figure no. 40).

Figure 40. Foreign Partners

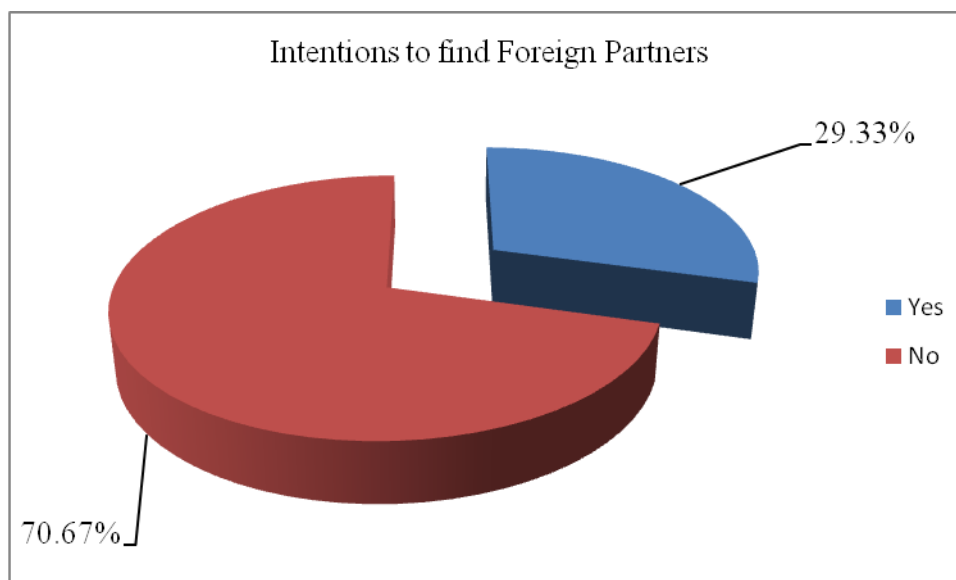


Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

Regarding the foreign strategic partners for SMEs in Kosovo, about 70.67% are not interested in finding of strategic partnership for investment, while 29.33% confirmed that they are

interested for strategic investment. This is the result of unstable economic environment in Kosovo (see figure no. 41).

Figure 41. Intentions to find Foreign Partners

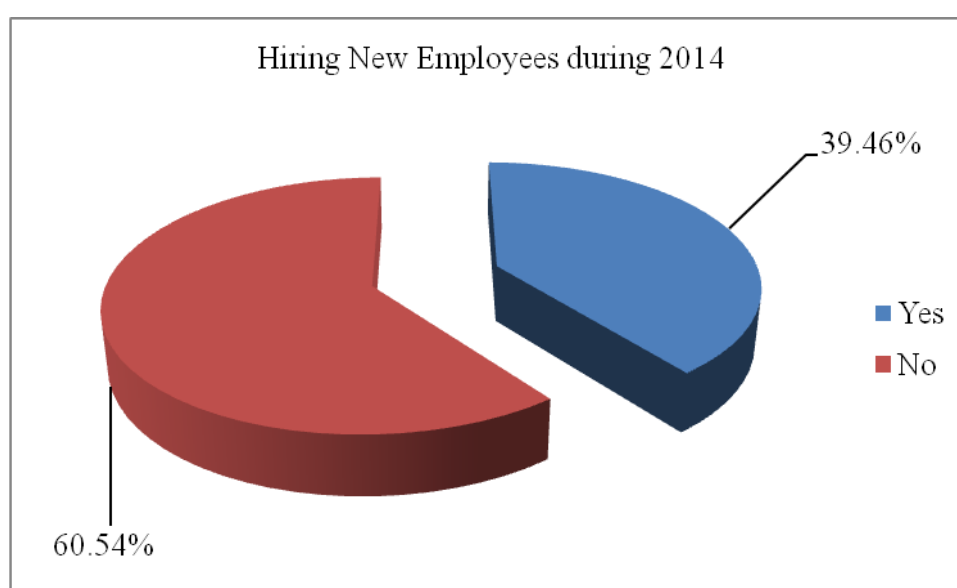


Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

Respondent's answers about hiring new employees in 2014 were as follows:

- 39.46% confirmed that they will hire new employees, and
- 60.54% did not confirm about hiring new employees (see figure 42).

Figure 42. Hiring New Employees during 2014

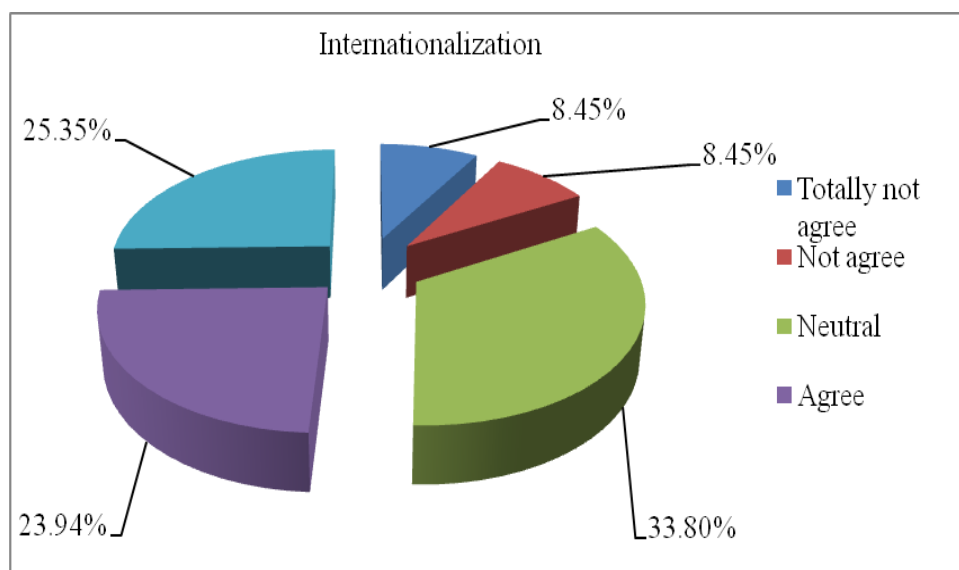


Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

In Kosovo SME sector, there are some companies that in the next few years will find they have to start with internationalization. There are also some that are currently involved in the first stages of internationalization and yet most of their general managers do not have enough experience in this issue. Regarding our study on that, results are as follows:

- A majority of firm managers are neutral about internationalization, respectively 34%,
 - Totally agree 25%,
 - Agree 24%, and
 - About 17% expressed disagreement about firm internationalization
- (figure no. 43)

Figure 43. Internationalization

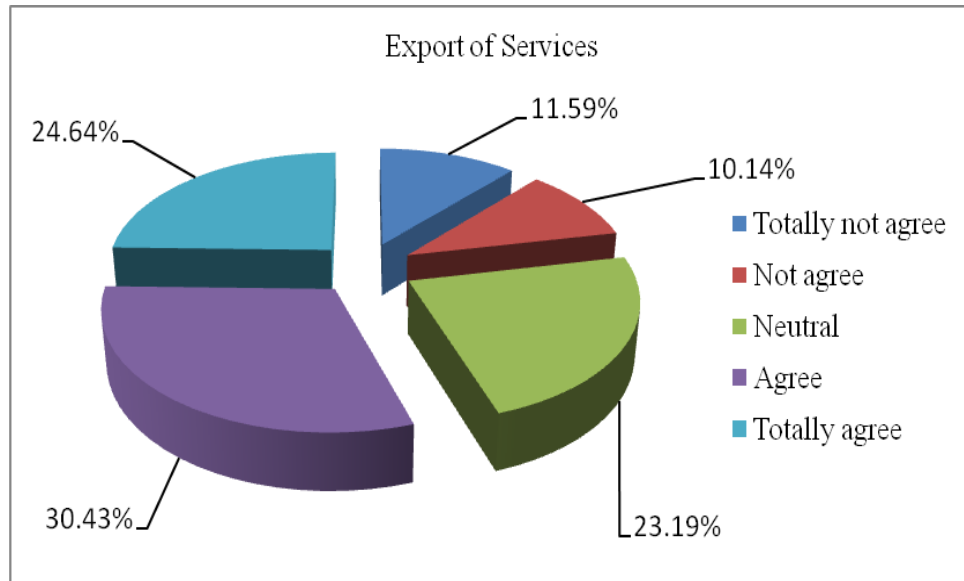


Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

The data of foreign trade in Kosovo shows that Kosovo exports are about € 325.3 million. The import is covered by export only 13.24%, which means a large trade deficit of the country. But, there are some positive trends in export of service. Regarding our study research, the opinion for company export services is as follows:

- The respondents' answers are: agree (30.43%), totally agree (24.64%) and neutral 23.19%;
- The negative answers are about 21.73% (figure no. 44).

Figure 44. Export of Services

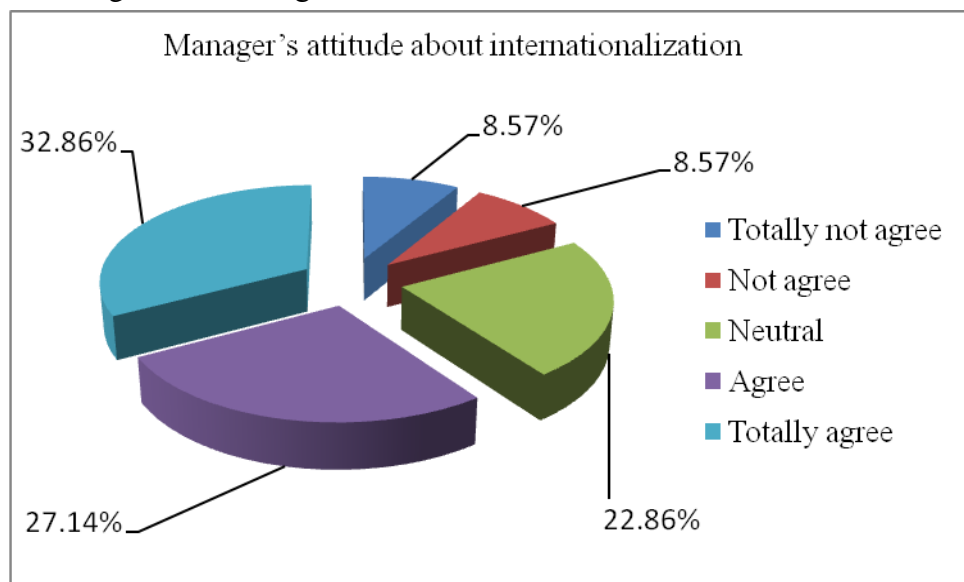


Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

The opinion on “executive manager/director has a favourable attitude about firm internationalization”, answers from respondents are as follows:

- The positive answers are moving from “agree” (27.14%) to “totally agree” (32.86%) and to neutrality 22.86%, and
- The negative answers 17.14% (figure no. 45).

Figure 45. Manager’s attitude about internationalization



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

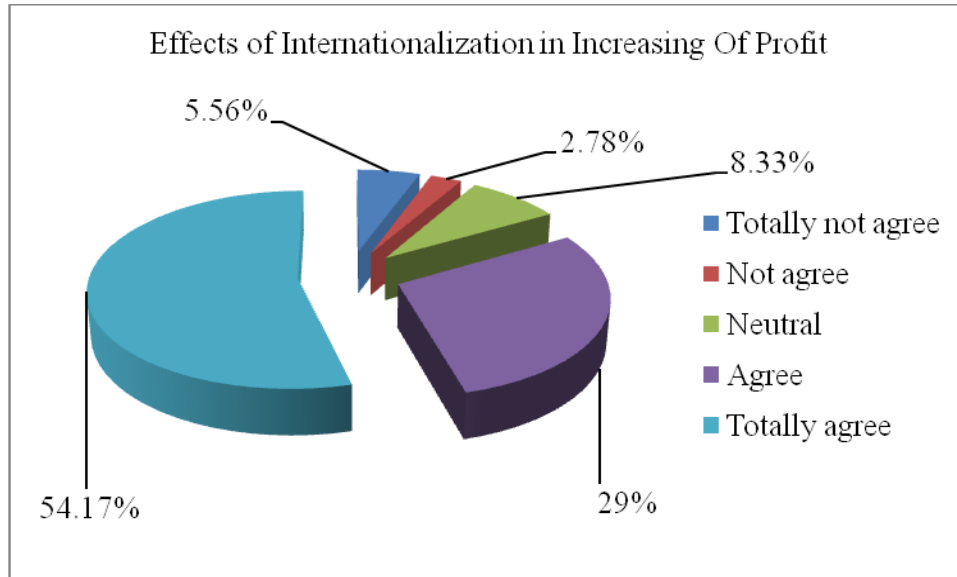
About the effects of firm’s internationalization in their profit, the results of study research are as follows:

- The positive answers of effects in their profit are “totally agree and agree” are about 83.17% and neutrality about 8.33%, and

- The negative answers are about 8%;

As a conclusion, it came that there is a high positive opinion about effects of firm's internationalization in profit increase (see figure no. 46).

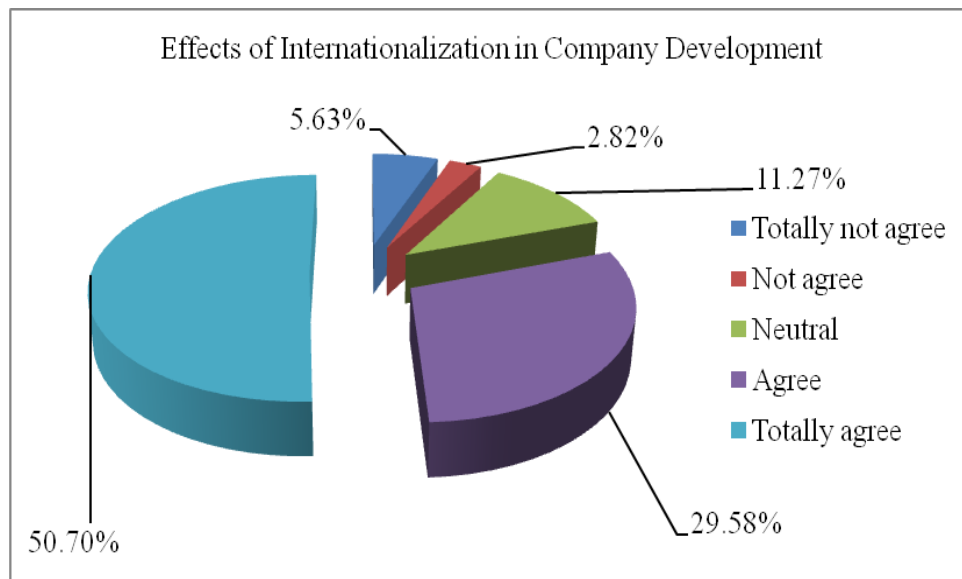
Figure 46. Effects of Internationalization in Increasing Of Profit



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Also, there are positive answers of firm internationalization in general for company development, more than 70% of respondents. The opinion is almost same as mentioned in figure above for firm's profit (see figure no. 47).

Figure 47. Effects of Internationalization in Company Development

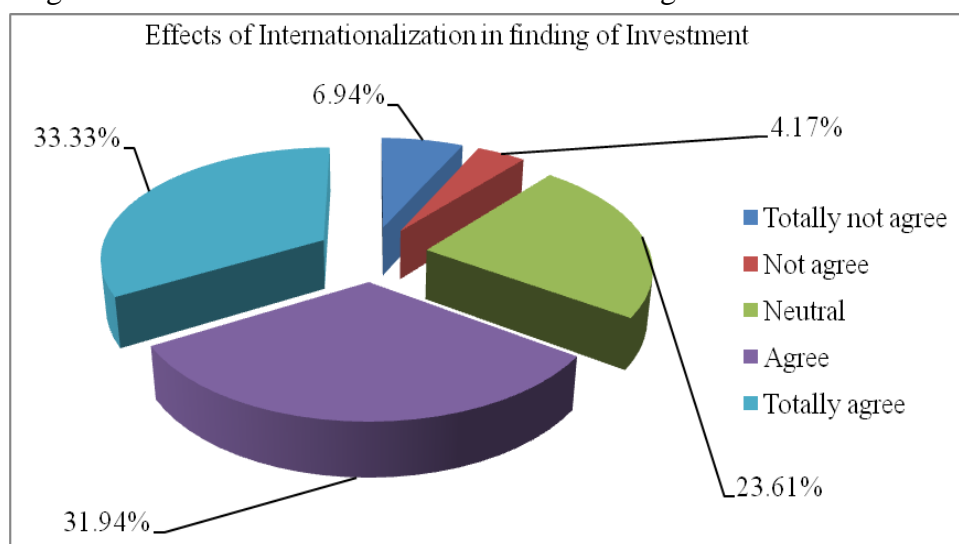


Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

The majority of SMEs managers in Kosovo are looking to find a way for financial resources for investment in their company. The respondent's answers about firm internationalization in finding of investment are as follows:

- The “totally agree” and “agree” are about 65%.
- The neutrality of manager's opinion is about 23.61% because of uncertainty in this issue.

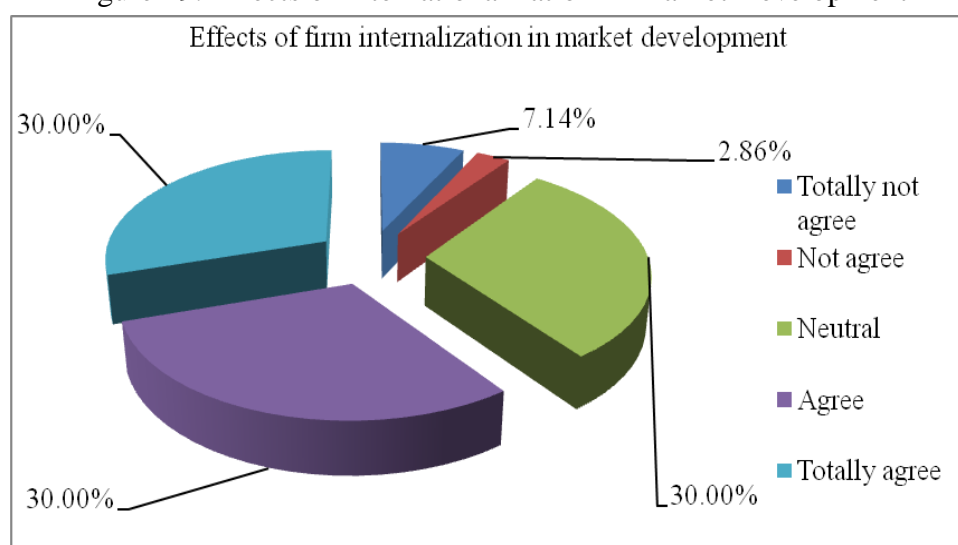
Figure 48. Effects of Internationalization in finding of Investment



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

The results about effects of firm internationalization in market development are with same percentage of answers from “totally agree” to “agree” and neutrality each of that 30% (see figure). Almost the same answers are in next question about effects of firm internationalization in finding and ensuring of market for company (please see the below figure).

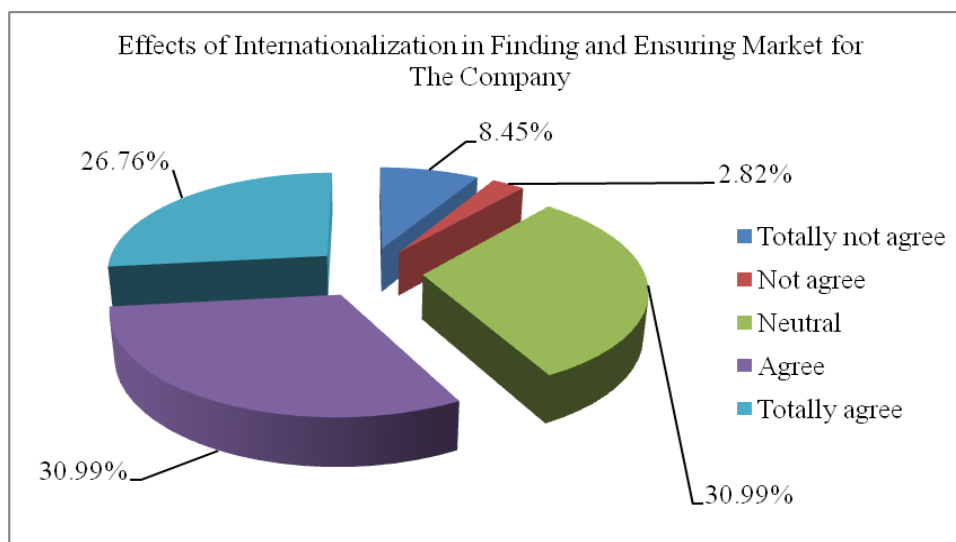
Figure 49. Effects of Internationalization in Market Development



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

The analyses about effects of firm internationalization in finding and ensuring market for the Company are with same percentage of answers from “agree” to “neutral” each of that 30.99% and “totally agree” 26.76% (see figure 50).

Figure 50. Effects of Internationalization in Finding and Ensuring Market for the Company

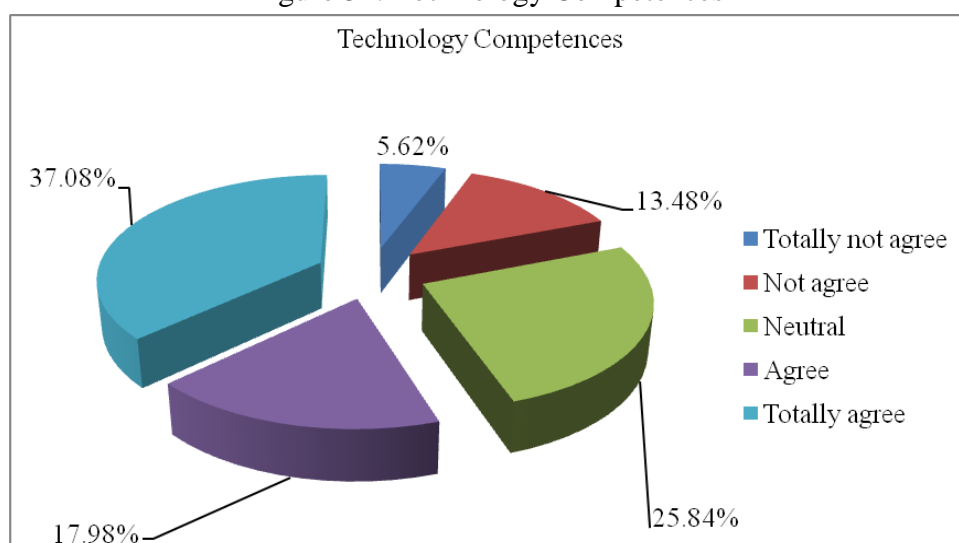


Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

Regarding the following advantages that have helped a firm to compete successfully, at first our study research started from technology competences:

- Totally agree answers are 37.08%,
- The neutrality answers are 25.84%,
- 17.98% are answers “agree”, and
- Negative answers are about 19% (see figure 51).

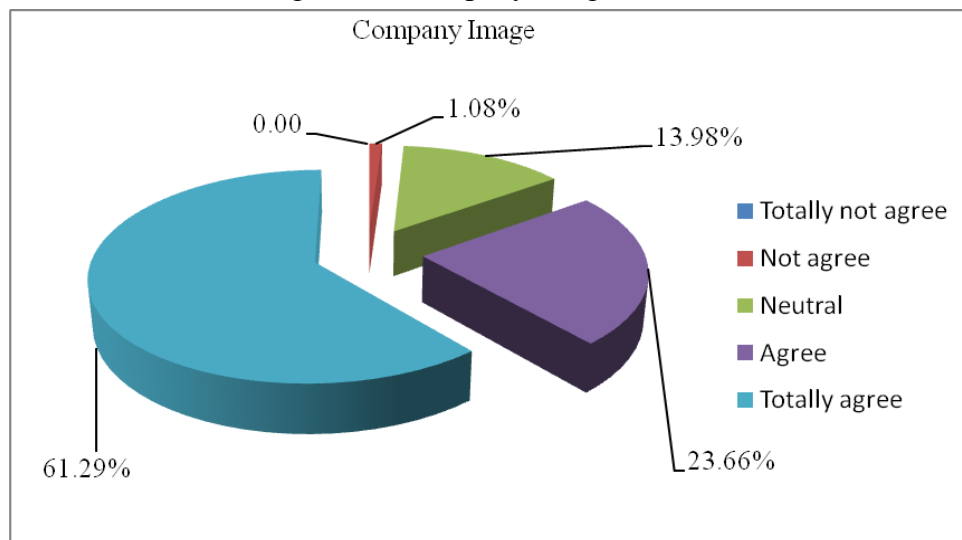
Figure 51. Technology Competences



Note: Figure generated by authors based on data of the 2014 Unpublished BSCK Research

It is interesting that answers about company image, respectively positive opinions are about 85% (see figure 52).

Figure 52. Company Image

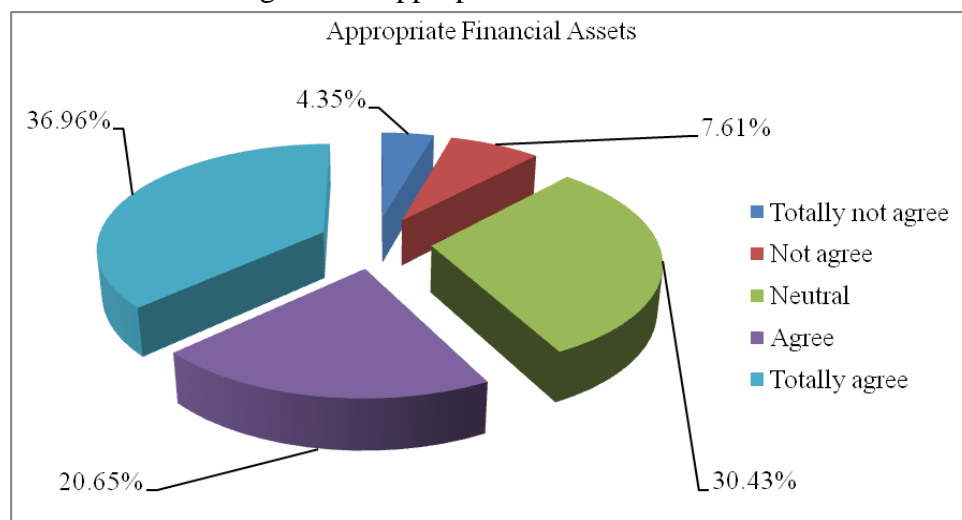


Note: Figure generated by authors based on data of the 2014 Unpublished BSKC Research

Regarding to appropriate assets as advantages, respondents' answers are as follows:

- The positive answers (totally agree and agree) are about 57.5%,
- Neutral answers are 30.43% and negative answers about 12% (see following figure).

Figure 53. Appropriate Financial Assets

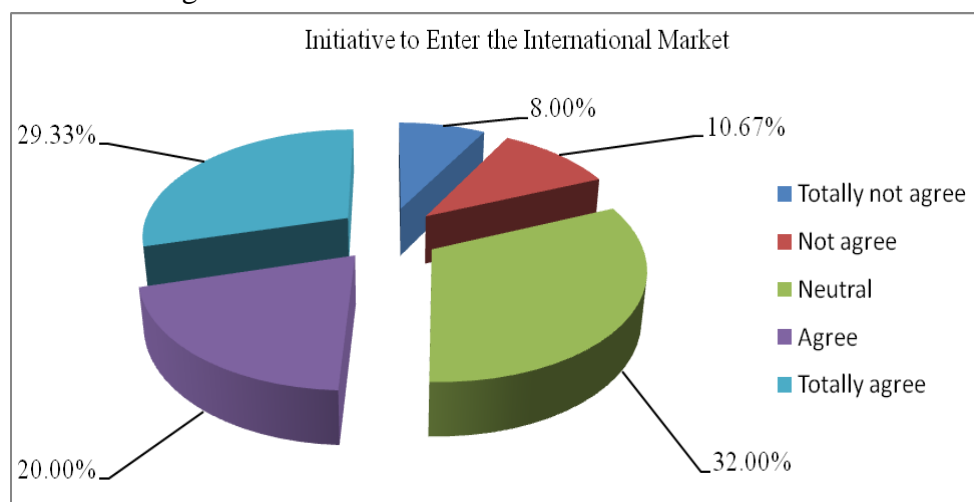


Note: Figure generated by authors based on data of the 2014 Unpublished BSKC Research

Regarding the initiative to enter in to the international market the result of a careful strategic plan, answers are as follows:

- The neutral opinion is 32%,
- Totally agree and agree opinion is 49.33% (see figure 54).

Figure 54. Initiative to Enter the International Market

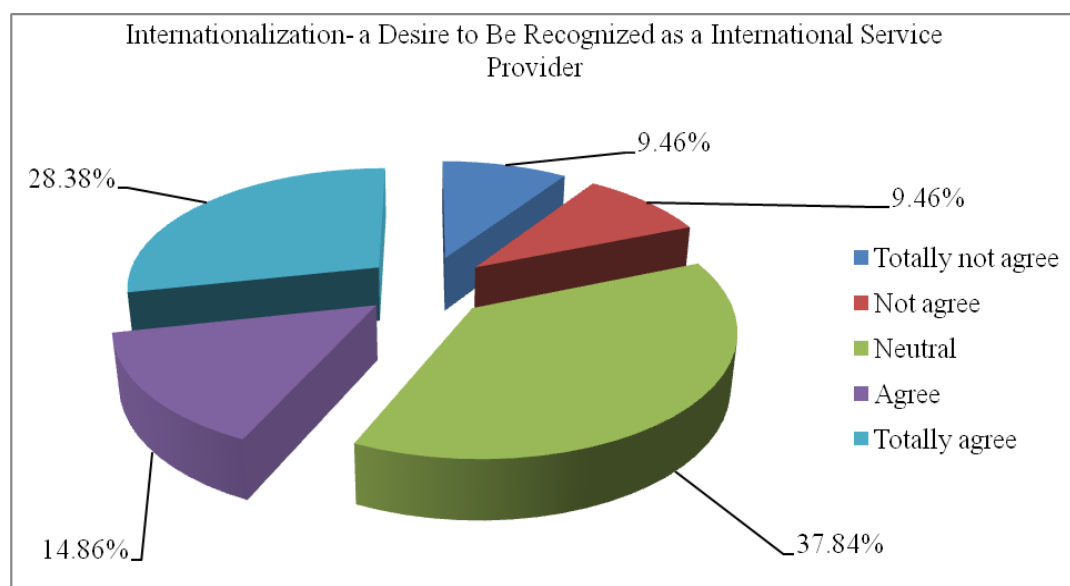


Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

Respondents' answers about Internationalization that "it is a result of their desire to be recognized as a provider of international services" the results of study research are as follows:

- The neutral answers are 37.84%,
- The positive answers (agree and totally agree) are 43.2%, and
- Negative opinion is 18.92% (see figure 55).

Figure 55. Internationalization- a Desire to Be Recognized as an International Service Provider



Note: Figure generated by authors based on data of the 2014 Unpublished BSK Research

5. ANALYSIS OF THE STRATEGIC FACTORS OF SMEs IN KOSOVO

Research philosophy will evolve the empirical data done by BSK in 2014 and it is worth mentioning that we were part of the research team. The research data were processed in Excel

and SPSS program in order to obtain the best results from the above-mentioned study. The conclusions of the paper will mainly concentrate on the Data reduction and the reliability scale (Cronbach Alpha <0.70), factor analyses and Linear Regression of the activity factors towards entrepreneurship and strategic management of SME growth.

The Barriers Analyses of doing business in 2014 is not very different from previous years. In the top of barriers are “The High Competition” and “High Taxes”. It is very interesting that two barriers in the bottom of list “**Non-adequate level of employee skills**” and “**Manager/owner skills**” are still not seen as very important for Entrepreneurship development in Kosovo, dominantly as a result of ownership SME structure. Electricity supply is now in 11th place of the barriers because of improvement after privatization of this sector (see table no. 20)

Table 20. Descriptive Statistics of Business Barriers

	N	Minimum	Maximum	Mean	Std. Deviation
1. High competition	470	1	5	4.21	1.258
2. Business Barriers-high taxes	464	1	5	3.86	1.282
3. Informal economy	469	1	5	3.84	1.403
4. Corruption	464	1	5	3.73	1.454
5. Lack of market demand	451	1	5	3.66	1.391
6. Crime and Theft	447	1	5	3.53	1.421
7. Laws not adequate and lack of enforcement	468	1	5	3.41	1.643
8. Tax evasion	460	1	5	3.30	1.501
9. Laws enforcement	461	1	5	3.27	1.614
10. Unpaid debt (delays)	476	1	5	3.11	1.590
11. Power supply	473	1	5	3.07	1.460
12. Bureaucracy	471	1	5	3.00	1.448
13. Loan approach	471	1	5	2.92	1.470
14. Insufficient capacity	472	1	5	2.95	1.547
15. Political Instability	478	1	5	2.91	1.454
16. Providing with materials, mach. and suppl.	479	1	5	2.86	1.538
17. Transport	466	1	5	2.80	1.402
18. Lack of business information	480	1	5	2.57	1.565
19. Business permits and licence	459	1	5	2.57	1.620
20. Inadequate level of employee skills	486	1	5	2.55	1.572
21. The Owner/managerial skills	475	1	5	2.09	1.396

*Note. *Table generated from SPSS Data Analysis Program*

Analysing data of reliability scale of business barriers showed a fairly high reliability (Cronbach's Alpha 0.871 for 21 elements/factors). When Cronbach's Alpha is higher than 0.7 it means that the data are credible.

Table 21. Reliability Statistics for Business Barriers

Cronbach's Alpha	No. of Items
.871	21

*Note.*Table generated from SPSS Data Analysis Program*

While factorial analysis or dimension data reduction of business barriers resulted in groupings as follows:

1. First group are 17 Business Barriers: External and internal barriers starting from loan approach to managerial skills in and;
2. In the second group are bureaucracy and high taxes;
3. In the third is high competition, and
4. In the last one is Power supply (see table no. 22)

Table 22. Factor analyses- Component Matrix

	Component			
	1	2	3	4
1. Bureaucracy and High taxes				
IV.2. Bureaucracy		.506		
IV.1. Business Barriers-high taxes		.475		
1. Business Barriers: External and internal factors				
IV.10. Credit approach	.651			
7IV.15. Inadequate level of employee skills	.626			
IV.14. Business permits and licence	.624			
IV.12. Political Instability	.624			
IV.11. Insufficient capacity	.622			
IV.21. Lack of business info.	.619			
IV.6. Corruption	.574			
IV.18. Providing with materials, machinery and supplies	.558			
IV.7. Taxes evasion	.549			
IV.20. Unpaid debt (delays)	.538			
IV.8. Crime and theft	.528			
IV.9. Informal economy	.527			
IV.16. Transport	.509			
IV.4. Laws enforcement	.524			

(table continues)

(table continued)

IV.16. Transport	.509	
IV.19. Lack of market demand	.491	
IV.13. Your managerial skills	.371	
2. High Competition		
IV.5. High competition		.734
3. Power supply		
IV.17. Power supply		.453
Extraction Method: Principal Component Analysis. a. 4 components extracted.		

Note.*Table generated from SPSS Data Analysis Program

The Linear Regression analysis of business barriers on percentage of SME growth compared with last year was significant as follows: Unpaid debt (delays) 0.000; lack of market demand 0.004; high competition 0.041; high taxes 0.054; power supply 0.060; Laws enforcement 0.100; political instability 0.112; licenses and business licenses 0.120 (See the table no.23).

Table 23. The Linear Data Regression - Coefficients

Model	Unst. B	Coeff. Std. Error	St. Coeff. Beta	t	Sig.
1					
(Constant)	10.421	6.967		1.496	.136
IV.1. Business Barriers-high taxes	2.086	1.080	.140	1.932	.054
IV.2. Bureaucracy	.014	1.320	.001	.011	.992
IV.3. Laws not adequate and lack of enforcement	1.566	1.392	.095	1.125	.262
IV.4. Laws enforcement	-2.002	1.213	-.123	-1.650	.100
IV.5. High competition	2.377	1.157	.130	2.054	.041
IV.6. Corruption	.616	1.287	.039	.478	.633
IV.7. Taxes evasion	-.232	1.175	-.015	-.198	.843
IV.8. Crime and theft	-.486	1.263	-.031	-.384	.701
IV.9. Informal economy	.358	1.209	.024	.296	.767
IV.10. Credit approach	-1.204	1.074	-.083	-1.121	.263
IV.11. Insufficient capacity	2.053	1.225	.132	1.676	.095
IV.12. Political Instability	-1.823	1.143	-.124	-1.595	.112
IV.13. Your managerial skills	-1.595	1.278	-.085	-1.248	.213
IV.14. Business permits and licence	2.037	1.305	.124	1.560	.120
IV.15. Inadequate level of employee skills	-.120	1.510	-.007	-.080	.937
IV.16. Transport	1.029	1.232	.058	.835	.405

(table continues)

(table continued)

IV.17. Power supply	2.125	1.126	.128	1.888	.060
IV.18. Providing with materials, machinery and supplies	-.139	1.215	-.008	-.114	.909
IV.19. Lack of market demand	3.579	1.219	.220	2.935	.004
IV.20. Unpaid debt (delays)	-4.684	1.032	-.308	-4.541	.000
IV.21. Lack of business info.	1.655	1.280	.100	1.293	.197
a. Dependent Variable: III.5. Percentage SME growth compared with last year					

Note. *Table generated from SPSS Data Analysis Program

Analysing some important entrepreneurship indicators, the results from descriptive statistics are as follows:

- The majority of managers/owners have been employed before they started a business,
- The average of years of experience before they started a business is 7.3;
- The majority started a business without having a business plan prepared but actually they recognize a value of BP idea to be prepared in advance
- The average of founder age is 32.27 years and managers/owners age is near 40;
- The opinion about sector growth and firm's profitability is positive and optimistic
- Have been evaluated by SME managers/owners (table no.24).

Table 24. Entrepreneurship indicators- Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
II.10. Have you been employed before you started business	479	1	2	1.49	.500
II.12. years of experience before starting a business	280	0	40	7.30	6.874
II.14 having a BP before starting a business	494	1	2	1.75	.432
II.15 Actually do you have a BP	492	1	2	1.68	.465
II. 16. A. Founder age	239	16	69	32.27	9.202
II. 16. B. The manager/owner age actually	308	22	78	39.98	10.768
III.6. What is your opinion about sector growth where you operate	494	1	3	1.80	.740
III.7. What is your opinion about firm's profitability in your industry	474	1	4	2.37	.798
Valid N (list wise)	148				

Note. *Table generated from SPSS Data Analysis Program

The reliability analyses statistics was low (Cronbach's Alpha 0.578) and we did not analyse factor data reduction.

Table 25. Reliability Scale for Entrepreneurship indicators

Cronbach's Alpha	N of Items
.578	8

*Note.*Table generated from SPSS Data Analysis Program*

The Linear Regression analysis of business barriers on percentage of SME growth compared with last year was significant only by years of experience before starting a business (Significance 0.017) and with law significance “Knowledge about sector growth where you operate” – significance 0.105 (See table no. 26).

Table 26. The Linear Data Regression – Coefficients

Model	Unst. B	Coeff. Std. Error	St. Coeff. Beta	t	Sig.
(Constant)	32.480	16.818		1.931	.056
II.10. Have you been employed before you started business	-4.867	4.808	-.092	-1.012	.314
II.12. years of experience before starting a business	.982	.405	.235	2.428	.017
II.14 having a BP before starting a business	3.615	6.235	.067	.580	.563
1 II.15 Actually do you have a BP	3.488	5.766	.068	.605	.546
II. 16. A. Founder age	.004	.415	.002	.010	.992
II. 16. B. The manager/owner age actually	-.064	.353	-.030	-.182	.856
III.6. What is your opinion about sector growth where you operate	-5.094	3.117	-.147	-1.634	.105
III.7. What is your opinion about firm's profitability in your industry	-1.102	3.367	-.030	-.327	.744
a. Dependent Variable: III.5. Percentage growth compared with last year					

*Note.*Table generated from SPSS Data Analysis Program*

5.1 Strategic Factors and SME Growth Analyses

Analysing data of reliability scale of important strategic factors showed a very high reliability (Cronbach's Alpha 0.921 for 17 elements / factors).

Table 27. Reliability Scale for strategic factors

Cronbach's Alpha	N of Items
.921	17

Note. *Table generated from SPSS Data Analysis Program

Regarding to Reliability scale of analyses, we continue with Data Reduction or Factor analyses. The results showed that:

1. In the first group are The Favourable attitude and Effects from firm's Internationalization with average of 0.791
2. In the second group were "Advantages which helped a firm to compete successfully with average 0.553.
3. In the last group is only one element "The low percentage of Exporting Companies in Kosovo" with 0.235. As mentioned above, the exporting companies in Kosovo are only about 6% of SME respondents.

Table 28. Factor Analyses - Component Matrix

	Component		
	1	2	3
1. The Favourable attitude and Effects from firm's Internationalization			
III. 16.3 The manager/executive director has favourable attitude about internationalization	.900		
III. 17.2 Effects of int-Company development	.859		
III. 17.1 Effects of fir's int-profit growth	.844		
III. 17.3 Effects of firm internationalization in finding of investment	.843		
III. 17.5 Effects of firm internationalization in finding and ensuring market for company	.817		
III. 16.4 executive manger support internationalization in company	.817		
III. 17.4 Effects of firm internationalization in market development	.806		
III.16.1 Internationalization is a desired duty of firm management	.767		
III.19.1 Our initiative to enter the international market is the result of a careful strategic plan	.743		
III.19.2 Our internationalization is a result of our desire to take advantage of the potential large and growing markets	.737		
III.19.3 Internationalization is a result of our desire to be recognized as a provider of international services	.725		
III. 16.2 Opinion for Company to export services	.639		
Advantages which helped a firm to compete successfully			

(table continues)

(table continued)

III.18.1 Advantages have helped your firm to compete successfully - 1. Technology competence	.577
III.18.2 Advantages have helped your firm to compete successfully - 2. The company image	.584
III.18.3 Advantages have helped your firm to compete successfully - 3. 3. Appropriate financial assets	.569
II. 18. Having Q. Standards	.482

Very low percentage of Exporting Companies

III.9. Are you exp. Company (yes=1; No=2)	.235
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Extraction Method: Principal Component Analysis.

a. 3 components extracted.

*Note. *Table generated from SPSS Data Analysis Program*

The Linear Regression analysis of business barriers on percentage of SME growth compared with last year was significant only Effects of internationalization for Company development (Significance 0.070) and with law significance “Internationalization is a result of our desire to be recognized as a provider of international services” 0.176 and Effects of firm's int-profit growth 0.193 (See table no. 29)

Table 29. The Linear Data Regression – Coefficients

Model	Unst. B	Coeffic. Std. Err.	St. Coeffic. Beta	t	Sig.
(Constant)	-2.716	101.441		-.027	.979
III.16.1 International. is a desired duty of firm management	-3.064	17.707	-.128	-.173	.866
III. 16.2 Opinion for Company to export services	13.199	10.783	.679	1.224	.247
III. 16.3 The manager/director has favourable attitude about internationalization	-2.208	15.216	-.105	-.145	.887
1 III. 16.4 executive manger support internal. in company	14.529	12.419	.715	1.170	.267
III. 17.1 Effects of firm's int-profit growth	-38.597	27.840	-1.584	-1.386	.193
III. 17.2 Effects of int-Company development	44.437	22.171	1.828	2.004	.070
III. 17.3 Effects of firm internal. in finding of investment	-10.249	16.839	-.438	-.609	.555
III. 17.4 Effects of firm internationalization in market development	3.694	11.072	.170	.334	.745

(table continues)

(table continues)

III. 17.5 Effects of f. int in finding and ensuring market	-14.320	16.213	-.658	-.883	.396
III.18.1 Advantages have helped your firm to compete successfully - 1. Technology competence	6.779	6.349	.302	1.068	.309
III.18.2 Advantages have helped your firm to compete successfully - 2. The company image	9.116	14.990	.206	.608	.555
III.18.3 Advantages have helped your firm to compete successfully - 3. Appropriate financial assets	-10.206	10.119	-.409	-1.009	.335
III.19.1 Our initiative to enter the international market is the result of a careful strategic plan	-6.949	10.757	-.352	-.646	.532
III.19.2 Our internationalization is a result of our desire to take advantage of the potential large and growing markets	16.494	13.369	.840	1.234	.243
III.19.3 Internationalization is a result of our desire to be recognized as a provider of international services	-16.177	11.174	-.781	-1.448	.176
III.9. Are you exp. Company (yes=1; No=2)	7.964	22.542	.141	.353	.731
II.18. Having Q. Standards	-9.090	14.863	-.159	-.612	.553

a. Dependent Variable: III.5. Percentage growth compared with last year

Note. *Table generated from SPSS Data Analysis Program

5.1.1 SME Innovations and Barriers for Innovations

Analysing data of reliability scale of important strategic factors and barriers for Innovations showed a very high reliability (Cronbach's Alpha 0.847 for 18 elements / factors). In this case, it is preferable to analyse factor Data Reduction.

Table 30. Reliability Scale for Innovation Barriers

Cronbach's Alpha	N of Items
.847	18

Note. *Table generated from SPSS Data Analysis Program

The results about Factor analyses are showed as follows:

1. In the first group are **Barriers or circumstances for Innovation** with average of 0.674
2. In the second group was **“The Importance of sources of Information to implement Innovations** with average 0.597.

3. In the third group are only two elements “**Innovations or Substantial product & services modifications and Protecting Innovations (patent) rights**” with average 0.632.
4. In the last group is only one element “**Organizational changes in Company**” with average 0.671(table no. 31).

Table 31. Factor analyses for Innovations and their Barriers - Component Matrix

	1	2	3	4
1. Barriers or circumstances for Innovation				
VI.9.7g lack of demand for new products	.733			
VI.9.7a Importance of financial cost	.726			
VI.9.7e Unsafe demand because of domination of large firms	.719			
VI.9.7d Lack of information about new technology	.709			
VI.9.4 The Idea Generation from staff	.695			
VI.9.7c Lack of staff knowledge about innovation	.651			
VI. 9.5 Time dedicated from staff in new pr creation	.642			
VI.9.6 Product flexibility and cost reduction in creation of new products	.642			
VI.9.7b The innovation cost	.635			
VI.9.7f No needs for new products	.593			
2. The Importance of sources of Information to implement Innovations				
VI.9.2 Info from public Institution		.687		
VI.9.3 The importance of staff exp in product creation		.579		
VI.9.1 Please evaluate info sources for Innovation-from market		.525		
3. Innovations or Substantial product & services modifications and Protecting Innovations (patent) rights				
VI.10 did in the last three years you make any substantial modification on products or service			.726	
VI.12 New marketing changes			.679	
VI.8.b Did you register any pr marks			.579	
VI.8.a Did you apply for any patent			.543	
4. Organizational changes in Company				
VI.11 did you make any organizational change in your company				.671

Extraction Method: Principal Component Analysis.

*Note.*Table generated from SPSS Data Analysis Program*

- a. 4 components extracted.

The Linear Regression analysis SME Innovations and Barriers for Innovations on percentage of SME growth compared with last year was significant only “the new marketing changes (Significance 0.053) and with law significance “**Did Company register any product rights (patent)**” 0.104 (See table no. 32)

Table 32. The Linear Data Regression– Coefficients

Model	Unst. B	Coeff. Std. Err.	St. Coeff. Beta	t	Sig.
1					
(Constant)	58.244	30.194		1.929	.057
VI.8.a Did you apply for any patent	11.930	10.454	.146	1.141	.257
VI.8.b Did you register any product patent	-29.111	17.703	-.257	-1.644	.104
VI.9.1 Please evaluate info sources for Innovation-from market	3.215	2.285	.232	1.407	.163
VI.9.2 Info from public Institution	-2.033	1.798	-.174	-1.130	.262
VI.9.3 The importance of staff exp in product creation	-1.756	2.853	-.121	-.615	.540
VI.9.4The Idea Generation from staff	1.274	2.563	.116	.497	.621
VI. 9.5 Time dedicated from staff in new pr creation	.993	2.537	.097	.391	.697
VI.9.6 Product flexibility and cost reduction in creation of new products	-1.490	2.370	-.145	-.629	.531
VI.9.7a Importance of financial cost	-3.501	2.926	-.267	-1.196	.235
VI.9.7b The innovation cost	1.664	2.144	.143	.776	.440
VI.9.7c Lack of staff knowledge about innovation	-2.841	1.908	-.265	-1.489	.141
VI.9.7d Lack of information about new technology	1.897	2.094	.177	.906	.368
VI.9.7e Unsafe demand because od domination of large firms	-.215	2.279	-.021	-.095	.925
VI.9.7f No needs for new products	1.405	1.706	.131	.824	.413
VI.9.7g lack of demand for new products	.875	1.818	.091	.481	.632
VI.10 did in the last three years you make any substantial modification on products or service	4.512	8.794	.070	.513	.609
VI.11 did you make any organizational change in your company	7.437	6.957	.137	1.069	.288
VI.12 new marketing change	-14.148	7.190	-.274	-1.968	.053
a. Dependent Variable: III.5. Percentage growth comp. with last year					

Note.*Table generated from SPSS Data Analysis Program

5.2 SME Managers/Owners Priorities for Strategic Objectives

Regarding the descriptive statistics that resulted from respondents' answers, we can conclude that:

- The maximum value of investment was 2,500,000 €.
- The average of percentage value from the total sales was about 20% (max. 75%),
- The services quality and product image are as priorities for companies (see table no. 33)

Table 33. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
V.6 Value of investment for next year	281	0	2500000	33844.52	178473.02
VI.6. % of investment in innovation from the total sells	84	0	75	19.95	18.621
VI.13.1 Strategic goals-product quality	460	1	5	4.54	1.016
VI.13.2 Product image	478	1	5	4.59	.873
VI.13.3 Quality services	476	1	5	4.69	.836
VI.13.4 Market share	465	1	5	4.43	.861
VI.13.5 Position in industry	451	1	5	3.93	1.282
VI.13.6 Penetration in international market	366	1	5	2.80	1.798

*Note.*Table generated from SPSS Data Analysis Program*

The results about Factor analyses are showed as follows:

1. In the first group are: **The product and services Quality and Product image** with average of 0.791
2. In the second group was “**The position in Industry and Market share and penetration** with average 0.691 (See table no. 34).

Table 34. Factor analyses - Component Matrix

	Component 1	Component 2
The product and services Quality and Product image		
VI.13.3 Quality services	.843	
VI.13.2 Product image	.820	
VI.13.1 Strategic goals-product quality	.709	
The position in Industry and Market share and penetration		
VI.13.5 Position in industry		.821
VI.13.6 Penetration in international market		.710
VI.13.4 the market share		.542
Extraction Method: Principal Component Analysis.		
a. 2 components extracted.		

*Note.*Table generated from SPSS Data Analysis Program*

The Linear Regression analysis of managerial priorities for strategic goals on percentage of SME growth compared with last year was significant 0.00 in “**International market penetration**” and 0.007 “**in given priorities to market share**” (See table no. 35)

Table 35. The Linear Data Regression – Coefficients

Model	Unst. Coeff.		St. Coeff.	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.071	13.139		.234	.815
1 VI.13.1 Strategic goals-product quality	.357	1.646	.015	.217	.829
VI.13.2 Product image	.840	2.588	.027	.324	.746
VI.13.3 Quality services	-.355	2.729	-.011	-.130	.897
VI.13.4 the market share	5.950	2.174	.186	2.737	.007
VI.13.5 Position in industry	.996	1.372	.050	.726	.468
VI.13.6 Penetration in international market	-3.522	.995	-.241	-3.542	.000

a. Dependent Variable: III.5. Percentage growth compared with last year

*Note.*Table generated from SPSS Data Analysis Program*

The Linear Regression analysis about decision for investment and value of investment in 2014 and planned value of investment for 2015 on percentage of SME growth compared with last year was significant 0.062 in “Did they invest in 2014?” (See table no. 36)

Table 36. The Linear Data Regression – Coefficients

Model	Unst. Coeff.		St. Coeff.	T	Sig.
	B	Std. Error	Beta		
(Constant)	59.250	15.366		3.856	.000
1 V.6 Value of investment for next year	-7.377E-006	.000	-.072	-.565	.574
V.1. Did you make investment in 2014	-26.673	14.118	-.197	-1.889	.062
V.2. Value of investment in 2014	2.736E-005	.000	.132	1.035	.304

a. Dependent Variable: III.5. Percentage growth compared with the last year

*Note.*Table generated from SPSS Data Analysis Program*

5.3. Limitations

Limitations of this research lie in the fact of the inadequate management structure of SMEs in Kosovo, since approximately 70% of businesses in Kosovo are run by owner/managers and restriction lies in the fact that their responses are subjective since they are in the same time managers and also owners of the company, as discussed above in the paper.

Secondly, another limitation is the education factor of managers/owners of SMEs, while 60% of them have completed only secondary education and do not have the ability to properly answer the questionnaire due to the lack of academic background such as inability to understand the terminology and hesitation for not answering the question that was asked and did not have a proper answer to give. But, it is important to mention that this phenomenon is fortunately improving, since the percentage of managers with higher education is increasing significantly.

Thirdly, as a result of the survey, we may encounter another limitation, which is the reason why most of respondents have started their business. The answer we got to the question why did you start your business was related to unemployment and social conditions. The main limitation that we can relate here is the fact that they were in a way forced to start their business and not because they were so much eager for this activity. At this point, it is worth mentioning that in Kosovo we had two transition periods: before the war from 1990-1999 and after the war from 1999 - nowadays. In the first transition period, businesses started because most of employees were expelled by Serbian regime and in order to survive they had to somehow generate income. This is related to our study because most of the businesses nowadays have also started this way, people were forced to start a business, thus they have not done it properly.

Another limitation is that the leaders of Kosovo businesses are not yet familiar with the concept and principles of strategic management, they are more focused on short-term objectives rather than on long-term ones, thus, their responses must be taken as inadequate.

However, with all the limitations that we have mentioned, we should keep in mind that the number of questionnaires and questions was very large (500 questionnaires) therefore, we can rely on the data that have emerged from the research and can state that it is a fairly reliable research.

5.4. Discussion of the Results, Hypothesis and Results

From the analysis done on SPSS Data Analysis Program, mainly based on reliable data, factorial analysis and linear regression we came to these hypotheses which were mentioned on the beginning of the paper. The hypotheses are deeply explained in table 37.

Table 37. The Hypothesis and Research Results Review

Hypothesis	Results
1. The role of Entrepreneurship in SME development Research questions: What are the main drivers for choosing entrepreneurship?	<ul style="list-style-type: none"> • SME as main contributors for job creation in Kosovo from 2007-2013 (about 118,000 new employees, with the average per year about 16,800 new employees) • The role of Entrepreneurship in SME creation. In the period of 2007-2013, there are 48,908 SME created with average per year about 7000 businesses • From the BSCK research, the main drivers for choosing entrepreneurship are: <ul style="list-style-type: none"> - 32.6% of entrepreneurs started a new business to realize their dreams about business ideas, and - 26.13% started a business analysing opportunities to realize a business idea, and - 23.97% started business because they were jobless. • From SPSS data results, the main drivers for choosing Entrepreneurship are: <ul style="list-style-type: none"> - Years of experience before starting a business, and - Entrepreneurs knowledge about sector growth where they will operate

(table continues)

(table continued)

<p>2.</p> <p>The impact of Strategic management in SME</p> <p>Research questions:</p> <p>Do entrepreneurs use Strategic management tools in doing business in Kosovo</p>	<ul style="list-style-type: none"> • Negative results - SME Entrepreneurs in Kosovo are using a Strategic management tools in low level: <ul style="list-style-type: none"> - Low level of R&D and Innovations, - Low level of creation of new product / service / process, or any substantial modification of products / services / processes, - Low level of action to protect intellectual property rights, - Low level of Companies that did not make any substantial change to the organizational structure of management, - Low level of introduction of new product marketing, • Positive results - SMEs are recognising the importance of some strategic goals: <ul style="list-style-type: none"> - Indication about the importance of the following strategic goals; <ol style="list-style-type: none"> 1. Service quality 2. Product & service image, and 3. The market share • SPSS data of Factor analyses: <ul style="list-style-type: none"> - The Favourable attitude and Effects from firm's Internationalization - Advantages which helped a firm to compete successfully • The Linear Regression Data <ul style="list-style-type: none"> - Effects of internalisation for Company development (Significance 0.070) - Internationalization is a result of our desire to be recognized as a provider of international services (significance 0.176) - Effects of firm's internalisation for profit growth (significance 0.193) - the new marketing changes (Significance 0.053) - Did Company register any product rights (Significance 0.104) - Penetration in international market (Sign. 0.000) - The market share (Sign 0.007) - Does company make investment in 2014 (Sign. 0.062)
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*Note.*Table generated from SPSS Data Analysis Program*

5.5. Recommendations or Managerial Implications

1. The first step is to encourage as many SMEs to enter the formal sector. With the introduction of the regulatory procedures for businesses, a greater number of SMEs will be encouraged to enter the formal economy.
2. The second step is to improve the facilitation of business closure or change of registration forms by ownership. It is extremely important to take initiatives in this area to ensure that honest entrepreneurs are able to start their businesses after they failed in a

particular area, or change the form of ownership of their business towards more advanced forms of business development. Having in mind that about 90% of Businesses are “The Individual Businesses”

3. The Third step is to organize a campaign to strengthen the role of women in the establishment and development of sustainable enterprises.
4. The fourth step that came from our research is improving the “Non-adequate level of employee skills” and “Manager/owner skills”
5. Improving organizational change management and the need for SMEs to be managed by executive managers or management teams is another recommendation, having in mind that about 70% of SMEs are managed by owners,
6. Business Managers have to agree in providing of training and education to empower their employees in order to support employees in engaging in change-processes
7. Increasing capacities of the senior management team to develop a business vision and mission (short and long term strategic objectives, alternatives and flexible strategies) is another recommendation
8. Increasing competitiveness of products and service quality is an key factor on which businesses should focus because a top barrier for Kosovo SMEs according to our research is “high competition”
9. Increasing awareness about advantages which helped a firm to compete successfully in regional and international market
10. Enforcement of Laws and respecting of contracts according to SMEs unpaid debt (delays)
11. Increasing awareness about starting a business by analysing opportunities to realize a business idea and starting a business with a prepared business plan.
12. Increasing Entrepreneurs’ knowledge about sector growth where they will operate in future
13. Increasing awareness about importance of business knowledge and experiences
14. More investment in R&D and Innovations,
15. Increasing importance for creation of new products / services / processes, or substantial modification of products / services / processes,
16. Increasing knowledge about effects of internationalization for company development,
17. Increasing awareness about importance of product innovations and modifications as well as Protecting Innovations (patent) rights
18. Increasing awareness about the following strategic goals: Product & Service quality, Product & Service Image, and Market Share
19. Step seven also recommends firms to use effectively new technology (manufacturing and information technologies), to engage available strategies (using global markets and cooperative strategies),
20. Application of incentives for exports by the government, such as the simplification of bureaucratic procedures, reducing customs tariffs, organizing campaigns to inform businesses for regional and international markets,

21. Strengthening economic ties with other countries in the region, in order to create favourable conditions for the penetration of local products in the regional markets and the European Union.
22. Increasing awareness of entrepreneurs for start ups to have a prepared Business Plan which can be organized by the Ministry of Trade and Industry and other donors i.e. EU and USAID by financing trainings and other informative methods.
23. Increasing awareness of entrepreneurs for product and services innovations by Ministry of Finance, Ministry of Trade and Industry and other relevant institutions such as Innovation Centre of Kosovo (ICK)
24. Penetration in international market with quality of services especially in different IT services because of the high percentage of youngsters who have multi-language (especially in the English, German, Italian languages) and advanced skills in the IT sector.
25. To develop strategies for marketing changes and increase awareness of the importance of marketing impact on business growth and this could be supported and promoted by Kosovo Investment Enterprise Support Agency- KIESA, which is a body of Ministry of Trade and Industry.
26. To increase awareness for product rights registrations by organizing information campaigns from Kosovo Business Registration Agency to inform SME managers about the importance and procedures of the product rights registrations.

Furthermore, our study research opens avenues for further studies based on comparison of the financial statements over the years and a similar study be done in countries of the region (Albania, Macedonia, Montenegro and Serbia) to see the differences and similarities in order to improve the business environment in the respective countries, making comparisons between countries. Given the fact that Kosovo has signed the SAA and it is very necessary for Kosovo together with the countries of the region to work much more on the improvement of business environment, elimination of barriers to doing business especially in terms of tax evasion, informal economy and other conditions of business operation (high interest rates on loans, which are same as personal loans, and lack of institutional support). Based on our study, other study on ways how to penetrate into the European Union markets can be conducted. This study would be helpful for Kosovo economy, as it would increase the awareness on the quality standards since most businesses are not very familiar with this term. This way, products and services offered by Kosovo businesses would be competitive to other countries.

6. CONCLUSION

A favourable environment and a strong sector of SMEs are seen as a manifestation of dynamism and flexibility throughout the economy. The private sector of many economies in the world is dominated by small and medium enterprises, which provide the highest employment number in the entire private sector. From all the research that we have done and

revisions of previous studies, we found that the role of these companies in an economy is indisputable. Through the creation of wealth and employment, economic growth is the best way to reduce in a sustainable manner the poverty of a country. The development of SMEs in Kosovo can contribute in facing the numerous challenges associated with economic development, the effects of inequality, and high levels of unemployment, demographic growth and the need for structural changes. SME development offers many job opportunities, which can help in reducing unemployment and facing of demographic challenges which are growing rapidly. Besides this, the development of this sector can contribute to strengthening the competitiveness and productivity, promoting revenue growth, both global and per capita income. This development is likely to promote the structural transformation of the sector due to its link with innovations and technological development.

The private sector in Kosovo consists of micro, small, medium and large enterprises. Despite the fact that sector of SMEs is relatively new, this sector constitutes 99% of all enterprises in Kosovo, representing a huge potential in the generation of new jobs and economic development. The creation of suitable environment for business and a support of a sustained development of SMEs are the basic conditions for economic development and the growth of social welfare, as well as a source of employment, reformation and productivity. This is the reason that today's main objective of our institutions is working towards increasing and supporting of this sector in order to make it more attractive to young entrepreneurs.

A more attractive business environment would enable young entrepreneurs to enter this sector, and thus increase employment opportunities for interested individuals and reduce the country's poverty line. The removal of investment barriers, growth and new job opportunities depend on the levels of governance and the simplification of administrative procedures is important for the promotion and development of the SME sector. It is generally recognized the opinion that barriers have greater impact on small and medium-sized than on large enterprises. The regulation of the business environment is the most effective way to alleviate these obstacles or limitations and to increase the contribution of SMEs on economic development. Simplification of administrative procedures is a key for the promotion of SME sector in Kosovo. As part of these efforts, there is a number of major achievements which have come due to some improvements in the business environment, such as tax reforms, VAT collection through cash registers, and other improvements on administrative issues.

There were interviewed 500 enterprises for this research, by which it is seen that most of them belonged to the commercial sector, and this applies at Kosovo level where it is considered that more than 50% of SMEs belong to this sector. Also, it is seen that most enterprises had as a target their growth and development in the future, aiming to increase the number of employees and thereby alleviating the level of unemployment in Kosovo. These enterprises are continuously faced with challenges and constraints that hinder their development because of the unfavourable business environment. The only way out, from the surveyed SMEs was seen through the support by government institutions in creating an

enabling environment for local and foreign investments. The total of regulatory reforms and the programs in general should be directed to the establishment of an attractive environment for local and foreign investments, and led by the objective of meeting the standards for integration in the European Union.

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APPENDIX A: QUESTIONNAIRE



QUESTIONNAIRE

DEVELOPMENT OF ENTREPRENEURSHIP AND SMALL MEDIUM ENTERPRISES IN KOSOVO

I. PERSONAL INFORMATION OF THE INTERVIEWEE IN THE COMPANY

1. Sex (Circle): 1. Male 2. Female

2. Age (write years): _____

3. Education (Circle):

- 1) Primary School,
- 2) High School,
- 3) Undergraduate Studies
- 4) Graduate Studies

4. Profession: _____;

5. Position at the company:

- 1. Owner
- 2. General Director
- 3. Manager
- 4. Other (Specify) _____.

II. INFORMATION ABOUT THE COMPANY

1. Location (municipality where the business is registered): _____.

2. Company operates in (circle): 1. City 2. Village

3. Location of activity (where the company operates, circle):

1. only at one location in Kosovo,
2. two or more locations in Kosovo,
3. In Kosovo and abroad

4. Year of incorporation (the year when the company has started to operate):

_____.

6. Your company is (circle):

- 1) Individual Business
- 2) Joint ownership / Partnership
- 3) Limited Liability Corporation
- 4) Corporation

7. What ownership structure has your company?

1. Complete Kosovo Capital
2. Foreign Capital
3. Both;

8. The responsibility of your business as a legal entity is:

1. Full Liability Corporation,
2. Limited Liability Corporation

9. What percentage of value owns the biggest owner of the company and what if there is more than one?

The highest percentage owned by the owner	%
---	---

10. If the number of founders is higher than one, what is the relationship between them (you can circle more than one answer):

1. Family relation
2. Professional relation
3. Mutual investment/financing
4. Other (write) _____

11. How long did it take to register the business, from application until registration? _____ (Number of Days).

12. Have you been employed prior to start your business?

1. Yes 2. No

13. Have you had previous experience on the field where you are operating?

1. I have had high experience on the field
2. I have had low experience on the field
3. I have had no experience on the field

14. If yes, (12&13) how many years? (Correct number) _____

15. Which was the main reason to start your business?

1. I wanted to fulfill my dream to have a company
2. Misunderstandings with previous employer / partner
3. I was unemployed and needed to do something to survive
4. I saw the potential of this business and decided to take advantage of it
5. I have inherited it from my family
6. Other

(specify)_____

16. Did you have a business plan prior to start the business?

1. YES
2. NO

17. Do you have a business plan now?

1. YES
2. NO

18. Please specify the qualifications and the gender structure of the founders:

	Description	M	F	Age		Qualification				
				When the business is founded	Now	PhD	Master	Bachelor	High School	
A	Founder 1									
B	Founder 2									

C	Founder 3									
D	Founder 4									
E										

19. The company is run by (circle):

- 1) Owner/Co-owner
- 2) Director / Manager
- 3) Both (Owner and Manager)

20. Does your company posses or is in the procedures of getting quality standards (i.e. ISO)?

- 1. YES
- 2. NO

21. If yes, which standards and/or accreditations:

_____.

22. Organizational learning is the development of new knowledge that has the potential to influence behavior and help firms in creating growth or wealth. Organizational learning flows through the rapid transfer of knowledge. Evaluate this behavior in your company (scale 1 – 5; 1- strongly disagree, 2- disagree, 3- partly agree, 4- agree, 5- strongly agree)

- a. Organizational learning flows through the rapid transfer of knowledge; ☐
- b. Quick knowledge transfers are also of vital importance to entrepreneurial enterprises, particularly in international markets; ☐
- c. Organizational Learning has the potential to influence firm behavior and help them create wealth; ☐
- d. Organizational Learning requires skills and processes for developing and disseminating knowledge; ☐
- e. Organizational learning is a precondition for innovations and the creation of new enterprises or business operations; ☐
- f. Organizational Learning is related to the firm's ability to constantly renew, generate and sustain competitive advantages; ☐

III. BUSINESS ACTIVITIES, ORGANIZATION, TURNOVER AND STRUCTURE OF ASSETS

1. What is the main activity of the enterprise (only one answer can be provided):

a) Production (if yes, specify which. Below 1-10):

1. Agroindustry
2. Metal processing and electrical appliances
3. Construction material
4. Chemical, plastic and rubber industry
5. Textile, leather and shoe industry
6. Wood processing
7. Graphic and paper industry
8. Construction
9. Agriculture (farmers)
10. (Other, specify)_____

b) Trading

1. Retail 2. Wholesale

c) Services

1. Transport
2. Financial
3. Hotels and tourism
4. Professional training and counselling
5. Information technology
6. (Other, specify)_____

2. Besides the main activity, do you have any other activity?

1. PO

2. JO

3. If YES, what (please circle the main one)?

1. production,
2. trade
3. service
4. Other (specify): _____.

4. How do you rate your business in 2014?

1. Better than 2013,
2. No changes
3. Worse than 2013

5. How do you expect your business in 2015 (circle)?

1. Better than 2014,
2. Do not expect any changes
3. Worse than 2014

6. What is your annual turnover for the below stated years (write the correct number)?

2013 _____ €; 2012 _____ €

7. Compared to the last 12 months, your turnover has:

1. Decreased
2. Remained the same
3. Increased

8. What is the percentage of growth / reduction of sales in 2013 compared to 2012? (Approximately how much %)? _____%.

9. How much, approximately, has turnover increased compared to the first year of the business? _____%.

23. What is the percentage of profit growth / reduction (Approximately how much %)? _____%.

24*. What is the reason of profit growth?

- | | | |
|-----------------------------------|---------------------------------|--------------------------------|
| 1. Sales increase | <input type="checkbox"/> 1. Yes | <input type="checkbox"/> 0. No |
| 2. New Products | <input type="checkbox"/> 1. Yes | <input type="checkbox"/> 0. No |
| 3. Reduction of Expenses | <input type="checkbox"/> 1. Yes | <input type="checkbox"/> 0. No |
| 4. Higher productivity | <input type="checkbox"/> 1. Yes | <input type="checkbox"/> 0. No |
| 5. Improvement of main tools | <input type="checkbox"/> 1. Yes | <input type="checkbox"/> 0. No |
| 6. Improvement of employee skills | <input type="checkbox"/> 1. Yes | <input type="checkbox"/> 0. No |
| 7. Management improvement | <input type="checkbox"/> 1. Yes | <input type="checkbox"/> 0. No |
| 8. Other? _____ | | |

25. What is the reason for profit reduction?

- | | | |
|----------------------|--------------------------------|--------------------------------|
| 1. Decrease in sales | <input type="checkbox"/> 1. Po | <input type="checkbox"/> 0. Jo |
|----------------------|--------------------------------|--------------------------------|

2. Higher expenses ☐ 1. Po ☐ 0. Jo
3. Higher unpaid debts from customers ☐ 1. Po ☐ 0. Jo
4. Other? _____

10. What is your opinion about sector growth of your sector?

- a. Growing b. No changes c. Decreasing

11. What do you think about the firm's profitability in general in the industry or sector in which your enterprise operates?

- a. High profitability
b. Not so high profitability
c. Not so low profitability
d. Too low profitability

12. What is the value of total assets (basic assets)? (in euro)

No	Title	2013	2012
.			
A	Circulating capital (finished products, raw material, etc.)		
B	Objects		
C	Equipment		
D	Transport vehicles		
E	Land		
F	Other		

EXPORT

13. Are you an exporting enterprise? 1. YES 2. NO

*(IF **NOT** pass to question 18, circle)*

14. If YES, how much approximately did you export in (Amount in Euros below)?

1. 2013 _____ €; dhe 2. 2012 _____ €.;
3. Growth % 2013 compared to 2012 _____

15. Which year did you start to export (write the year)? _____.

16 How much is the share of export value in total sales in 2013 (total turnover)
_____ %

17. What are the main bottlenecks for export? (Rank by priority, 5 = very large barrier, 4 = big obstacle, 3 = barrier, 2 = small barrier, 1 = no obstacle (write the number next to the statement):

- | | |
|---|-------|
| 1) Lack of infrastructure | _____ |
| 2) Inappropriate legislation | _____ |
| 3) Certificate of Origin of Goods | _____ |
| 4) Lack of personal documents (i.e. Visa) | _____ |
| 5) Inefficient Bank Functionality | _____ |
| 6) Lack of market information | _____ |
| 7) Realization of contracts | _____ |
| 8) Political risk | _____ |
| 9) Quality certifications | _____ |
| 10) Delays at the border | _____ |
| 11) Other (specify) _____ | _____ |

18. Companies may use different forms of intervention to internationalize their operations in the economic growth efforts (eg exports, licensing, acquisitions / acquisitions, strategic alliances, and foreign direct investment). Evaluate Company Internationalization (Rating 1-5; where 1- strongly disagree, 2- disagree, 3- partially agree, 4- agree and 5-strongly agree; Enter the numbers inside the square)

- a) Internationalization expands the scope and potential of the firm; ☐
- b) Internationalization is a major driver of the global economy;; ☐
- c) Managers at all levels should be actively involved in internationalization in order to prepare for rapid development in global markets; ☐
- d) Firms can use some entry models to internationalize their operations in trying to create wealth; ☐
- e) The results of positive property creation for firms are increased through international diversification; ☐

- f) International diversification can reduce wealth when a firm lacks the necessary entrepreneurial and strategic infrastructure and skills to cope with the complexity of action in the various markets; ☐

IMPORT

19. Did you have any imports in 2012 (if No, go to chapter IV)?

1. YES

2. NO

20. If yes, how much did you have approximately import in the year (insert value in euro)?

1) 2013 _____ €; dhe 2) 2012 _____ €. ; 3) Growth % 2013 compared to 2012 _____

21. How much is the share of total sales in 2012% (total turnover)? _____%

22. What are the main obstacles to import (rank by priority, 5 = very large barrier, 4 = major barrier, 3 = barrier, 2 = small barrier, 1 = no obstacle), mark the following numbers:

1. Customs _____
2. Payment methods _____
3. Inadequate infrastructure _____
4. Transport and custom procedures, _____
5. inadequate legislation _____
6. Other _____

23. Compared to the last 12 months, your profit has:

1. Decreased
2. Remained same
3. Increased

24. There are several ways in which Companies can grow. For example, mergers and acquisitions generate rapid growth for large established organizations. Rate Growth (1 - 5 rating: 1 - I totally disagree, 2 - I disagree, - I agree in part, 4 I agree and 5 - I completely agree), Enter the number inside the square

- a) The growth stimulates the call for innovations to deal with new opportunities; ☐
- b) Growth is required by large corporations and enterprising enterprises; ☐

- c) Mergers and acquisitions are the primary goals of large and well-established organizations gaining rapid growth; ☐
- d) Mergers and Acquisitions (when a company buys another) are the famous strategic options for many competitive firms in the global economy; ☐
- e) Usually the size and base of assets becomes more difficult for Entrepreneurship companies to buy / absorb the other company; ☐
- f) High growth enterprises make it possible to effectively integrate Entrepreneurship with strategic actions to create wealth; ☐

IV. BUSINESS BARRIERS

1. Rank in your opinion the factors that pose an obstacle to your business:

5 = very large barrier, 4 = big barrier, 3 = barrier, 2 = small barrier, 1 = no obstacle), enter the following numbers:

Nr	Description	1	2	3	4	5	9(PP)
1	High taxes						
2	Administrative charges of taxation						
3	Appropriate and sufficient power laws						
4	Legality and their implementation						
5	Strong / strong competition						
6	corruption						
7	Fiscal evasion						
8	Crime, theft and anarchy						
9	Informal / Black economy						
10	Access to credit (lack of external funding sources)						
11	Insufficient capacities						
12	Political instability						
13	Your managerial skills						

14	Business licenses and licenses						
15	Inadequate skill level of employees						
16	Transportation						
17	Power supply						
18	Provision of material, machines and equipment						
19	Lack of market demand						
20	Payment Delays (Recovering Debts)						
21	Lack of business information						
	Something else (specify) _____						

V. TRENDS FOR GROWTH AND DEVELOPMENT

1. Have you made an investment in 2013 (IF NO, go to question 10):

1. YES

2. NO

2. How much is the value of the investments you made in 2013 and 2012 (insert value in €)?

	1) 2013	2) 2012
Value (€)		

3. Investments in 2012 have been provided by (mark in%):

	Description	%
1	With your tools	
2	With domestic bank loans,	

3	With loans from foreign banks	
4	Means of non-return from external donors (NGOs)	
5	Loans from family or friends	
6	Informal capital market (with a stake)	
7	Through Foreign Direct Investment	
8	Other (specify) _____	
	TOTAL	100 %

4. Investments done on (circle):

1. Production,
2. Trade,
3. Services
4. Other (specify) _____.

5. Investments done on:

No .	TITLE	2013	2012
A	Circulating capital (finished products, raw material, etc.)		
B	Objects		
C	Equipment		
D	Transport vehicles		
E	Land		
F	Other		

**6. Have
you taken**

a loan from the bank?

1. YES (IF YES, PASS TO QUESTION 7)
2. NO, I have not tried?
3. NO, I have tried but been rejected?

7. If you took a loan, please provide this information about the last one:

1. Which Bank? _____(Name of the BANK)
2. Total amount _____(€)
3. It is a secret
4. When? (Which year) _____
5. How long was the loan repayment period? (In months) _____
6. What was the interest rate (%) _____

8. Was it necessary to obtain collateral for the loan?

1. YES
2. NO

9. If YES, what did you use as collateral? _____

1. Real estate of mine or family
2. Company real estate
3. Other _____ (specify)

10. What was the total amount of the collateral? _____ (Euro).

11. If answer to question number 6 was option 2 (NO, I have not tried to take a loan) what was the reason:

1. I did not need - the company had sufficient capital
2. The application procedure was quite complex
3. Interest rates have been very high
4. Collateral requirements were high
5. Duration of loan repayment was insufficient
6. I did not know how to apply for a loan.
7. I was not sure I would approve the loan
8. Other (please specify) _____

12. If you have rounded up the question 6.3 (No. I have tried but have been refused) the reason has been (circle all relevant options):

Not import
important

Very

1 2 3 4 5 6 7 8
9 10

17. Social contact with friends, family or business associations:

Not important
Very important

1 2 3 4 5 6 7 8 9 10

18. Networking has different forms including strategic alliances, joint ventures, licensing agreements, subcontracting, joint research and development, joint marketing efforts and activities. Evaluate Networking (Evaluation 1-5; where 1- strongly disagree, 2- disagree, 3 - partially agree, 4 agree and 5 - i agree strongly); Enter the number inside the square

A) Networking is a product of international entrepreneurial and strategic actions; ☐

B) Networking can be formed among all kinds of firms to bring them together through various forms; ☐

C) Networking is a major driver of internationalization; they are linked to competitive success and have come from large companies; ☐

D) Networking can build a resource network and strengthen links within the framework itself; ☐

E) Networking leads to rapid market penetration, financial risk separation, increased production efficiency, increased innovation capability, and access to knowledge of competitive value; ☐

F) Most entrepreneurial activities, especially at the initial stage, rely on effective survival networks; ☐

G) Formal personal and organizational networks for entrepreneurial entrepreneurship are in the conditions of successful competition against large or established corporations; ☐

VI. INNOVATION

1. During the past three years, have you undertaken any research and development activities for the creation or substantial modification of new products / services / processes?

1. YES;

2. NO;

2. Over the past three years, have you created any brand new product / service / process from your firm or any substantial modification of your firm's products / services / processes? If No, go to question 5

1. YES;

2. NO;

3. If so, how many new products or services did you enter into business?

4. New products marketed over the past three years have been:

a. New products for the market (Not existed in the Kosovo market before).

b. New Products Only for Your Firm (Imitation of Current Products in Kosovo Market).

5. The development and design of new innovative products marketed over the past three years has been made by:

a. Mainly from your enterprise.

b. Your enterprise in cooperation with other companies

c. Your enterprise in collaboration with Academic Institutes (Research and Development Institute, University Research Institute, and other similar)

d. Mainly from Enterprises and Institutions outside your enterprise

5a). Innovations result from the firm's effective development and the use of new technologies or knowledge about market opportunities. What is your firm's attitude towards Innovation (estimate 1-5; where 1- I totally disagree, 2- I disagree, 3 I agree in part, 4 I agree and 5 I completely agree); Enter the number inside the square,

a. Innovations bring innovation to the firm and markets; ☐

b. Innovations are a major driver of firm growth and wealth creation; ☐

c. Radical innovations can come more often from smaller companies than large companies; ☐

- d. Entrepreneurs and managers should provide strong support for entrepreneurial and strategic actions with the aim of bringing innovations; ☐
- e. Innovations are the means by which Entrepreneurs create new productive resources as potential for wealth creation; ☐
- f. Innovations are difficult to imitate and are closely related to firm's ability to create sustainable competitive advantages; ☐
- g. The failure of the firm to create wealth through innovation may result from either its inability to develop new products / services or by creating the routines necessary to successfully implement innovation; ☐
- h. The routines necessary to successfully implement innovation are developed only in an organizational culture that supports innovation; ☐

6. Please specify the costs you have made in activities for the creation or substantial modification of new products / services or processes as a percentage of recent sales.

(Activities may have been as follows: Research and development of new products or processes within the enterprise or in collaboration with other enterprises, purchase of new machinery or equipment in creating new products or processes, purchase of software or knowledge Outsourcing as well as staff training.)

The percentage of total sales you invested in innovative activities: _____%

7. Has your enterprise received any subsidy for the creation or substantial modification of new products / processes:

From European Union funds Yes / No

Central Government Yes / No

Local Government Yes / No

8. Tell if your company has taken any actions in the past three years to protect the right to intellectual property such as:

A) Has applied for the patent Yes / No

B) Has registered any new trade mark or any new design Yes / No

9. Please consider the following factors relevant to your activities in the creation or substantial modification of new products / services or processes over the last three years.

5 = very important, 4 = great importance, 3 = average, 2 = small importance, 1 = no matter, add the following numbers to the sentence:

Nr	Description	1	2	3	4	5	9(PP)
1	Market Information (Suppliers, Competition, Customers)						
2	Information received from institutions (universities and public research institutes)						
3	Importance of your staff's experience in creating new products / services or processes:						
4	Ideas generated by your staff in creating new products / services or processes:						
5	Time dedicated by your staff within working hours as an individual or group engagement in generating any new ideas or other relevant activities in improving work processes or creating a new product / service:						
6	If you have applied any new work process, appreciate its importance in increasing the flexibility of production and reducing the cost of production						
7	Factors that hinder innovation: Evaluate by importance the factors that have hampered the innovative activities in the creation or substantial modification of new products / processes. Of the 5 - very large obstacle, up to 1 - do not present any obstacles.						
7a	Cost of funding						
7b	The cost of innovation						
7c	Lack of staff knowledge						
7d	Lack of information on technology and markets						
7e	Insecure demand as well as the market						

	dominated by large enterprises						
7f	There is no need for new products because we have produced it in the past period						
7g	Lack of demand for new products						

10. Please indicate whether during the last three years you have had activities related to the creation of new products / services, new processes or their substantial modification, which have ended unsuccessfully or are still in progress but unfinished.

Yes/No

11. Please tell if the owner / owners of the enterprise are:

A) Kosovar

B) Kosovo and foreign

C) Foreigners

12. During the past three years, has your enterprise made a complete or substantial change to the managerial organizational structure?

1. YES;

2. NO;

13. Over the past three years has your company introduced a completely new marketing method of your products that has not been present in the market?

1. YES;

2. NO;

14. How much is the estimated investment value in 2015? _____Euro

15. Your economic activity in the future you think to develop in (circle):

1. Continuing the current business

2. Investments in a New Field

3. One and the other

4. Not yet determined

16. If you plan to invest in a new field, then in what field (write)?_____.

17. What business strategy at the moment is the most important (Circle only one)?

1. Improving the quality of products and services,
2. Marketing and Advertising Activity
3. Advancing key tools from a technological point of view
4. Raising the skills of the workers to do the best job
5. Reducing costs

18. List the following strategic goals based on how important are they for your firm (1-very important up to 6 not important):

- 1) Product Quality _____
- 2) Image _____
- 3) Quality services _____
- 4) Market share _____
- 5) Position in the industry _____
- 6) Penetration in international markets _____

19. List the following financial goals based on how important are they for your firm for your firm (1-very important up to 5 not important):

- 1) Sales _____
- 2) Profit _____
- 3) Return on Investment (ROI) _____
- 4) Income _____
- 5) Money flow _____

20. What method did you use to do the strategic analysis for your firm (circle)?

- 1) SWOT (strengths, weaknesses, potential / chances and threats of the firm)
- 2) Mathematical and Statistical Methods
- 3) Chain of value and cost

- 4) PORTER Analysis (external factors)
- 5) Analysis of internal factors
- 6) No method

21. How is your firm's strategy formulated (circle)?

- 1) Rational Objectives and Purposes (Environment-Friendly)
- 2) Spontaneous Objectives and Purposes
- 3) Fixed objective
- 4) None of the above

22. In what periods do you revise your firm's strategy (circle)?

- 1) Every three months
- 2) Every six months
- 3) Every year
- 4) Every two years
- 5) Every three years
- 6) Other periods
- 7) We have no strategy

23. What are the causes that lead to the success of a strategy (circle)?

- 1) Effective strategies
- 2) Rational Behavior and Flexibility to Change
- 3) Spontaneous and surprising ideas
- 4) Non-rivaling position of the firm
- 5) A courageous and ambitious management with a strong will
- 6) Favorable co-ordination of internal and external factors
- 7) Well-thought-out implementation plans
- 8) Other

24. What are the causes that lead to the failure of a strategy (circle)?

- 1) Strategic Surface Analysis
- 2) Rational but not flexible behavior
- 3) Spontaneous but short life spells
- 4) Poor position in the industry
- 5) Chaotic and ineffective management
- 6) Outstanding Factors Unpredictable
- 7) Inappropriate application
- 8) Other

25. Who is responsible for the strategic management of your firm?

- 1) Executive Director
- 2) Other senior managers
- 3) Shareholder Representatives
- 4) Strategic Management Department
- 5) Medium level managers (finance, marketing, operations, etc.)
- 6) Consulting firm
- 7) No one

26. What are some of the resources required for the skills in your organization's strategic management (circle)?

- 1) Educated people
- 2) Internships and courses within the country
- 3) Trainings and courses abroad
- 4) Self-education
- 5) Experiences
- 6) Other

27. What methods will you use to inform employees about the strategy (circle)?

- 1) Company Meetings
- 2) Each department carries out its task
- 3) Through company bulletins
- 4) In bulletin boards or in billboards
- 5) Denial of information
- 6) Other ways

28. Strategy in your firm is implemented through (circle):

- 1) Effective and complete meters (include all activities)
- 2) Planned but incomplete meters (include several activities)
- 3) Occasional meters
- 4) Unfamiliar terms
- 5) Other

29. What is the period that includes the financial objectives in your firm (circle)?

- 1) In 1 year
- 2) 1-3 years
- 3) 3-5 years
- 4) 5-10 years

30. Do you know the size of the market where your firm operates (circle)?

- 1) Yes, we know it
- 2) No, we do not know it

31. What is the competition in the industry where your firm operates (circle)?

- 1) Local
- 2) Regional
- 3) National
- 4) International

32. How is the intensity of competition in the industry where your firm operates (circle)?

- 1) Very high
- 2) High
- 3) Average
- 4) Below the average
- 5) Low
- 6) None of the above

33. What future do you predict for the development of the industry where your firm operates (circle)?

- 1) The ambitious future
- 2) The changable future
- 3) The Continuing Future
- 4) Unpredictable future

34. Will there be changes in the industry where your firm operates (circle)?

- 1) No change
- 2) Slow growth changes
- 3) Fast Growing Changes
- 4) Predictable changes
- 5) Unpredictable changes

35. What attitude does your firm hold towards the future (circle)?

- 1) Passive
- 2) Reactive (Reacts to Change)
- 3) Very active
- 4) Wait and see
- 5) Adaptive
- 6) Creative

36. Do you have any permanent partners from abroad? 1. Yes 2. No

37. If so, your cooperation is about:

- 1. Import
- 2. Export
- 3. Joint investment
- 4. Technical Assistance
- 5. representation
- 6. Cooperation in the markets of other countries

7. Franchise

8. Other(specify) _____.

38. Are you looking for a partner from abroad to realize your business plans?

1. Yes

2. No

VII. TAXES

1. In your opinion, how much turnover does a business similar to yours report to the tax administration? _____ (Write percentage)

2. How do you consider tax rates?

a. Very high

b. High

c. Average

d. Low

e. No answer

3. From 1 to 10, where 1 is unreasonable and 10 is completely reasonable, how do you rate fiscal evasion in Kosovo? _____.

4. How many times a month is your business visited from the Tax Administration?
_____.

5. Where are the main obstacles to the payment of tax (more than one answer can be circled):

1. High taxes
2. Lack of habit for paying the tax
3. Lack of proper control
4. Because others do not pay (inequality)
5. Other (specify) _____

6. Are you aware of the use of funds collected from taxes and customs, respectively for the Kosovo budget?

1. I am fully informed
2. I have partial information
3. I am not informed

VIII. INFORMATIZATION OF ENTERPRISE

1. **Do you have a computer?** 1. Yes 2. No
2. **If yes, how many?** _____
3. **If not, do you plan to buy one:** 1. Yes 2. No
4. **Computers you use for (*questions 4-7 apply to those who have a computer*):**
 1. Financial records
 2. Planning
 3. Text Processing
 4. Market Research
 5. Production lead
 6. Quality control
 7. Other, (specify) _____
5. **Do you use Internet:** 1. Yes 2. No

6. If yes, you use Internet for (circle):

1. Market Research
2. Promotion
3. Sale
4. E-mail communication
5. Other business purposes (specify) _____

7. Do you have Web site (Web Mail)? 1. Yes 2. No

8. How do you consider Internet prices?

1. High prices,
2. Average prices
3. Low prices

9. Do you do business via the internet (sales transactions) such as:

1. Business with business
2. Business - client

10. Are the prices and types of goods you sell presented on you web site?

1. Yes 2. No

11. Do you order online? 1. Yes 2. No

12. Do you have licensed Software? 1. Yes 2. No

13. Which Software do you use the most during your business activities? (Write)

IX. PERSONEL

1. With how many employees have you started the business? _____
2. How many employees had the enterprise at the end of 2010? _____
3. How many employees had the enterprise at the end of 2012? _____
4. How many employees have the enterprise actually (write the number)?

5. Your company's employees are:

Description	Number of employees		Total
	1. M	2. F	
1 Permanent Employment (Full – time)			
2 Permanent Employment (Part – time)			
3 Seasonal work – with contract			
4 Seasonal work – without contract			
5 Total			

6. Qualifying structure, gender and salaries of employees:

	Qualification	Number of employees	1) M	2) F	Monthly income (€)
1	Doctoral degree				
2	Master degree				
3	University degree				
4	High School				
5	Primary School				
6	No qualification				
7	Total				

7. Describe the managerial structure:

	Description	1.M	2.F	Age	Struktura kualifikuese				
					Phd	Master	University	High School	Primary School
1	General Director								

2	Financial Director								
3	Technical Director								
4	Marketing Director								
5	R&D Director								

8. Have you hired new employees in 2013?

1. Yes

2. No

9. If yes, what is the qualifying structure of the employees you hired in 2013?

	Qualification	Number of employees	1) M	2) F	Monthly income (€)
1	Doctoral degree				
2	Master degree				
3	University degree				
4	High School				
5	Primary School				

10. How satisfied are you with staff, list the following qualifications from 1 to 5 (1- very satisfied,

5 – not satisfied):

	Qualification	Rating
1	Foreign University(outside Kosovo)	
2	Public University of Prishtina	
3	Private Universities in	

	Kosovo	
4	High School	
5	Primary School	

10. Are you planning to hire employees in 2015?

1. Yes 2. No

11. If yes, what would be the appropriate level of education? (Specific number)

- 1) Unqualified _____
- 2) Primary School _____
- 3) Secondary School _____
- 4) University degree _____
- 5) Master degree _____
- 6) Doctoral degree _____

12. Have you or any other manager of your enterprise attended any business or management training course: 1. Yes 2. No

13. What training did you attend as a enterprises' manager (and other co-owners of the company)?

- 1) _____
- 2) _____
- 3) _____
- 4) _____

14. Which trainings did your employees attend (financially supported trainings by your company):

- 1) _____
- 2) _____
- 3) _____
- 4) _____

16. Which trainings you as a manager need (other co-managers as well) ?

1) _____

2) _____

3) _____

4) _____

17. Which trainings do employees need?

1) _____

2) _____

3) _____

4) _____

13. Have you or any of the managers worked in any managerial position?

1. Yes

2. No

14. Are you a member of any business association?

1. Yes

2. No

15. Have you used consultations from any private or public institution?

1. Yes

2. No

16. If yes, who has been the provider?

17. Have you been satisfied with consultations?

1. Yes

2. No

17. For which field have you been consulted?

18. Top management teams have the ultimate responsibility for choosing the firm's strategies and ensure their implementation in growth-enhancing ways and are thus the source of its competitive advantage. Evaluate Senior Management Teams (1-5; 1 - completely disagree, 2 - disagree, 3 - partially agree, 4 - agree and 5 - fully agree)

- a) Senior management teams have the ultimate responsibility for choosing the firm's strategy by ensuring that they are implemented in a way that will generate wealth and thus be a source of competitive advantage;
- b) In new entrepreneurial enterprises, the senior management team impacts on strategic goals;
- c) Senior Management team are key players in networking that support entrepreneurial and strategic actions;
- d)

19. Governance has to do with determining and ensuring that the direction of the firm has a high potential for satisfying the expectations of the stakeholders. Evaluate Governance (1-5; 1 - I completely disagree, 2 - disagree, 3 - agree in part, 4 - agree and 5 - fully agree)

- a. Governance has to do with determination which ensures that the satisfaction and expectations of the actors;
- b. In market-based economies, shareholders satisfaction is the dominant concern of Governing Decisions;
- c. Governance decisions specify the relationship between all stakeholders with an interest in the performance of firms and their ultimate success in terms of wealth creation;
- d. Board decisions affect the performance of the firm's wealth creation

Here ends the survey
THANK YOU FOR YOUR COOPERATION

For the interviewer:

Interviewer: _____

I started the survey at _____ and finished at _____

How do you evaluate the respondent's sincerity in answering the questions:

- 1) Very sincere
- 2) Sincere
- 3) Neutral
- 4) Not sincere
- 5) Not at all sincere

Logic control is done by : _____

Data transmission is done by:
