

## Key aspects of businesses in Kosovo

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### Abstract

By developing organizational activities for the businesses and taking managerial decisions is realized under continuously pressure of a wide range of forces and factors of internal and external environment, which have relatively big influence in surviving and perspective of development for their future. Small and medium enterprises are operating with limited sources, in less secure environment, depending from different factors such as clients, suppliers, lawmakers, banks, accountants, lawyers, property owners and many others.

Sector of small and medium enterprises has uncounted potential to contribute in economic growth, creating new jobs and decrease of poverty. However, for small and medium enterprises to give the desired effects, entrepreneurs must be motivated to start legal businesses in order for their enterprises can survive. Business environment is an important factor that helps them survive. Unfavorable environment with high taxes, corruption and oppressiveness bureaucracy, inhibits their success.

**Keywords:** SME, Business environment, Factors.

### Introduction

In the making of this paper national and international literature is reviewed, and are analyzed central and local institutions in our country that can influence the improvement of environment for the development of small and medium enterprises. In the frame of the establishment of favorable environment for economic development, it is necessary the participation of central and local administration, chamber of commerce, business centers and incubators, economic associations, entrepreneurs, with the scope to analyze opportunities and restrictions of internal and external factors in creating favorable environment for developing small and medium enterprises and for the whole economy.

### Theoretical aspects on businesses

The business concept is derived from the English word "Business", which means the work activities in order to get economic benefits. Throughout history, small business received modest attention. Historians have made efforts to register their contribution into the society, even the first known writing appeared more than 4000 years. It describes how bankers are borrowing money with interest. Since that time, people of small business were backbone of renovators, of many economies that secures

products and services just for consumer benefits.

Small business has expanded in the old times, in almost all old cultures. Arabs, Babylon people, Egyptians, Jewish, Greek's, Phoenicians and Romans has made a real population of small businesses. Even though, their products and services many times were of bad quality, consumers were disappointed and cheated (Barney, 1999, 91-120). The result was that small businesses became contempt objects and without any consideration on them. In order to protect consumers from unscrupulous small business owners, Hammurabi, King of the Babylonia, projected a code with 300 laws. Small and medium businesses are catalyst for economic development. Every state (economy) and especially transitory states have made progress through small businesses.

To define small and medium enterprises, must be taken into consideration many. As criteria can be considered (Mustafa, Kutllovci, Gashi & Krasniqi, 2006, 19):

- Enterprises must be independent;
- Enterprises must not be dominant in the operating region;
- Number of employers and;
- Sales income.

Concerning the importance of small business in economic development apart the criteria mentioned above, there are also these factors (Mustafa, Kutllovci, Gashi & Krasniqi, 2006, 25):

- Contributes in different technology processes;
- Contribution in bringing healthily competition;
- Opening new job places and;
- Rich offer for the products in local market.

Different countries can use different definitions for micro, small and medium enterprises. Despite different definition the importance of SME in world economy is well known. S. B. A. in 1953 has given definition of small business as a business that "owns and operates in independent way and doesn't dominate in its field of activity" (Cepani, 2001, 29).

According to the European Commission (2003), there are categories of SME – micro, small and medium enterprises. Micro enterprise has less than 10 employees and total turnover not more than 2 million euro. Small enterprise has less than 50 employees and total turnover not more that 10 million euro. Medium enterprise has more than 250 employees and total turnover not more than 50 million Euros<sup>1</sup>.

The general criteria for SME definition in Kosovo are based in the law for supporting small and medium enterprises Nr. 02/L5, which includes classification of small and medium enterprises<sup>2</sup>:

- Small enterprises have these characteristics:
  - a) Have up to 9 employees and
  - b) During previous 12 months had total turnover of 500,000.00€ or less.
- Medium enterprises have these characteristics:
  - a) Have from 10 to 49 employers and
  - b) During previous 12 months has total turnover of 2,400,000.00€.

<sup>1</sup> OECD Recommendation 2003/361/EC.

<sup>2</sup> Law Nr. 02/L-5, *For supporting small and medium enterprises*, Kosovo Assembly, Article 4.

## **SME advantages**

Below are described some specifics and advantages that small and medium enterprises have:

1. Case of product or idea testing. When market searches for new investments of products it's better to start with small enterprises before investing big amounts of money in new ideas and products,
2. When impact and owner's presence is important for daily activities. This is important for small enterprises such as hotels and other enterprises especially service enterprises where the owner presence can manifests a good services for customer and consumers feels secure with used service,
3. When service from owner is dominant. For example, we can mention hair dresser saloons, real estate shops, notary offices, economic enterprises, legal, interior decoration enterprises,
4. When services and production market mainly has local character.
5. When the direct report is necessary with employees.

By above mentioned conditions, small and medium enterprises can give good results followed by many advantages; below we can mention some of them:

- First advantage of small enterprise is its flexibility. This means that it can decrease production and fit market conditions with its capacities,
- Second advantage of small enterprises is direct contact with consumers, suppliers and employees. Small enterprises have opportunities and advantages to fulfill requests and needs of consumers, especially for different orders. Also in the aspect of connection with suppliers, SMEs have advantages because contacts with suppliers are frequent and can easily follow changes,
- Third advantage of SME is taking efficiency decisions. Since there is only one level of management, manager-owner, the process of decision making isn't complex and very risky,
- Other advantage is the opportunity that small enterprises have for starting their activities. Minimal conditions for the activity are basic capital, location and work permit.

## **SME deficiencies**

Apart for some advantages, small and medium enterprises have their deficiencies:

1. First weakness is incompetency-inability to lead an enterprise. Lack of effective management to lead a business physiologically, morally and intellectually. In the first years when small enterprises have entered into the business, owners got support from the management of one person. Management-owner doesn't want to delegate his authority and competences to employees,
2. Second weakness is lack of managerial experience. Lack of experience to manage with employers and other sources before entering into the business. Lack of necessary knowledge in the finance field, tax obligations, lack of experience in marketing field, buying and production, made impact that many owner can take

- decision to stop their activity,
3. Third weakness is lack of turnover capital. Manager in small enterprises doesn't have the opportunity to follow all of its biggest challengers as per capacity, equipment's, products and working methods and it is forced to take loan many times with unfavorable conditions,
  4. Fourth weakness is the exercise of all functions from the owner-manager. In other words, manager is responsible and can do other functions as seller, organizer, coordination manager, financial manager,
  5. Fifth weakness is by non-recognition of environment, external or internal,
  6. Sixth weakness is making new orientation and unnecessary diversification. Many businesses in Kosovo have failed because were oriented towards unknown activities, branches and professions, and a failure from suppliers and buyers.
  7. Seventh weakness is restrictions in order to secure capital. In many cases, business can have good performance, but in the need for finance sources appear, owners invest all assets that are deposited as form of guarantee to take loans.

### **Growth and success of SME**

Success of SMEs is connected to their performance. Success is closely connected with achievement of goals and enterprise objectives. The art of success in business usually is connected to the managerial ability. Starting business in real time requires more than fate. It requires a structured process of entrepreneurship vision, market research, analyzes and decision taking (Thompson, 2001, 13). Performance of SME is characterized from the ability they have to create satisfactory results. Linder and Cantrell (2001) mention that there are three characteristics of successful model for SME (Linder & Cantrell, 2001, 13):

- If they offer unique value,
- It is difficult to imitate their products,
- Are adapted to the environment,
- Their success and failure is connected with the management, and can be interpreted as measure for a good and complex management.

According to Analoui and Karami (2003), SMEs usually fail:

- Because managers usually doesn't know how to manage the business,
- Small businesses aren't in situation to adopt itself to many changes,
- In technology and markets,
- Seasonally, sales increase and decrease,
- Taking complete competencies for whole business,
- They do not develop managerial competences, and competences in all aspects for the business,
- According to fluctuations in the market, technology, customer expectations dramatically affect consumers,
- When small business fail, business owner take all the financial risks because they have invested the whole capital into the business.

One of the important reasons that may led SMEs into failure is management and poor managing team. SMEs must make efforts to know, evident and control factors

that can impact in the success of business in order to decrease risk of failure and to increase the opportunity to success (Kao, 1995, 113).

Other reason that may led towards failure is the lack of investments, poor planning or lack of business experience. But, again, management is the main reason.

According to Kesin and Senturk (2010), SME have some deficiencies:

- They have lack of responsible administration, total lack of employees' participation in lower level of decision making, realized from owners and partners,
- Non-employment of specialist and financiers in enterprise.

Success mainly is connected with the achievement of goals and objectives of the business. Success and failure can be interpreted as measure for a good and complex management. According to Bettoncourt (2010), in order to secure success, clear ideas are needed, detailed in conjunction with product and service distribution. Critics are (Bettencourt, 2010, 202):

- Design ability,
- Technology (materials, methods and system information management),
- Equipment's,
- Processes, policies and controls,
- Employers management systems (work design, selection, training, evaluation, feedback, control, compensation and promotion systems),
- Client management systems, (maybe work design, selection, training, evaluation, feedback, control, compensation and remuneration system),
- Distribution etc.

Usually in business, the term success is used for referring to a good financial performance.

### **Business environment**

Today in Europe, some bigger differences are created between countries and regions. Countries that will take care about innovation and entrepreneurship development will make progress and will open new job places. By having more opportunities to employ the population and by adding economic activities, quality of life will get increased (Llaci, 2006, 34).

Situation of business environment and investment in a specific state is key factor of that state ability to get foreign investments and to develop small and medium enterprises. International enterprises use to invest in countries with healthy business climate where costs, delays and risks are minimized. Despite that, SMEs are in situation to get expanded in an environment where aren't loaded with taxes and other regulations. Official page of World Bank, writes: *Better investment climate is key column for state strategy to stimulate economic growth, which later can generate better opportunities for poor people, to have more productive work and higher incomes*<sup>3</sup>.

The care for a quality infrastructure requires building environment that offers opportunity to increase more the entrepreneurship and increasing support measures that will help faster development of this process. One important factor of economic development in the world as well as in Kosovo is small and medium enterprises with

<sup>3</sup> World Bank, *Klima e Investimeve*, [www.worldbank.org/investmentclimate](http://www.worldbank.org/investmentclimate).

all their organizational forms. Development of SME in Kosovo necessitates for bigger care not only through change of legislation, but also by approving some stimulate measures that will create favorable environment for business.

Governments usually invest to make business easy for people. Increasing technological level and stimulating economic growth are difficult, but the change of legislation for employment, simplicity of procedures for giving permit and licenses, compilation of land national register or the support for infrastructure development, all those are cases that government has to deal with them. If government wants to have foreign direct investments, they must commit to make cautious policy.

Poor regulator regimes and/or poor institutional capacities that led to unchallenging behaviors in the market or by non-collection taxes are expected to have negative impact in foreign direct investments.

Transparent, simple and non-discriminated tax policies that are attractive for investors, because they give opportunity to the entrepreneurs to decrease costs and increase possible profits easily in comparison with other places that have lower taxes, but complicated business environment. Special tax initiatives for foreign investors, risk to distort competition and to undermine the health of local companies. Efficiency in reimbursement of the added value for imports will help businesses to avoid problems with cash flow. Employment policies can stimulate the flexibility of the work market and support business development by giving owners easiness competencies to employ or to fire employees.

Investments in infrastructure – roads, transport networks, networks of service distribution, water supply, telecommunication networks, work and public services and custom systems – will permit foreign and local companies to completely benefit from regional and global markets. In same logic, investments in human capital, improvement of education, professional and training formation, will make a country more competitive in international environment. Learning of regional economic integration, free trade zones and investment compact certify that cooperation between trade partners has more chances that isolation or protectionism to produce economic benefits for all sides. In the end, privatization of state enterprises and equally treatment for new privatized companies, prove a true state commitment to permit competition to self-decide for the success or failure of those companies and to guarantee same playground for all from which consumers will benefit.

Opportunities and initiatives for the firms that invest, by opening new job places and as well as got growth, depends from expected profits. Profit is impacted from costs, risks and other barriers to competitors. Governments can influence below factors<sup>4</sup>:

- For the costs: through regulation and procedural process, tax, corruption level, infrastructure level, work market regulations and finances,
- For the risk: through foreseen policies, ownership rights and agreement execution and
- For the barriers to the competition: through regulation that can control new businesses and bankruptcy, competition law, and entering into the finance and infrastructure market.

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<sup>4</sup> Organization for security and cooperation in Europe (OSCE), *Udhëzuesi i praktikave më të mira për një klimë positive për biznesin dhe investimet*, Vienna, Austria, page 122.

## Conclusions

From the presented data's we can conclude that small and medium enterprises are key indicators for a country economic development. SMEs in Kosovo employ a good number of populations; also they do get profit in local incomes, in same time, budget of Kosovo benefits.

Visible improvements are made also in legal and administrative cases and now SMEs can be registered through centers *One Stop Shop* in respective municipalities, created with the support of World Bank and European Commission. Agency for Business Registration in Kosovo (ARBK) makes online business registration, applying for fiscal number, VAT number and permission for import-export for small business.

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