

## Entrepreneurship and firm growth in transition - The Case of Kosovo

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### Abstract

This study explores the development of entrepreneurship in the transition phase and integrations processes with particular emphasis on challenges of firm growth and development in Kosovo. Moreover, this is an investigation of the perception of small business owners/managers' on specific obstacles to growth and develop their businesses. This paper is supported by a special empirical study based on a survey conducted with 200 businesses including 7 regions of Kosovo. It was organized in the first half of 2017 directly with key business actors which identified the main problems of entrepreneurship development and business growth. However, various obstacles have been identified, mainly related to environment of doing business. From the data obtained from the field, statistical factor analysis has been done to measure the impact of various variables on business growth. Additionally, data analysis shows that there is a close correlation between the obstacles and the growth of businesses. The research results raise important issues for discussion and recommendations regarding applications of policies and strategies for the development and growth of businesses in Kosovo.

**Keywords:** entrepreneurship, firm growth, transition, and obstacles.

### Introduction

Entrepreneurship as a new discipline of management that during last few decades has expanded extraordinarily on a world wide scale, building upon a sustainable source of new employment, innovation and economic growth (Morales & Roig, 2005). Nevertheless, it is perceived that knowledge on firm growth is still limited (Davidsson & Wiklund, 2000); (Wiklund & Shepherd, 2003). Differently, in south-east European countries including Kosovo the transition started with low level development and under larger number of challenges. The economies of these countries are based exclusively from small firms. In Kosovo small firms are the engine of the entire economy and a key factor of development. Moreover, small firms are considering as an entrepreneurial and the innovation spirit, and plays a crucial role in fostering competitiveness and employment. Small businesses are an individual key to harnessing entrepreneurial spirit and innovation, thus are crucial to ensuring competitiveness and local economic growth (Gashi, 2015). "The growth and survival prospects of new firms will depend on their ability to learn about their environment, and to link changes in their strategy choices to the changing configuration of that environment" (Geroski, 1995).

In transition countries with a low level of development, uncertainty is caused by the lack of support from institutions and missing information on potential future behavior in the business environment. "Uncertainty is a perceptual phenomenon derived from an inability to assign probabilities to future events, mostly because of a

lack of information about cause/effect relationships," (Hoskisson & Busenitz, 2002). Adapting and applying the new mindset of entrepreneurship in practice, including the segments with the impact of business growth is mandatory for these countries. The existing literature in relation to entrepreneurship and firm growth still considering that is highly fragmented. Therefore, there is ample room for further investigation knowing their importance for the economic development of each country.

## 1. Theoretical approach

In general meaning, freely we can say that entrepreneurship is a multidisciplinary field, in which many other sciences are involved. The eclectic and pervasive benefits of entrepreneurship are generating research questions that were in interest of scholars in a variety of disciplines. These issues have been primarily examined within the context of a scholar's own discipline while ignoring insights from other disciplines. This approach has left entrepreneurship research as a widely dispersed, loosely connected domain of issues. In this point of view, the authors explore entrepreneurship research in accounting, anthropology, economics, finance, management, marketing, operations management, political science, psychology, and sociology. They seek to identify shared interests that can serve as a bridge for scholars interested in using a multi-theoretic and multi-methodological lens to design and complete entrepreneurship studies (Duane & Webb, 2007).

In this paper, will be discussed the unique character of entrepreneurship in transition, and then analyze how this might change over the time parallel as the transition process moves forward. In one of their studies on entrepreneurship in transition economies of the Central and Eastern European economies, Karaye, M., and Ciftci, (n.d), emerging the main characteristics of the entrepreneurship in these countries. In that study, they analyzed transition economies of CE (Central Europe), including the eight most advanced countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia) and South-Eastern Europe, including Albania, Bulgaria, Croatia, Macedonia, and Romania. The transition from a controlled to a market economy is a long process involving various spheres of economic activities. Economic, historical, geographical and cultural legacy of transition economies brought about different performances during the transition period. They identified that Central and East European countries, being different from other transition economies, they had the advantage of having a shorter central planning period because of their geographic closeness to the European Union. For this reason, these countries applied transition reforms more easily. Central and Eastern Europe countries, except Albania, Bulgaria, Romania and former Yugoslav countries, made faster reforms compared to other transition economies (Karaye, M., & Ciftci, M., n.d.).

As observed, transition economies have lower rates of entrepreneurship development than in most developed and developing market economies. The difference is even more visible in the countries of the former Soviet Union, when compared with countries of Central and Eastern Europe. One may relate such differences partly with the legacy of communist planning, which needs to be replaced with formal market-supporting institutions. But, despite these developments now well established, entrepreneurial

activity still remains low in many countries. To analyze this long-term issue, it is necessary to highlight the slow paced development of new informal institutions and the corresponding social attitudes, and notably rebuilding the overall trust. It is argued that changes are even slower in the former Soviet Union than Central and Eastern Europe because the communist rule was much longer, leading to a lack of institutional memory. In this contest, Estrin and Mickiewicz, (2010) discussing in the paper edited by IZA<sup>1</sup> say “The implementation of those changes in informal institutions may be delayed until after a full generational change”.

**What is firm growth?** There are many scholars that have made significant contributions in this field. However, discussing the theory in context of what firm growth is, we find ourselves needy to consult opinions considered to be the only true classic theory in this area. Edith Penrose, in her inspiring book, characterizes the phenomenon of growth as follows: “The term ‘growth’ is used in ordinary discourse with two different connotations. It sometimes denotes merely increase in amount; for example, when one speaks of ‘growth’ in output, export, and sales. At other times, however, it is used in its primary meaning implying an increase in size or improvement in quality as a result of a process of development, similar to natural biological processes in which an interacting series of internal changes leads to increases in size accompanied by changes in the characteristics of the growing object” (Penrose, 1959).

Additionally, in the light of theoretical explanation many scholars in different points of view tried to conceptualize the growth of business. There isn’t any all-acceptable definition regarding this theory. This is a multidisciplinary theory with many implications. But, in a narrow meaning, growth means creation of new values of business, succeeded by many indicators that express growth and success in a certain period. The OECD defines high growth firm (HGFs) as: “enterprises with average annualized growth in employees or turnover greater than 20 percent per annum, over a three year period, and with more than 10 employees at the beginning of the observation period” (OECD, 2007). Further, growth can be achieved in different ways and with varying degrees of regularity, and it manifests itself along with several different dimensions such as sales, employment and accumulation of assets (Davidsson, Leona & Lucia, 2010). Many theories have been developed by different authors regarding the growth of the firm but the last stage that includes the period from 70s – onwards which is based on so called ‘new growth theory’ mostly involved the institutional theory in new circumstances of transformation systems from controlled to free market economy. Thus, where the influence of institutions in the development of entrepreneurship is too high and the transition stage facing with a lot of challenges.

## 2. Methodology

As mentioned above, was initially organized a preliminary proceeded *face-to-face interviews with owners/managers or other key persons of 20 businesses in the Pristina district. The entire process of data collection was conducted in a period of January until June*

<sup>1</sup> Saul Estrin, Department of Management London School of Economics & Tomasz Mickiewicz University College London. IZA is Institute for the Study of Labour, Bon – Germany.

20017. It was a random selection from the business registry. The intention was to test the questionnaire, to generate ideas and learn more about the research problem in order to proceed with the main survey. The same questionnaire, with minor changes, is used in the main empirical research distributed throughout Kosovo.

*The process enabled to collect a required rate of 230 surveys. It is managed to ensure 200 valid surveys for analyses. The sample was drawn randomly from the business register, extracted by the Ministry of Trade and Industry/Agency for Business Registration.*

The allocation of businesses surveyed included 7 regions of Kosovo. The subjects of population of the research are the managers or owners including three sectors: Production, Trade, and Services.

Table 1: Sample structure by region (in percentage)

Gjakova	Mitrovica	Gjilan	Peja	Ferizaj	Prizren	Prishtina	Total
17	18	18	20	19	34	74	200

Source: By author

The growth of businesses can be measured by many different indicators, most common being sales, employment, assets, physical production, market share and profits (Ardishvili et al., 1998, Delmar, 1997, Weinzimmer, et al., 1998 & Wiklund, 1998). Among available alternatives, a researcher would have the choice to a) create multiple indicator indexes; b) use alternative measures separately, and c) find the one, the best indicator. If growth is conceived of as a latent construct with common causes but alternative manifestations, multiple indicator indices make sense (Davidsson, 1991). Different studies have used a range of diverse theoretical concepts of firm growth to measure the numbers within any given economy (Henrekson & Johansson, 2010). In theory, we find that more broadly discussed and frequently used are the three groups of indicators to measure growth. According to some authors (Garnsey, Stam & Heffernan, 2006); (Moran & Ghoshal, 1999) firm growth can be measured in three different ways:

- a) inputs (investment, employees);
- b) value (assets, market capitalization) and
- c) outputs (sales, turnover, profits)

Based on the foregoing considerations for this imperial study, has been made tangible choice and have selected two indicators of growth, *growth of sales* and *growth of employment*.

### 3. Data analyses

The questionnaire included a large number of questions, but in this study are analyzed variables related to institutional support and rule of law. The table below shows groups of independent variables and the impact to growth of sales and growth of employment. The measuring method is ranked in a Five Point of Likert scale from 1 (strongly disagree) to 5 (strongly agree). In this context are measured the perception of owner/managers whether the respective barrier hinders the growth of their business. First of all, is testing the validity and reliability of the survey data as a prerequisite for data analysis and conclusions. The process is performed in two steps. In the first

step, the reliability of the questionnaire is tested and in the next step factor analysis is conducted in order to remove the variables with lower factorial weight (under 0.4). In this micro-test, " $\alpha$ " is used as a measure of consistency on the internal scale, using the SPSS (Statistical Package for Social Sciences). According to Field (2009), values between 0.7 and 0.8 of " $\alpha$ " are considered to be acceptable, as it is seen in the literature, but this is not always correct.

Reliability analysis can be used to measure the consistency of a questionnaire. In this search, the final alpha Cronbach coefficients of all elements ranged at 0.732. The column Cronbach's Alpha if Item Deleted shows the reliability level if a specific variable is deleted from the measure. Checking carefully all variables, it can be noted that if the variable 'Inefficiency of justice system is an obstacle to growth your business' is deleted, the reliability of the scale will grow up to 0.770 and this is a good value that shows that level of reliability at a satisfactory level. After removing the above variable, now the Alpha coefficient has changed to 0.770 and the total number of items entered for reliability analysis is reduced to 29. The Alpha coefficient shows that the measure is very reliable. First of all, to create the factors and compare the impact of different factors as of perceptions of owners/managers are performed the factorial analyses.

### 3.1. Factorial Analysis

Factorial analysis is one of the statistical techniques with many variables widely used to reduce the number of variables that are related to each other in a small number of important and independent factors (Hair et al, 1998). The term Factorial Analysis includes various interrelated techniques. The most commonly used method of these factor analysis methods in factor benefit is the Principal Component Analysis (PCA). In this method, the first factor is calculated to explain the maximum variance between variables. To explain the remaining variance, we use the second factor and so on.

In factorial analysis, by accumulating variables that have high correlation between themselves, is dealt with creation of general variables (factors). But the focus is to identify variable based on in the highest factor value. Moreover, the purpose is to:

- Reduce the number of variables (if exist the variables with value under 0.4 to exclude from analysis)
- To identify the most important variables

This analysis is based on the extraction of the main components (PCA) and the Varimax method for maximizing variance, so that the results are easily interpretable. But, since this case possesses a dependent variable, throw PCA analysis the intention is to analyze factorization of independent variables and formation of factors. In this context are formed 2 groups of variables with overall variables and are drawn the results for each variable and group separately.

A principal component analysis (PCA) was conducted including 11 variables with orthogonal rotation (varimax). The Kaiser–Meyer–Olkin (KMO) measure verified the sampling adequacy for the analysis. As seen in the table 2, the KMO test is 70.9% (0.709), since  $0.709 > 0.50$ , can be concluded that the data set is appropriate for factorial analysis. As shown in the table 4 the second test presented is Bartlett's test which resulted to be significant (Sig., .000). This means that there are high correlations

between variables, in other words the data set is appropriate for factorial analysis.

Table 2: KMO Results and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.709
Bartlett's Test of Sphericity	Approx. Chi-Square	2108.620
	df	435
	Sig.	.000

In the table 3 are SPSS Output data lists the eigenvalues associated with each linear component (factor) before extraction, after extraction and after rotation. The eigenvalues associated with each factor represent the variance explained by that particular linear component and SPSS also displays the eigenvalue in terms of the percentage of variance explained. There are different methods for determining the number of factors. In proceeding of analysis we had selected the Eigen statistic which takes into account factors greater than 1. In table 3, there are 2 factors greater than the value 1 (Eigenvalues). Usually, the first few factors explain relatively large amounts of variance (especially factor 1) whereas subsequent factors explain only small amounts of variance (Field, 2009). The first factor explains 16.8% total variance (in the last column). The first factor and the second factor together explain the 49.8% of total variance. The number of factors resulting from factorial analysis is equal to the number of Eigen- values greater than 1. Since, an Eigen value is the amount of variance explained by one more factor, it makes no sense to add a factor which explains less variance that one variable contain (Hair et al, 1998, p. 365). The data in table 3 shows that the total of the components gained have the Eigen-value indicator greater than 1, as specific characteristic of factor analysis.

Table 3: Explanatory percentage of variation of variables

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.326	14.420	14.420	4.326	14.420	14.420	3.629	12.096	16.841
2	2.535	8.449	34.384	2.535	8.449	34.384	2.362	7.872	33.007

The Rotated Component Matrix is the final result of factorial analysis. The purpose of the rotation is to take advantage of important factors that can be interpreted. Below, in table 4 the Rotated Component Matrix is realized. In the matrix the correlations between the original variable and its factor can be seen. The variable that has the largest weight under a certain factor means that the variable has a relation to that

factor. In the case, when the number of data observations is above 350 the factor weight should be 0.30 and above. But weights 0.50 and above are accepted as very good values (Hair et al, 1998, p. 385).

As per perception of owners/managers of SBs surveyed, barriers related to *rule of law* resulted to be with high factorial weight that has its influence on their business growth. Among such barriers, are selected seven determinants, those that are more dominant and have more effect on growth. In following we proceed with the factorial analysis of the barriers related to the lack of institutional support (LOIS), based on the perceptions of owners/managers expressed in degrees from 1. Strongly disagree up to 5. Strongly agree. From this set of barriers we have extracted four (4) variables with factor values greater than 0.4. Additionally, 2 factors (columns) are drawing and the weights rated on the base of importance of each variable under each factor. According to the data in the table 4, we can see the impact of each variable separately to the growth of businesses, based on a comparison of the highest value.

Table 4: Factorial analysis of variables

Rotated Component Matrix <sup>a</sup>		
	Component	
	1	2
<b>Lack of Rule of Law (LORL)</b>		
Informal economy	0.873	
Corruption in government institutions	0.807	
Inefficiency of justice system	0.788	
Tax evasion	0.762	
Political influence	0.759	
Organized crime	0.746	
Corruption in courts	0.712	
<b>Lack of institutional support (LOIS)</b>		
Economic policy		0.690
Access to finance		0.677
Administrative procedures		0.620
Current tax policy		0.538
Extraction Method: Principal Component Analysis.		
Rotation Method: Varimax with Kaiser Normalization.		
a. Rotation converged in 21 iterations.		

From the data obtained it can be seen the 'Informal economy' variable has the largest weight (0.873), and in the following the variables with highest value are rated 'Corruption in government institutions' 0.807 'Insufficient of justice system' (0.788), 'tax evasion' (0.762), 'Political influence ' (0.759), 'Organized crime 0.746' and so on.

Finally, we conclude that in the first group of barriers, regarding the *lack of rule of law* (LORL) can be seen that all variables resulted to be with factor weight over than 0.50, means that all variables of this group have a high effect on SBs growth. All environment factors influence business growth, and the importance of these factors consists on the interrelation of daily activities to institutions and mechanisms that regulate their activities. As of the group of factors related to 'Lack of institutional support', from the table 4 can be seen the 'Economic policy' variable has the largest weight (importance (0.690), following variables 'Access to finance' (0.677), 'Administrative procedures' (0.620), and the last one is 'Current tax policy' rated with factor wight (0.538). Finally, we conclude that in the second group of barriers with the highest weight (importance) values are: 'Economic policy' (0.690) and 'Access to finance' (0.677).

### Conclusions and recommendations

In the summary of this study, in the light of a multidimensional nature of the problem and the diversity of implications, may concluded that are comprised some of the factors that influence firm growth, and give a logical understanding of the problem. So, despite a considerable progress achieved in entrepreneurship development, Kosovo must strongly fight to reach the main objectives and standards that ensure a comfortable environment of doing business, in order to create the better conditions for business growth. The summary of all findings confirmed that the lack of adequate business environment due to barriers is evident. These barriers are associated with deficiency of institutional support to overcome them. As we have learned from a broad spectrum of theoretical explanations in one side, and results obtained from the field research on the other, we will summarize a series of recommendations for reducing barriers to the firm growth in Kosovo:

1. Improving efficiency of the judiciary system is a priority of priorities for relevant institutions in Kosovo. All court proceedings involving businesses must necessarily be improved, to increase business confidence and provide a more favorable business climate. A unified data management system that would be used to improve efficiency, transparency, and accountability of judicial system, particularly the commercial courts, should be established.
2. Improving capacities of the prosecutorial system in combatting informal economy and negative phenomena of doing business is also necessary. In this case, all action must be fair, balanced and completely independent from political influences. The government should strive to develop a more effective and efficient tax inspectorate ensuring accountable and transparent function. These policies would reduce fiscal evasion by increasing voluntary cooperation and performance enforcement mechanisms.
3. Official authorities need to adopt and implement serious anti-corruption policies and also increase accountability of the people in institutions. The institutions should work to reduce the overall risk of the business environment by improving general services for businesses.
4. Financial barriers, especially the high cost of funding and limited access to finance, seems to be improved, compared with other previous studies conducted

in the country, or are less pronounced than other factors. Official authorities should develop and implement financial support policies to alleviate the problem of financial burdens, and devise grant and subsidy schemes to encourage the development and growth of businesses.

5. All administrative barriers related to support services should be eliminated, in that way improving transparency, while budgetary support to local institutions (municipal business offices) serving businesses locally must be strengthened.

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