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**Doctoral dissertation:**  
**BARRIERS TO THE GROWTH OF SMALL BUSINESSES IN KOSOVO**

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*Dedication:*

*To my parents:*

*”...to my mother deceased, for persistence and commitment to do things a reality and to my father for wisdom and maturity which I have inherited from him.”*

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*Sincerely,*

*Shaip Gashi*

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## Abbreviations

ARBK	Agency for Registration of Businesses
BSCK	Business Support Center of Kosovo
CBK	Central Bank of Kosovo
CBK	Central Bank of Kosovo
CE	Central Europe
CEEC	Central East European Countries
CIT	Critical Incident Technique
CVR	Covariance ratio
EO	Entrepreneurial orientation
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HGF	High growth firm
HR	Human resources
IMF	International Monetary Fund
KOSME	Kosovo SME Promotion Program
LSM	Leas Square Method
MLR	Multiple Linear Regression
MTI	Ministry of Trade and industry
MF	Ministry of Finance
MEST	Ministry of Education, Science, and Technology
OECD	Organisation for Economic Development and Co-Operation
PPRC	Public Procurement Regulatory Commission
SAP	Stabilization and Association Process
SB	Small Business
TE	Transition Economies
UNMIK	United Nations Mission in Kosovo
USAID	United States Aid for International Development
VIF	Variance Inflation Factor
WB	World Bank

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## CHAPTER 1

### 1. INTRODUCTION

Nowadays, a permanent question to scholars of economics, government leaders, managers of institutions for economic issues and others is why small businesses do not grow, or some of them fail to grow. One of the possible ways of explaining this question is through the notion of barriers to growth. These obstacles (barriers) are generally defined as internal factors or conditions that restrict the external growth potential of firms that want to grow (Storey D. J., 1994a).

The main purpose of this study is to recognize barriers of growth of small business in Kosovo.<sup>1</sup> Challenges to SB development and growth are a central topic that characterises the process of transition. The process of transforming the economic system from a communist to a capitalist one implies a redistribution of resources, and an environment in which new firms are key factors to economic growth. As a period of economic and institutional reforms, transition creates countless opportunities for entrepreneurs, incentives for innovation and efficiency (Hayek, 1945).

Kosovo is the last country in the region to go through such a process. Small businesses are considered to be the main generator of new jobs and a key factor of development. In a transition economy, entrepreneurs are faced with numerous formal and informal difficulties (North D., 1990). Specifically, they are faced with many obstacles in their business activities: administrative barriers, limited access to finance, lack of technologies, skills of entrepreneurship and so on (Kume, V. et al., 2009).

Even beyond significant contributions on this issue in literature, there is enough room in comprehending this phenomenon. This study is based on what Davies, C.D. et al. (1985) are

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<sup>1</sup> In this doctoral thesis, the notion "small business" comes from the European Union Commission Recommendations 2003/361/EC, as published in the *Official Journal of the European Union* L 124, p.36 of 20 May 2003. Micro enterprises are included in the SME definition. According to such recommendation, micro firms have up to ten employees; **small enterprises** are those with less than 50 employees; and firms with employees from 51 up to 250 are classified as medium-sized. This classification has been adopted by Kosovo's institutions as well.

referred to the method of "the course of study", in which results from the first study will influence how to proceed with the second study.

This dissertation is an extension of many scholars' efforts to contribute in the identification of obstacles and barriers that hinder business growth and in giving recommendations for better solutions. It is already evident that there are a lot of studies related to this topic, but most of them have failed to explore all factors that hinder business growth in transition countries. Many authors have contributed significantly, however their approaches to the phenomenon have been partial and not comprehensive. Having in mind that this phenomenon is subject to evolution and constant change, any extensive contribution to this topic is valuable. The study makes modest steps in addressing shortcomings, by identifying critical factors deriving from perceptions of small business owners/managers, and then applying an empirical study to further investigate the real current situation in Kosovo. Moreover, the main purpose of the research is to identify those eventual gaps related to barriers, which have an impact on small business growth in Kosovo, and to clearly understand the correlation between different environmental factors and small business growth.

Small businesses, especially growing businesses, are seen by policy-makers and economists as important sources for raising an economic prosperity in any country. But, still there are businesses that don't grow. Previous studies have identified which are the main factors influencing success or failure of a business, but not enough researches has been done to argue the causes, why and how these factors affect businesses and what are the perceptions of owners / managers for business growth. Especially if we are talking about literature in Kosovo, we can easily identify the absences despite some limited studies or some individual efforts to contribute in this issue. Some researches has been done by Kosovo institutions and international organizations but moreover this topic has been treated as part of the overall economic problems in the country, including the problem of barriers as integral parts of them.

Based on arguments presented above, the aim of this research is to explore internal and external factors that hinder the growth of small businesses, more specifically the impact of institutional barriers to the growth of SBs. In this dispute will be used the literature dealing with the experiences of other countries that have passed the transition process in order to better

approach to the case of Kosovo. So, special researches on barriers to small business growth are very few. The focus of this dissertation is to analyze factors and causes that hinder growth and success of small businesses in Kosovo. For this purpose, a qualitative empirical study is conducted, initially 20 interviews direct face to face with owners/managers of SBs in Prishtina and 200 surveys in 7 regions of Kosovo. Based on the reports of the owners / managers, we are going to deal with a relatively large number of factors that affect different areas in different ways. The presence of these factors effects on formulation of growth objectives and their realization. The degree of influence of these factors also depends on how the owners / managers perceive the institutional environment within which their businesses operate.

### 1.1. PHILOSOPHICAL APPROACH

The main purpose of this research is investigation and discovery of reliable facts, based on fundamental principles of objectivity and impartiality, on which relevant conclusions and recommendations may be drawn. In view of this objective, the research model of the positivist approach is presented in Table 1.

*Table 1: Research philosophy - paradigm elements of assumptions used in the research*

<b>Elements of paradigm</b>	<b>Assumptions</b>	<b>In our search use:</b>
<b>Ontology</b>	Assumptions of reality	Objectivism. The author assumes that there is a reality that does not depend on him, and that can be recognized tentatively.
<b>Epistemology</b>	Assumptions on the report Reality - Seeking	Positivism. The author assumes that observable facts of the objective reality constitute reliable knowledge.
<b>Methodology</b>	Attitude toward the working approach	Deductive approach - from theory to theoretical propositions to be tested.
<b>Methods</b>	Attitude towards techniques and their combination	Quantitative methods of collecting data and econometric models to test hypotheses.

*Source: Author's reasoning based on – Skreli, (2015).*

As can be seen in Table 1, the philosophical basis of research paradigm is the theory of logical positivism, where there is a goal of objective reality. In this case, the paradigm of ontology is objectivity. But in terms of epistemology, or results of previous scholars, we are

actually approaching the facts how problems are handled impartially, and the assumptions that we can draw as credible knowledge, which in turn can be applied to this problem of research.

The methodological approach is heuristic search, which means setting from general theory as a starting point, and further focusing on the specific problem (barriers to growth of SBs). We do propose theoretical propositions or research issues then test for existence of causal connections. Through this approach, we seek to recognize and explain the objective reality. We accomplish this methodological approach using appropriate quantitative and qualitative methods (Skreli, 2015). A detailed presentation of the methods used for navigation and justification of the research is given in following sections of this study.

### 1.2. PROBLEM STATEMENT

Based on previous and current assessments of many researches, it is clear that with all the progress achieved in recent years, business climate in Kosovo has not yet reached the right level and still are conveyed in large numbers of obstacles and affairs even though with a lower intensity. Based on the findings of the Riinvest Institute (2017) conducted the research on the Kosovo Business Climate Assessment, has found that the private sector's situation in general is not as satisfactory. One-third of businesses have had sales declining in 2016, while around 30 % did not change compared to the previous year. It has also been estimated that the presence of barriers that hinder the growth and development of this sector is still high. The survey results showed a high degree of informality. Only about 68% of businesses stated that declare their revenues, while 32% of them hide them.

Despite progress in some aspects, stable economic growth over the years, the private sector in Kosovo faces many challenges, where the high level of informality and a large part of the barriers to doing business remain unaddressed. The presence of these barriers makes the performance of the SBs sector in Kosovo not in the right level. Over than half of small businesses are involved in the trade sector, while manufacturing and information technology sectors are underdeveloped. The vast majority of SBs are micro and small enterprises.

Recent literature explains that active growth of the private sector, especially SBs, has been one of the main driving forces of economic improvement in transition economies. In

addition, extensive research in the experience of other transition economies notes that promoting entrepreneurship and SB support remains the only and best way to encourage economic development in any country.

Small businesses, particularly growing small businesses, are considered by academics and policy makers as a very important factor of wealth creation, employment generation, and innovation. The benefits of small business growth are wide-ranging. The greatest economic values are well known and include the creation of wealth, jobs, and innovation (Janssen F., 2003); (Carter, S. et al., 2000); (Carter. S. and Jones-Evans, D., 2006). Yet, few small businesses actually grow. One potential way of explaining why so many businesses do not grow is using the notion of 'barriers'. Previous studies on barriers typically identify and predict what kinds of barriers affect business growth, rather than attempting to explain the details on how or why these barriers exist, or their implications in specific cases and generally (Rachel, 2009).

It is widely recognised that barriers of doing business are evident in Kosovo and they require extension of efforts to investigate the problems in this field. It is undisputed fact that barriers of doing and growing business are seriously challenging the future of the country's economic development. Therefore, in such situation are necessary proper actions by different institutional bodies and academic structures. Thus, it is needed for actions of those scientifically motivated people to research in this topic and disseminate quality studies for the benefit of governments, policy makers, and small businesses on the other side. In particular, this is in the interest of SBs and wider society. This will motivate owners/managers to grow their businesses as well.

The population of Kosovo is 1.8 million. Around 30.5% of Kosovo's labor force is unemployed (ASK, 2017). This has resulted in extensive presence of social and political tensions, poverty, migration, and organized crime, the presence of which threatens the perspective of Kosovo. The incapacity of the SBs sector to create new jobs, largely as a result of the hostile economic environment, has significantly handicapped the perspective of the economic development in Kosovo. The growth and development of small businesses is one of the essential components for the overall socio-economic development of Kosovo. In addition, SBs promote economic development and effect on the reduction of poverty. Moreover, they also contribute to

creating employment opportunities and improving living standard. However, the SB's contribution would be deficient without a friendly business environment. Moreover, it is widely acknowledged that the business environment has a very important role in the international economic integration of the country. Consequently, improving the business climate, including legal, financial, regulatory and institutional aspects, through strengthening rule of law and favorable policies for the private sector, is a very important step towards sustainable economic growth.

The main goal in small business development is the investigation of barriers to growth, and proposal of strategies and policies how to overcome those (Sanders, M. et al., 2009). It is clear that many authors hesitate to disclose institutional barriers against business growth, obviously those related to politics and 'powerful people'. As regards owners/managers, many have argued that some barriers are erected due to interventions by people in government, however, some owners hesitate to declare on this issue.

There are many studies related to business growth in transition countries, but still the gaps are evident that must be extensively responded to new ideas, especially when dealing with the specifics of Kosovo's path and pace of development. A more serious potential problem which may hold up transition is with barriers to the growth of firms, especially the potentially dynamic fast growth firms that will provide the largest part of future employment growth and be the seeds of the successful large firms of the future economy" (Barlett, W. and Bukovic, V., 2001, p. 2).

Like in most transition economies, SBs in Kosovo are insufficiently developed; they continue to face an unfriendly environment. Currently, Kosovo is coping with the challenges of integration processes and economic development, along with a process of building institutional capacities and a more conducive business environment. In this regard, entrepreneurship in risky contexts is an under-researched topic (Naude, 2007). Kosovo is still undergoing an ultimate stage of a consolidation and transition process. The journey began with the establishment of constantly operating small businesses. Today, they are the largest contributors to economic growth. Therefore, in relation to firm growth, theory can be more inclusive, and research should be directed toward small business growth in terms of transition and under limited conditions. The

inadequate and often hostile institutional environment in countries in transition was frequently mentioned as playing a major role in constraining small business development (Smallbone, D. and Welter, F., 2001).

### 1.3. IMPORTANCE OF THE STUDY

The awareness on small firms and their role in economy has evolved over time. A perception held by many scientists throughout the early part of the 20<sup>th</sup> century captured the attention of researchers in investigating growth of large firms, due to the general perception that larger firms grow faster than small firms, and consequently they will be a benefit to the general economy. Conventional wisdom in economic theory has long held that due to economies of scale and scope, growth of firms is positively related to their size. Large firms were typically expected to have advantages over small firms and therefore grow faster. This process was expected to shift the focus towards growing of industry (Barlett, W., Bukvic, V., 2001). Nowadays, this perception has changed, and researchers have begun recognizing the role of SBs in job creation, innovation and general economic development of any country.

Currently, many countries see SBs as the main source of job creation and consequently contributors to growth trends. It is now widely accepted that SBs are the main generators of new jobs, that they improve the general economy of any country. SMEs are the main pillar of the economy of each country. They are a key source of employment, cultivation of entrepreneurial spirit and innovation and are therefore crucial to strengthening competitiveness and employment. SMEs are most vulnerable to changes in the business environment. They should be considered as key drivers of innovation, employment, as well as social and local cohesion in Europe. SBs are the backbone of the EU's economy. All but 0.2 % of enterprises which operated in the EU-28 non-financial business sector in 2016 were SMEs. Majority of these enterprises are SBs. SMEs employed 93 million people, accounting for 67 % of total employment in the EU-28 non-financial business sector, and generating 57 % of value added in the EU-28 non-financial business sector. Almost all (93 %) of the SMEs were micro SMEs employing less than 10 persons. Within the non-financial business sector, SBs play a particularly important role in the 'accommodation and food services', 'business services' and 'construction' sectors, in each of

which they accounted for more than 80% of EU-28 employment in 2016. Furthermore, SMEs accounted for 70% of EU-28 employment in the ‘retail and wholesale trade’ sector. (EU, 2017).

Small businesses (SBs) are playing a very important role in the modern economy. This role is even greater in a transition process of economy, like as the economy of Kosovo. It is essential that the SBs demonstrate a high degree of innovation, flexibility and adoption to the changes that occur in an economic environment. The development of SBs in transition countries contributes to the resurgence of the entrepreneurial initiative, changing economic structure and contribute to a more sustainable development in general.

In the market economy, SBs are a dynamic and highly active sector in which many entrepreneurs invest, supporting employment increase and improve productivity. Today, the SB sector in Kosovo is the main source of generating new jobs and increasing incomes. Therefore, the private sector has been affirmed as a motor of growth and transformation in all market economies including Kosovo. Small businesses promote economic development, and this can be noticed through their contribution to employment and the growth of Gross Domestic Product (GDP). Currently, Kosovo is going through the transition period, where SBs are playing a decisive role in the recovery and development of its economy. This can be illustrated by the fact that most of the family businesses experienced a rapid expansion in these transition years, especially in the trade sector. This was probably, not the result of favorable conditions and a suitable business environment, but rather the action of Kosovar entrepreneurs in this sector in which smaller investments can make profits because of the rapid turnover of capital.

Understanding the importance of SBs in general, researchers have understood very well the importance of exploring factors that affect their growth on both sides, factors coming from inside of the firm and external factors. Some regions and countries lag behind in this direction in the absence of overall progress. One of these countries is Kosovo as the last country in the Western Balkans which faced the transition process from a central controlled to a free market economy.

The importance of this study bears high relevance for Kosovo society and beyond, policy makers, institutions, academics and other groups of interests. As every country in the region, Kosovo is also a SBs based economy. According to the KOSME 2016, SMEs represent around

99.9% of all active businesses in Kosovo, among of them 99.2% are SBs. Despite the many difficulties, SMEs in Kosovo represent the main source of job creation and play a crucial role in the economic development of the country.

Various researchers have identified different barriers to the growth of small firm sector in different countries. The main purpose of this thesis is to conduct empirical research that will analyze the barriers and factors that impact small business growth in Kosovo. Moreover, understanding these factors and their respective intensity can help in development of strategies and policy recommendations that will serve to policy makers looking forward to a more sustainable economic environment. Therefore, further contribution in this topic can only push a step forward in exploring key barriers that are seriously hindering business growth in Kosovo, and in finding the solutions to successfully manage with the barriers.

Considering that Small Businesses have a very significant role in general economic development of any country, including Kosovo, this study will explore basic theoretical concepts of business growth, but also an empirical research of the barriers that hinder growth. Some of the existing studies fail to explain the determinants of small firm growth that underline economies in the transition and economies in the downgraded and risky environment. They fail to sufficiently take into account the institutional features and business environment, and their impact on entrepreneurship and firm growth, which usually involves high transaction costs of doing business (Krasniqi, 2007). Barlett (2002) emphasizes the large entry of businesses in the market in transition countries, and therefore barriers are more present due to current potential for adverse action. Many researchers have identified numerous barriers to the growth of the small firm sector in those countries. Institutional commitment to reforming the business environment is one of essential areas in the global development agenda. In this regard, institutions and economic policy makers have not succeeded in building a healthy environment of doing business.

Various researchers have identified different barriers to the growth of small firm sector in different countries. The main purpose of this thesis is to conduct empirical research that will analyze the barriers and factors that impact small business growth in Kosovo. Moreover, understanding these factors and their respective intensity can help on developments of strategies and policy recommendations that will serve to policy makers to provide a more sustainable

economic environment. Therefore, more contribution to this topic will step forward to explore key barriers that seriously are hindering the business growth in Kosovo and finding the solutions to deal successfully with the barriers.

In this context, filling gaps and a critical review of literature about these obstacles and problems, and a detailed investigation, are considered to be valuable in the case of Kosovo. Each country that has gone through out the transition phase has had its own specifics of developments, but the presence of barriers has been different. Therefore, with all the common characteristics there are still differences. Kosovo has its own specifics as far as barriers are concerned. According to Doern R. (2009), who deals with barriers in transition countries, there are a lot of studies related to this topic, but there is still considerable space for critical review and gaps to fill. Therefore, a critical review of studies extensively investigating barriers to development of small businesses in different contexts is required. This study, based on the transition context will try to make a clear picture exploring those barriers which are the real concern for small business development in Kosovo.

It is broadly accepted that Kosovo has made considerable progress, yet it is only in mid-development stage towards ensuring a conducive system of doing business and healthy business climate. Still, indispensable are overall institutional reforms, strategic orientation to support the private sector, stimulating small businesses to go forward gradually. A lot must be done to do away with inherited bad habits and negative phenomena, which continue to damage the environment for business development. Despite significant progress achieved, Kosovo has yet much to do in reaching European standards of doing business. A more urgent measure is improvement of the rule of law, to pave the way for a process of creating a clear system for supporting small businesses. Countering negative phenomena, like corruption and informal economy, is a particular challenge for Kosovo's government (Gashi, 2016).

### 1.4. OBJECTIVES OF THE RESEARCH

Overall objectives of this study include an elaboration of barriers to growth of small business, and to enable a better understanding of the phenomenon, based on best literature that addresses this problem. We should also make an effort to provide qualitative empirical data

related to small business growth barriers in Kosovo, in the context of owners/managers perceptions. In particular, the objectives of this research are:

- To examine main barriers to small business growth from the perspective of the individual - owner/manager perception, highlighting the meaning of barriers and how they adversely influence and even prevent growth of small businesses.
- To identify the main barriers (internal and external), through interviews and surveys conducted directly with owner/managers of small businesses.
- To explore and study how firms can survive in an unfavourable business environment, in which barriers are evident, and further, to find out the modalities to overcome the barriers.
- To identify benefits from the growth of businesses.
- To explore internal deficiencies of SBs, and identify the factors that hinder their growth, especially factors related to human resource capacities.
- To conduct a resourceful research of barriers, draw conclusions and list recommendations for businesses and policymakers, in order to reduce barriers and to build a strategy for improving government policies and the general situation.

*The main purpose of this research is the examination of the barriers to the growth of SBs and their impact on sustainable development and finding the appropriate strategies to overcome them.* Additionally, another objective of the research is to see how new entrepreneurs can contribute to economic growth by creating a new mindset of entrepreneurship development, based on contemporary models of doing business. Furthermore, it should help to analyse the current situation of small businesses through empirical evidence from all regions of Kosovo. According to Welter F. (2011) it is the state that provides individuals with entrepreneurial chances by setting borders for their actions, and it is essential for understanding when, how, and why business actions happen and who is involved. This implies general factors that surround the small businesses, means the environment of doing business.

Another objective of this research is to produce relevant results of survey obtaining the data for current situation, problems, difficulties, and to measure the trends of development of

small enterprises, to determine criteria and recommendations to support their development. Analysis of obstacles and difficulties for small business development should include the main barriers in several dimensions:

1. Institutional Support (administrative procedures, absence of rule of law, lack of finance, economic and fiscal policies).
2. Rule of law (inefficiency of justice system, corruption, politics interruption, informal economy, organized crime).
3. Market (trade policies, lack of access to local and foreign markets, cost of raw materials, unfair competition, customs fees).
4. Infrastructure (lack of electricity, internet, physical infrastructure, transportation).
5. In relation of human resources (lack of adequate professional skills).

### 1.5. RESEARCH QUESTIONS AND HYPOTHESES

The research questions aim is to explore most important results and changes that have taken place in the last five years, and describe “critical incidents” that have influenced or hindered the growth of small businesses. Hence, key questions cast specific attention to the negative impact of several barriers to SBs growth in Kosovo. There are many obstacles and barriers that seriously damage the business climate in Kosovo. Most of the barriers are related to the institutions and government policies with impact on the business environment.

Hypotheses are established upon collection of relevant data. To do so, one must identify facts that are measurable and may be analysed. The analysis of the data should be supported on the theory that will give us cause to modify such theory, always knowing that processes of data collection and analysis in one side, and generating theories on the other, are essentially linked. Theories lead to data collection/analysis, and data collection/analysis modify theories! (Field, 2009).

Hypotheses raised are formulated according to the current situation in the context of barriers to the growth of SBs. The 3 first hypotheses are formulated to investigate the perception of owners/managers, related to existence of barriers and how they influence their behaviour and growing intentions. Others elaborate questions on the relationship between growth and barriers that hinder the growth: institutional barriers, access to finance, tax policy; the rule of law

barriers, market barriers, infrastructure and skills of HR. Based on literature, a preliminary study and knowledge about barriers against growth of small business in Kosovo, are raised the hypotheses, in order to examine how business environment barriers that affect the growth of SBs. In this framework the following hypotheses will be tested:

**H1: Barriers influence negatively to business growth.**

**H<sub>1.1</sub>: Barriers influence negatively to growth of sales.** It is assumed that there is a negative correlation between barriers and the level of sales. As the sales level increases, the impact of the barriers is smaller and vice versa.

**H<sub>1.2</sub>: Barriers influence negatively to the growth of employment.** Also, it is assumed that there is a negative correlation between barriers and growth of employment.

**H2: The impact of barriers differ according to business longevity.** The level of business growth varies from business age and from one phase to the next. The research sample contain the data of businesses in maturity stage of growth respectively businesses with more than 5 years' experience.

**H3: The impact of barriers differ according to business type.** In the analysis are included businesses from 3 sectors: production, trade and services.

**H4: The perception of barriers from owners/managers influence their intention to grow. (Some barriers impact more on intentions to grow some less).** This Hypothesis is assumed to investigate the perception of barriers from owners/managers and how they influence on their behaviour and intention to grow.

The intention is to showcase perceptions of the owners/managers of SBs related to barriers that hinder the business growth. To learn more about real concerns, we have conducted 20 face-to-face interviews with selected business owners/managers. Research questions were organized in a comprehensive level, exploring what are the most important results or changes that have occurred in the last five years, and describing troubles that have brought about growth or have hindered growth. Initially, important information was gained in a view of generating ideas for approaching to the main study and clearly defining objectives. Such information was used again in improving the questionnaires for the main study survey, and the questionnaire was

drafted appropriately. To fulfil objectives of the study, have been prepared a research plan, to proceed with data collection. Ultimately, a comprehensive questionnaire survey was distributed, containing 46 questions related to profile of companies surveyed, and their perceptions for factors that are considered to be obstacles to small business growth in Kosovo. Hence, are ensured enough data for hypotheses testing and conduct the statistical analysis. Hypothesis testing, including output analyses and interpretation, are accordingly presented in chapter 6.

## 1.6. DESIGN AND ORGANIZATION OF THE STUDY

Research is defined as "a systematic process of collecting and analyzing information, in order to increase the understanding of the phenomenon about which we are concerned or interested" (Leddy, P. D., and Ormrod, J.E., 2005). Key points in this definition are logical steps and methods of systematic collection and data analysis of the study, which represents main research steps that are defined as a methodology. In this way, this thesis investigates the problem using an organized, systematic exploration and justifies the data, based on a reliable theoretical framework, to assist in finding a suitable solution. Thus, this study can be described as part of the investigative search, which is based on application and conceptual testing of the theoretical structure, using empirical methods (Figure 1).

The study is organized into 7 chapters. The *first chapter* includes the introductory part of the research, general description of the subject, problem statement, the purpose of study, research objectives and research questions and hypotheses. At the end of this chapter, a formulated scheme of the research is presented, with objectives, paradigms and the structural process of the dissertation.

*In the second chapter*, is presented an in-depth overview of literature used. Moreover, are presented some theories of firm growth which corresponded namely to this case of study, in particular the institutional theory and its implications in the cases of transition countries. Additionally, there are elaborated different concepts of entrepreneur and entrepreneurship, historical evolution of the phenomenon and implications to current developments. Furthermore, namely is explored the concept of this issue in transition countries.

In the 3<sup>rd</sup> chapter mainly is elaborated the contemporary literature that clearly explains the main factors of small business growth. This chapter additionally comprise theoretical analyses of the most relevant publications as a base for the main purpose of study. In this chapter is elaborated the concept of entrepreneurship and business growth in transition economies. Moreover, most frequently asked questions are explained. For instance, why most of small businesses do not grow? What is the firm growth and which are barriers that mostly hinder the growth?

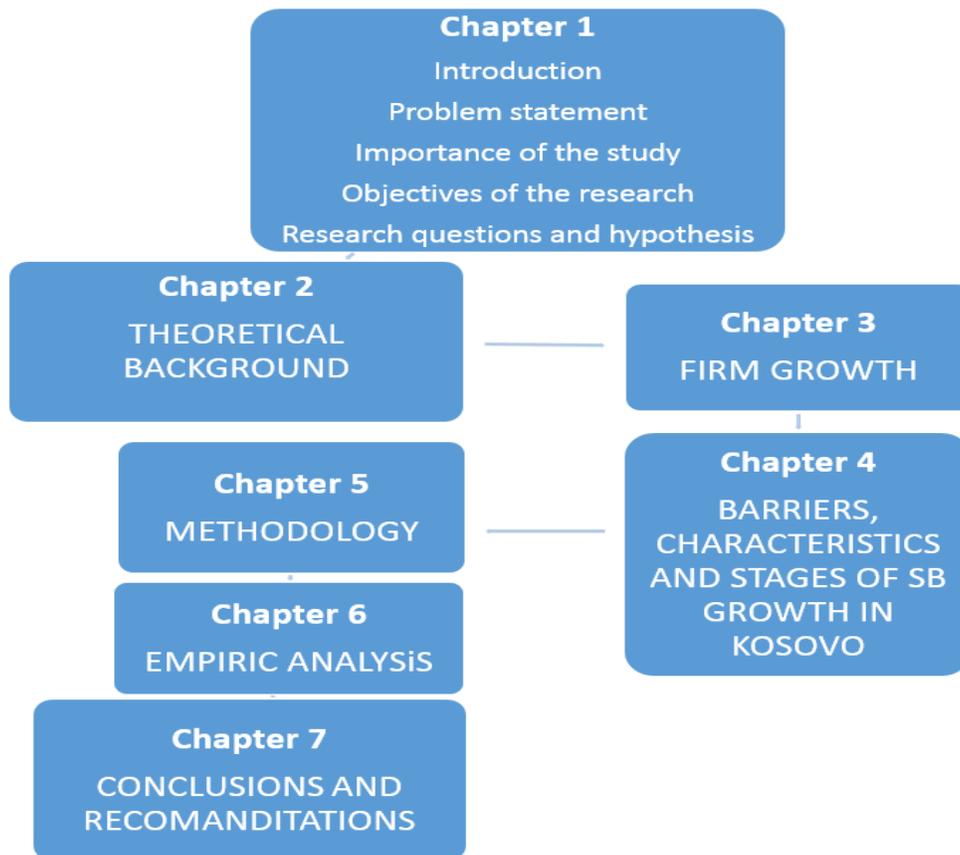


Figure 1: Structure of the research

In the 4<sup>th</sup> chapter, we have presented some data on the socio-economic situation of Kosovo in general, underlining obstacles to growth, exploring main factors that disrupt the environment of doing business. This chapter will be dedicated to the business environment in Kosovo, through statistical publications in national level (MTI, Riinvest Institute, KSA) and reports and publications of various international organizations (UNDP, OECD, WB, USAID

etc.). Here, I have made an effort to describe the key concept that explains the phenomenon that specifically corresponds to the Kosovo's situation, and elaborating the strategies to deal with current situation. Furthermore, a clear picture of the business environment throughout SWOT analyse drawing the prevalence and shortcomings in Kosovo's case is presented.

In the 5<sup>th</sup> chapter, we have disclosed the research methodology. This chapter explains in details the motives for developing the questionnaire, the principles that served to build the research concept, population, and sample of the research, determination of size selection and procedures for data collection. Additionally, different qualitative and quantitative methods (primary and secondary) of data collection are explained.

The 6<sup>th</sup> chapter contains empirical research developed in 7 regions of Kosovo, including three sectors: manufacturing, trade and services sector. Collected data from the field have been analysed using various statistical techniques. Here are described the results of research and interpretation. In addition, in this chapter numerous data and information have been presented related to growth barriers of SBs ensuring useful dataset to draw conclusions and recommendations.

The 7<sup>th</sup> chapter summarizes research findings, and their practical importance, discussions, general conclusions, and recommendations. Furthermore, this section will show the significant findings and benefits of the research for the SBs, policy makers, scholars and the entire society. This chapter contains conclusions retrieved by the investigation, in-depth analyses of perceptions of managers/owners for their future growing, and their behaviour related to barriers. At the end of the study, are presented limitations and recommendations for further research of the phenomenon in the future.

### 1.7. SUPPORTIVE LITERATURE OF THE RESEARCH

The commencement of collapse of the socialist economic system in the 90s of the last century, a path for the development and growth of private sector was opened. Initially, the transformation process started through privatization of socially owned enterprises, extending with creation of new private firms primarily as family businesses. The process of creating new private enterprises in these countries was unalterable, but followed with many challenges of the

establishment and growth in transition countries. In the early 1990s many theoretical and empirical researches were conducted to show the low efficiency of the planning system in the socialist countries' system. But on the other hand, the transformation into the new system of market economy was characterized with various problems and barriers that appeared later. In this context, many theoreticians started dealing with these problems and theoretical transformations in their writings, focusing mainly in the countries that started this transition. In this context, we have chosen the best literature that tried to address the institutional deficiencies to deal with these problems that not so much later conceptualised as barriers. In this regard, the following table presents some of the headlines that the research is based on.

*Table 2: The most important publications related to institutional deficiencies selected from literature to support the research*

<b>Author</b>	<b>Title</b>	<b>Journal</b>
Aidis, R. (2005).	<i>Institutional barriers to small and medium sized enterprise development in transition countries.</i>	<i>Small business economics</i> , 25 (4), 305–318.
Bruton, G. Ahlstrom, D., and Li, H. (2010).	<i>Institutional theory and entrepreneurship: Where are we now and where do we need to move in the future?</i>	<i>Entrepreneurship Theory and Practice</i> , (34), (3), 421-440.
Budak, J. and Rajh, E. (2014).	<i>Corruption as an obstacle for doing business in the Western Balkans: A business sector perspective.</i>	<i>International Small Business Journal</i> 32(2): 140–157, 140–157.
Hellman, J. and Schankerman, M. . (2000).	<i>Intervention, corruption, and capture. The nexus between enterprises and the state.</i>	<i>Economics of Transition</i> 8(3), 545–576.
Hoxha, D. (2009).	<i>Hoxha, D. (2009). "Barriers to doing business in Kosova: an institutional approach."</i>	<i>International journal of entrepreneurship and small business</i> , 8 (2), 186–199.
Landstrom, H. (n.d.).	<i>David J. Storey's Contributions to Entrepreneurship and Small Business Research. Award Winner, 1998.</i>	<i>Global Award for Entrepreneurship Research</i> , 3.
Manolova T.S., Eunni R.V. and Gyoshev B.S. (2008).	<i>Institutional environments for entrepreneurship: Evidence from emerging economies in Eastern Europe.</i>	<i>Entrepreneurship Theory and Practice</i> 32, 203-218.
McMillan, J. and Woodruff, C. (2002).	<i>The Central Role of Entrepreneurs in Transition Economies.</i>	<i>Journal of Economic Perspectives</i> Volume 16, Number 3. , 153–170.
North, D. (1990).	<i>Institutions, Institutional Change and Economic Performance.</i>	<i>Cambridge: Cambridge University.</i>
Pissarides, F, Singer, M., and Svejnar, J. . (2003).	<i>Objectives and constraints of entrepreneurs: evidence from small and medium size enterprises in Russia and Bulgaria.</i>	<i>Journal of Comparative Economics</i> 31, 503–531.
Saul Estrin and Tomasz Mickiewicz. (2010).	<i>Entrepreneurship in Transition Economies: The Role of Institutions and Generational Change.</i>	<i>IZA, Discussion Paper No.4805</i> , p. 2.

## BARRIERS TO THE GROWTH OF SMALL BUSINESSES IN KOSOVO

Smallbone, D., and Welter, F. (2009b).	<i>Entrepreneurship and small business development in post-socialist economies.</i>	<i>London &amp; New York: Routledge.</i>
Solymossy, E. (2005).	<i>Entrepreneurship in extreme environments: building an expanded model.</i>	International entrepreneurship and management journal, 1 (4). 501–518:
Storey, D. J. (1994).	<i>Understanding the Small Business Sector.</i>	London: Routledge.

The study is based on several aspects of literature, including development and growth of small business, namely based in literature which deals the problems in transition countries, and studies related to the behaviour of entrepreneurs and institutions correlated to small business development. Initially, literature studying the state of the transition countries has been studied, which has to do with the growth of businesses in general (e.g. Penrose, 1959), as well as small business literature (e.g. Storey, 1994b) and literature of businesses in transition economies (e.g. McMillan and Woodruff, 2002). A wide range of literature has been studied to investigate the meaning of critical factors and their connection with the development of small businesses in two market economies: transitory and mature. This examination suggested that many research remain in the assumption that most of businesses want to grow but there are several factors that hinder growth. The researchers have tried to understand the types of barriers that have been identified by observations small firms. Further their purpose has been to show how these barriers are often or more associated with the lack of growth (Bartlett and Bukvić, 2001). However, these studies have not shown why or how factors affect business development, and if so, why affects it. In the literature of these years are found some shortcomings, among which the most important we can consider why and how barriers affect behaviour toward growth owners/managers. Table 3 shows some titles selected which exclusively explain the growth barriers in general, not only in institutional context but including internal barriers of the small firms, mainly the barriers to small firms' ability to operate in a difficult business environment.

*Table 3: Some of the selected publications related to overall barriers of firm growth used to support the research*

Barlett, W., Bukovic, V. (2001).	<i>Barriers to SME growth in Slovenia.</i>	<i>MOCT-MOST.</i>
Davidsson, P. Achtenhagen, L., And Naldi, L. (2007).	<i>What Do We Know About Small Firm Growth? In The Life Cycle of Entrepreneurial Ventures. International</i>	<i>Handbook Series on Entrepreneurship, Volume 3 (pp. 361-398). Springer US.</i>

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Haibo Zhou and Gerrit de Wit. (2009).	<i>Determinants and dimensions of firm growth.</i>	<i>Scientific Analysis of Entrepreneurship, EIM Research Reports.</i>
Hashi, I. & Krasniqi, B. (2011).	<i>Entrepreneurship and SME growth: evidence from advanced and laggard transition economies.</i>	<i>International Journal of Entrepreneurial Behaviour &amp; Research Vol. 17 No. 5, 456-487.</i>
Hashi, I. (2001).	<i>Financial and Institutional Barriers to SME Growth in Albania: Results of an Enterprise Survey.</i>	<i>MOCT-MOST 11, 221-38.</i>
Henrekson, M. Johansson, D. (2010). and	<i>Firm Growth, Institutions, and Structural Transformation.</i>	<i>Research Institute of Industrial Economics, IFN Working Paper No. 820.</i>
Janssen, F. (2002).	<i>The impact of environment on employment growth of SMEs.</i>	<i>IAG School of Management, Working Paper No. 117-04.</i>
Krasniqi, B. (2007).	<i>Barriers to entrepreneurship and SME growth in transition: The case of Kosova.</i>	<i>Journal of Development of Entrepreneurship, Vol. 12, No1, 71-94.</i>
Krasniqi, B.A., Shiroka-Pula, J. and Kutllovci, E. (2008).	<i>The determinants of entrepreneurship and small business growth in Kosova: evidence from new and established firms.</i>	<i>Int. J. Entrepreneurship and Innovation Management, Vol. 8, No. 3, 320-342.</i>
Magnus Henrekson and Dan Johansson. (2010).	<i>Firm Growth, Institutions, and structural transformation.</i>	<i>Research Institute of Industrial Economics, IFN Working Paper No. 820.</i>
Morrison, A., Breen, J., and Shameem, A. (2003).	<i>Small business growth: intention, ability, and opportunity".</i>	<i>Journal of small business management, 41 (4), 417.</i>
Pissarides, F. (1999).	<i>Is the Lack of Funds the Main Obstacle to Growth? EBRD's Experience with Small and Medium-sized Businesses in Central and Eastern Europe.</i>	<i>Journal of Business Venturing 14, 519-539.</i>
Storey, D. (2001).	<i>"A Portrait of Success: The Facts behind High Growth Companies in the UK.</i>	London: Deloitte and Touche

## CHAPTER 2

### 2. THEORETICAL BACKGROUND

#### 2.1. The Entrepreneur and Entrepreneurship in economic theory

The word ‘entrepreneur’ dates from the 12<sup>th</sup> century, and is related to the French word “entrepreneur”, which means “doing something different, undertaking, and act a little differently”. Peter Drucker (1985) presents entrepreneurship as a business that is pre-arranged and carried out systematically and effectively. He treats entrepreneurship as part of business activities and tasks completed as part of entrepreneurial management. According to Drucker, entrepreneurial economy is a cultural and psychological phenomenon, as much as it is an economic and technological phenomenon. Entrepreneurs we see as rule changers, as something that is acceptable, welcomed and necessary. Harvard Professor Jeff Timmons believes that entrepreneurs must have “a helicopter tune”. They should have the ability to deal with everything in detail (Solymossy, M. and Merovci, S., 2006).

As quoted by Shahidi, M. and Smagulova, A., (2008) following thirty years of intensive study of the phenomenon, the research community still spends much energy on the definition of the concept of entrepreneurship. This shows the complexity of the area as well as the process, and that this could and should be exploited from several different concept of understanding (Blenker, P. et al., 2006). Even though the definition of entrepreneurship has been discussed among scholars, educators, researchers, and policy makers since the concept was first established in the early 1700’s, there is still no complete consensus on the definition of this field of study (Morales G, S.T., and Roig, S., 2005).

In the literature we find so many definitions and concepts on entrepreneurship, in the following we presented some of them done by different authors in different time. Richard Cantillon (1732), in his writing ‘Essay on the Nature of Commerce in General’ saw the entrepreneurship as an economic activity in conditions of insecurity. He was the first main economic thinkers to define the entrepreneur as an agent who buys means of production at

certain prices to combine them into a new product. He identified the willingness to bear the personal financial risk of a business venture as the defining characteristic of an entrepreneur.

In the early 1800s, Jean Baptise Say (1767-1832) improved Cantillion's definition by adding that the entrepreneur brings people together to build a productive item. Say stressed the role of the entrepreneur in creating value by moving resources out of less productive areas and into more productive ones. He saw the enterprise as a successful combination of production factors in a harmonious system whereby the entrepreneur rolls and disintegrates.

Joseph Schumpeter (1949), defines creative activity as "creative destruction". According to him, the entrepreneur is an agent of economic change and sustainable economic development. Entrepreneurs are at the center of short-term fluctuation and long-term in economic cycles: it is not an issue of static analysis, but only for dynamic analysis.

Frank Knight (1971) who in his thesis "Risk, Uncertainty and Profit (1916, revised 1921)" made an important distinction between insurable and non-insurable risk. Arguing that uncertainty of entrepreneurial activity is a result of activities that cannot be predicted and that entrepreneurial competence is the individual's ability to deal with uncertainty (cited by Landstrom, H. et al., 2011). According to Kirzner, (1973) the entrepreneur is a person who is alert to imperfections in the market and can coordinate resources more effectively thanks to information about the needs and resources of different actors. Kirzner says that "entrepreneurship has two most important aspects. First, entrepreneurship is the "alertness" to new opportunities. Entrepreneurs are alert; this is what they are. Second, entrepreneurship is seizing an opportunity by taking further innovative actions. Entrepreneurs are innovative; this is what they do. According to this theory, alertness leads to the discovery of new possibilities. If the opportunity identified is an actual one, the entrepreneur will take action. Consequently, as we can assume, alertness necessarily leads to innovative and creative actions" (cited by Landstrom, H. et al., 2012).

Ahmad, N. and R. G., Seymour (2008) after so much efforts, analysis and arguments related to the entrepreneur, entrepreneurship, and entrepreneurial activity they proposed:

- Entrepreneurs are those persons (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.
- Entrepreneurial activity is the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.
- Entrepreneurship is the phenomena associated with entrepreneurial activity.

Entrepreneurship is an ancient concept that is both simple and complex at the same time. Conceptualizations, definitions, understandings of the phenomenon, have challenged many scholars over the time all over the world. As quoted by Thomas M. C. (2012) *“It is still a topic of much debate whether entrepreneurs are born or made. While it is generally acknowledged that there are natural ‘born’ entrepreneurs, there are also researchers who believe that entrepreneurship is a skill that can be learned”*. Drucker (1985) argued that entrepreneurship is a practice and that *“most of what you hear about entrepreneurship is all wrong. It’s not magic; it’s not mysterious, and it has nothing to do with genes. It’s a discipline and, like any discipline, it can be learned.”* If one agrees with Drucker’s concept of entrepreneurship, then it follows that education and training can play a key role in its development. In a traditional understanding, entrepreneurship was strongly associated with the creation of business, and therefore it was argued that the skills required to achieve this outcome could be developed through training. More recently, entrepreneurship is viewed as a way of thinking and behaving that is relevant to all parts of society and the economy, and such an understanding of entrepreneurship now requires a different approach to training. The educational methodology needed in today’s world is one which helps to develop an individual’s mindset, behaviour, skills, and capabilities and one that can be applied to create value in a range of contexts and environments from the public sector, charities, universities and social enterprises to corporate organizations and new venture start-ups. Lichtenstein and Lyons (2001) argue that it is important for service providers to recognize that entrepreneurs come to entrepreneurship with different levels of skills and therefore each entrepreneur requires a different ‘game plan’ for developing his or her skills. Furthermore, they suggested that skill development is a qualitative, not quantitative, change

which demands some level of transformation on the part of the entrepreneur (Thomas M. C., 2012).

Entrepreneurship research has a long tradition, and since the 1980s the field has grown significantly. Landstrom H. et al., (2012) in their study identified the ‘knowledge producers’ who have shaped the field over time and their core entrepreneurship research works. They have developed and created a unique database consisting of all references in twelve entrepreneurship ‘handbooks’ (or state-of-the-art books). Chapters in these handbooks were written by experts in the field, and it may be assumed that most frequently cited references represent ‘core knowledge’ with relevance to entrepreneurship research. They concluded: “From the analysis, it appears that entrepreneurship is a rather changeable field of research, closely linked to disciplines such as ‘management studies’ and ‘economics’”. Over time, the field has become more formalized with its own core knowledge, research specialties and an increasing number of ‘insider works’. However, it is still based on some fairly old theoretical frameworks imported from mainstream disciplines, although during the last decade we have seen the emergence of a number of new field-specific concepts and theories. We argue that successfully conducted entrepreneurship research in the future needs to relate new research opportunities to earlier knowledge within the field, which calls for a stronger ‘knowledge-based’ focus. We would also like to see greater integration between the fields of entrepreneurship and innovation studies in the future”.

### 2.1.1. Historical Evolution

The concept of entrepreneurship has been around as long as man has existed. But, serious studies and documentation for this issue are found only a couple hundred years ago, and the field of entrepreneurship studies has only been seriously coalescing over the last fifty years. A handful of academic programs is focused on entrepreneurship by the mid-1970’s, but they have grown towards universal acceptance in the curricula, research and practice. Let’s go back in time to refer to some of the more critical writings on entrepreneurship chronologically. Throughout this journey, one may recognize many nuances of the concept, causation and person/environment controversies that contribute to the fuzziness in understanding of this concept. If we analyze the concept of entrepreneurship, we understand that it is a visionary and sensitive discipline, which requires a comprehensive approach in order to improve the theory of modern organizational

systems. We lead to the application of open systems theory (some other similar theories that we discuss that are closely aligned to the open system thinking, a complex adaptive theory, systems theory, emergent theory and learning organization theory). Illustrating how systems theory has emerged as a point of light from this mass of literature; and how the future study and practice of entrepreneurship might proceed along time, we conclude that systems based on some logical assumptions found on systems theory helps to synthesize a definition that is more practical, dealing with behaviors of entrepreneurs (Falcone, Th. and Osborne, S., 2005).

The first author that endowed the meaning of entrepreneurship with a more precise economic connotation was Richard Cantillon in his “Essaisur la Nature du Commerce en Général” (1755/1999), in which he outlined the principles of the early market economy based on individual property rights and economic interdependence. In the mid-eighteenth century, the classical economic theory was developed based on Adam Smith’s critical work “Inquiry into the Nature and Causes of the Wealth of Nations,” first published in 1776. To a large extent, this work laid the foundation for analysing the way the market economy functions, but it also influenced the view of the entrepreneur in the economy, who more or less disappeared from economic theory for a considerable time (Landstrom, H. et al., 2012).

Although interest in entrepreneurship among economists seems to be shrinking, in this regard we can identify a few exceptions. However, Joseph Schumpeter is probably the best known of the economists with interest in entrepreneurship in the early part of the 20<sup>th</sup> century (Schumpeter, 1912, 1934). Schumpeter’s idea was to build a new economic theory based on change and newness. His basic realization was that economic growth resulted not from capital accumulation, but from innovations or ‘new combinations’ that create a disequilibrium in the market. Another view of the entrepreneur in economic theory was to be found in the Austrian School of economic thought, represented by Carl Menger in the 19<sup>th</sup> century and further developed by Ludwig von Mises and Friedrich Von Hayek in the 20th century (Landstrom, H., et al., 2012). During the post - World War II era, the importance of entrepreneurship and small businesses seemed to be fading away (Audretsch, 2003). The role of entrepreneurship in the economy has changed dramatically over the last half-century.

As per historical evolution of Veciana (1999) and continued later on by Rialp, A. et al., (2004) one may distinguish several stages of entrepreneurial development and approaches:

- *1<sup>st</sup> stage* (until Marshall): Authors tried to define the entrepreneur and the entrepreneurial function to explain the entrepreneur's profit as a distinctive element (fourth production factor).
- *2<sup>nd</sup> stage* (first half XX- Century): entrepreneurs, firms, and their functions are considered as agents and factors promoting economic development often adopting a historical perspective (biographies, business development courses and so on).
- *3<sup>rd</sup> stage* (50s-70s): the initial stage of development as a unique scientific research program in two main streams: a) research on new firms and SME management and b) the scientific analysis of the entrepreneur and the business creation process (Veciana, 1999).
- *4<sup>th</sup> stage* that includes the period from 70s – onwards which is based on 'new growth theory' mostly involved the institutional theory in new circumstances of transformation systems from controlled to free market economy. However, countries in transition face undeveloped institutions, and in this regard, numerous barriers of doing business.

### 2.1.2. Multidisciplinary Concept of Entrepreneurship

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 I. R., and Webb W., J., 2007).

Small firms are more risky than large firms, mainly due to the risks brought by their environment, rather than their organizational structure (Storey, D. and Cressy, R., 1996). This issue is not related only to institutional barriers, but it is multifaceted and complicated, influenced by other factors, such as the behavior of the individual and the society. This conveys

the necessity for the agenda of research of new phenomena in economics, like innovation and growth, to look beyond the firm's level, and use new economic theories. (Castells, 2000).

In transition countries, the influence of the business environment is significant due to the lack of rule of law and lack of consolidated institutions. These factors have comprehensive impact with branched stretch. In different point of view in the context of multifactorial implications on the firm growth many authors tried to explain the phenomenon (Lumpkin, G. T. and Dess, G., 1996); (Hashi, 2001); (Smallbone, D. and Welter, F., (2001a); (McMillan, J and Woodruff, C., 2002). The multidimensional concept of business environment is explained by many authors, of course, as representing the normal institutional framework, the controlling mechanism, macroeconomic equilibrium, technological opportunities, and industry growth, including the rising demand for new products (Storey D. , 1999); (Tsai, H., et al., 1991); (Zahra, Sh. A. and Ellor , D., 1993); (Smallbone, D. and Welter, F., (2001b); (Pissarides, F, et al., 2003); (Clement, K., et al., 2004), (Hashi, I. and Krasniqi, B., 2011).

### 2.1.3. Entrepreneurship in Transition Economies

In this section, we will discuss 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), emerged the main characteristics of the entrepreneurship in transition in these countries. In the study, they analyzed transition economies, 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. New institutional processes are of key importance for successful transformation. A market economy requires not only liberal regulation and private ownership, but also adequate institutions. For this reason, the transition can be executed only in a gradual manner, because institution building is a process based on new structural organisms with various economic entities. Economic, historical, geographical and cultural legacy of transition economies brought about different performances during the transition period. For instance 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., And 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, Saul Estrin and Tomasz Mickiewicz (2010) in their discussion paper edited by IZA<sup>2</sup> say “The implementation of those changes in informal institutions may be delayed until after a full generational change”.

Entrepreneurship as a new discipline of management has during the last few decades expanded extraordinarily on a world wide scale, building upon a sustainable source of new employment, innovation and economic growth (Morales S.T. and Roig S., 2005). Nevertheless, it is perceived that knowledge on firm growth is still limited (Davidsson, P. and Wiklund, J., 2000); (Wiklund, J. and Shepherd, D, 2003). The existing literature is highly fragmented. Small businesses are the engine of the entire economy of the country and a key factor in the development of Kosovo. But, in transition countries, the economy has a difficult time in standing up and developing without proper support from the government institutions. Being a creative soul, entrepreneurship is an essential source of jobs, and a fundamental base for economic growth. Moreover, it is considering as an entrepreneurial spirit and innovation, and

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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, Sh., 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 P., 1995).

The influence of small firm growth to the general economic development of any country is uncontested. It is incorrect to speak of small enterprises as a uniformly expanding and active group. In transition countries, especially those that transitioned from a central economy to a free market economy, there are a lot of problems in the context of doing business. Some of them are still facing with the understanding and applying the new mindset of entrepreneurship on the free market competition economy and behaving on different uncertain circumstances. McGrath et al., (2000), understand the entrepreneurial mindset as a way of thinking about business that focuses on and captures the benefits of uncertainty. 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 behaviour 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, R. E., and Busenitz, L. W., 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.

### 2.2. 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 seminal 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, akin 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). Within-industry studies, even more, specialized measures are conceivable, such as the number of seats for restaurants or theaters, and the number of vehicles for taxi or car rental companies (Bolton, 1971). Investigating from the perspective process of change in amount, growth can be measured with a multitude of different indicators; the most frequently mentioned are sales, employment, assets, physical output, market share and profits (Ardishvili, A., et al., 1998); (Delmar, 1997); (Weinzimmer, L., et al. 1998); (Wiklund J., 1998).

Wealth creation and firm growth are interconnected. In general, effective growth can help firms create wealth by building economies of scale and market power. These effects provide additional resources and contribute to achieving a competitive advantage (Barney, 1991). Likewise, additional wealth makes it possible for firms to allocate resources to stimulate further growth. This relationship is especially critical to new ventures, firms that often create wealth by growing rapidly.

Birch’s results and his conclusions have been questioned and sparked up a debate (see Kirchoff, B. A., & Phillips, B. D. (1988) for a review of the discussion). This critique asserts that growth has to be understood in a broader perspective entailing considerable churning and restructuring (Haltiwanger, John and C. J. Krizan, 1999). In fact, the rapid growth of some firms implies that they attract factors of production from other firms. Therefore, growth requires contraction and exit of some firms to free up resources that can be reallocated to expanding firms. Entry and expansion are flip sides to exit and contraction. The process through which the factors of production are put into different uses defines structural transformation (Magnus H. and Dan J., 2010).

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 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). The benefit of using the standard OECD definition is that it enables both longitudinal and international comparisons (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 A. and Lucia N., 2010).

The firm growth, in theory, remains a multi-faceted phenomenon. For example, Delmar F. et al., (2003) discussed heterogeneity, according to which we have to apply specific measure of firm growth, and also as regards the appropriateness of these different measures in according to specific theories. They further treated heterogeneity in terms of regularity or irregularity of growth over time, and in terms of type of growth, organic or acquisition. Empirically, they show that when the top 10% “high growth firms” in a large sample of firms are singled out pursuant to six different growth indicators, over 40% qualify in at least one criterion. However, only 16.6% made the hurdle for three or more criteria, and a tiny 2.5% were classified as “high growth firms” regardless of what criterion was used. Underlying this are very low correlations between some of the growth indicators, as these researchers also reported. By means of cluster analysis, they draw out seven different types of “high growth firms” which show markedly different growth patterns and background characteristics. They conclude that firm growth is a multidimensional rather than one-dimensional phenomenon and that diverse forms of growth may have different determinants and effects. In this situation, according to Davidsson and Wiklund (2000), the theoretical approach might be different to each case, and may also need different theoretical explanations.

### 2.2.1. Firm Growth and Job Creation

The growth of a firm is a complex and a multidimensional phenomenon. It is clear that a purist approach, limited to the impact of resources and in particular the determinants associated with the manager, neglects the potential for prediction of firm-related variables, objectives, environment and the interactions between these different types of variables (Weinzimmer, 1993, Janssen F., 2002a). Van Praag, M. C., and Versloot, P. H., (2008) analysed the empirical evidence on job creation by small firms, and concluded that it is a clear outcome that small firms

create more jobs on net than large firms, even when the methodology suggested by the critics is applied. A fairly small number of high-growth firms (HGFs for short), on average smaller and younger than other firms, contribute the bulk of net employment (Henrekson, M. and Johansson, D., 2010).

There is no doubt that the majority of gross new jobs in the economy are the result of growth of already existing firms, rather than the entry of new firms. In the case of Sweden, the proportion has been estimated roughly as one-third for entry and two-thirds for expansion, (Davidsson et al., 1998). This should come as no surprise, as there are many more established firms in an economy than there are new entrants. The more important question concerns where net additions of jobs come from. As noted by Steven et al. (Steven J. D. 1993, 1996), this is a trickier issue, as *post-hoc*, a given net addition can be attributed to many different subcategories of the economy. Studies in U.S. and U.K. have claimed that a small minority of rapidly growing firms, the so-called “flyers” or “gazelles”, are the real creators of net new jobs in the economy (Birch, D. and James M., 1994; Birch et al., 1995). As confirmed by Davidsson (2004), if one follows a cohort of firms over time and there is any outcome variance at all, even completely stochastic variance, it will always be the case that a small proportion of firms eventually accounts for a large proportion of jobs created *by that cohort*. The greater the outcome variance and the longer the analysis period, the more remarkable will this effect be. However, this does not prove that the elite of high growth firms creates a large proportion of all new jobs *in the economy*. In order to establish the latter, the job creation of *all gazelles* in the economy has to be compared with total job creation in the economy. There are also other reasons not to equate employment growth on the firm level with job creation in the economy at large. As noted above, especially for large and old firms, growth usually reflects acquisition, that is, transfer of already existing activities of jobs from one organization to another. Even those firms that grow organically may do so at the expense of other firms, whose employment consequently shrinks. Yet other firms contribute to the growth of the economy by reducing the need for manpower for a given output. Clearly, head counting on the firm level is a very narrow-sighted analysis for societal purposes. When the interest is truly in the size of employment in the economy and its changes, it seems advisable to start at a more aggregate level exploration, and then try to expand further on regional, industry and firm levels, to see how aggregate effects emerge from entry,

exit, expansion, contraction, and transfer of economic activities across borders (Davidsson, P. et al., 2007).

### 2.2.2. Firm Growth with Positive or Negative Effect

It is an interesting fact, that in academic and non-academic literature, we find both sides of the phenomenon. It depends on the dimension such a phenomenon is being researched. But, in most situations, we refer to the growth on the positive context of the issue, and especially in cases developing countries and countries in transition. Therefore, growth is a condition of business in a progressive incremental journey with main indicators of performance, like employment, productivity, annual turnover, sales, profit, etc.

Both in academic and non-academic literature, firm growth is frequently equated with success (Baum, J. R., et al., 2001; Covin, J. G., and Slevin, D. P., 1997. Owners/managers of small firms are generally aware that growth can have both desirable and undesirable effects, hence, growth is something of a dilemma for them. Research works directly address small firm owners/managers' expectations as to the negative and positive consequences of growth. Therefore, such works have found that expectations of economic gain are not dominating growth motivators, and that almost all respondents expect both negative and positive outcomes, but also that negative expectations are somewhat more frequent or pronounced than positive ones overall (Davidsson, 1989; Wiklund et al., 2003). The strongest dominance for negative expectations concern the issue of vulnerability; a majority believes that a larger size would make firms less able to survive a severe crisis. According to Wiklund et al. (2003), consistently across three separate studies and various subsample breakdowns, the strongest negative effect on overall growth willingness stems from expectations that growth would have adverse effects on employee welfare, which they interpret as fear of losing the informal, family-like character of a small organization. In this regard, research literature lends some support to the owners/manager's fears: small firms have certain advantages that risk being lost if the firm grows larger (Arrow, 1983, Barker, R. G., and Gump, P. V., 1964). As mentioned above, many owners/managers also resent the idea of achieving growth based on a substantial influx of external capital (Sapienza, H. J., et al., 2003). Clearly then, small firm owners/managers expect growth to bring both positive and negative outcomes, and they are not all wrong in doing so. The following section will

discuss two outcomes in more detail, namely, profitability and an increase in a number of employees. Possibly, the former is one of the most important potential effects of growth for the owners/managers of firms, while the latter represents a key interest among policy makers.

### 2.2.3. Is the Firm Growth Profitable?

Regarding the relationship between growth and profitability, Davidsson's research (1989) has shown that 40% of small firm owner/managers in his sample did not believe growth would improve their personal income stream, thus effectively removing one important reason to pursue growth (Davidsson, P. and Delmar, F., 1998). While fairly strong theoretical arguments can be put forward both for growth enhancing profits and for profits enhancing growth, the fact is that research evidence on the association between growth and profitability is surprisingly weak and mixed. Growth in assets and sales individually show positive relationships to performance at both industry and firm/business levels of analysis." This is actually evidence *against* the hypothesis that firms that grow more than their close competitors become more profitable (Davidsson. et al., 2010).

It is surprisingly difficult to find more recent studies that explicitly examine the growth and profit relationship. Many authors found the relationship between them, for instance, Chandler, G. N., and Jansen, E., (1992), Mendelson (2000) and Wiklund J. (1998). All found a positive association in passing; their main research questions concerned other relationships. A few recent studies have addressed the growth and profitability as their main research question. Cox et al. (2002), surveyed 672 members of the "Entrepreneurs of the Year Institute" and found a positive relationship between sales growth rate and profitability growth. Cowling (2004) investigated U.K. firms across industries and concluded, from a series of regression analyses, that profit and growth tended to move together. Further more, Roper (1999), who studied a large sample of Irish firms, found turnover growth and return on assets to be very weakly related ( $r$  below 0.10 and not statistically significant). Similarly, Sexton, D. L. et al., (2000), who analyzed over 75,000 firms in the Kauffman Longitudinal Financial Statement Database, found a very weak overall correlation between sales growth and profitability. Markman et al. (2002), used longitudinal data on 500 firms and found that change in sales and change in employment both had a weak *negative* correlation with *change* in profit.

Therefore, the empirical evidence on the relationship between growth and performance is inconclusive. In addition, to the extent a primary relationship existed, it has not been determined whether this is because growth leads to profits or conversely, profitability drives to growth. This is initiated by Davidsson, P. et al., (2005), who recently examined precisely that question. Their results showed that firms originating in the high profit/low growth category were in each analysis about two to three times more likely to end up in the desirable high growth/high-profit category as were firms originating in the high growth/low-profit category. The latter category was instead strongly over-represented among firms regressing to a low profit/low growth position. This is a strong reason to caution against a universal and non-critical growth ideology and for small firm owner managers whenever possible to secure a sound level of profitability before they go for growth. While perhaps appropriate under some circumstances, as a general rule, the idea of growing in order to become profitable seems a much more questionable prospect (Davidsson, P. et al., 2007).

### 2.3. Theories of the firm growth

From the literature we see that many theories have been developed by different authors at different times regarding the growth of firms. But this study will be based mostly on the growth theories developed over recent decades and those that deal with the growth of small businesses in transition countries. The theoretical framework is described as "a group structure related to concepts, definitions and propositions that present a systemic phenomenon, specifying relationships between variables in order to explain and predict phenomena" (Kerlinger, 1979).

Theoretical approach frameworks are a collection of theories and models from literature, which strengthen positivist research and determine its factors, which have been fully investigated and explained in this chapter. The aim of the theses is mainly the investigation of small firms in their maturity stage of growth. According to Veciana (1999), no unique theoretical model can explain the post-entry performance of firms. Furthermore, Acs, J.Z., (2008) says that until now there has been no theory which explains rapid firm growth. Numerous authors have utilized different theoretical modalities to investigate small business growth and entrepreneurship. Within the framework of growth theory, some models try to explain this phenomenon. Investigators from all fields of social sciences (economics, sociology, psychology, politics, etc.)

have been making continuous efforts to contribute to this area of study. In its simplest form, Gibrat's law suggests that the expected growth rate of a certain firm is independent of its size on the period examined (Gibrat, 1931). In the beginning, some of the studies supported this theory and served as a model to promote the further discussions. Moreover, Simon, H. A., and Bonini (1958) showed that fast growth is unrelated either to size, its prior growth, or its age. Later on, most of the studies conducted within this framework have shown a tendency to reject Gibrat's Law, stressing that smaller firms grow faster. There are other models of firm growth, as identified by Brock and Evans (1986) for small enterprises. They are the stochastic model, the human capital model, and the learning-by-doing model. A significant contribution for analyzing the small business growth has been the resource-based view, which reflects the influential study of Penrose (1959). She concluded that growing discrepancy was a result of illegal resources and activities, particularly management skills and behaviors, in addition to strategic capabilities to identify growth potentials. Penrose's idea of strong growth considers firms to grow due to "growth economies" that are inherent in the process of growth and not due to of any size related advantage. In the context of stochastic models, the opposite to Gibrat's legacy is the Jovanovic's learning model which explains that new firms gain information about their effectiveness only in the post market-entry stage and can learn based on previous experiences, therefore new and small businesses should grow faster in order to survive (Jovanovic, 1982). This influential model of firm growth has been discussed extensively in the literature (Storey D. J., 1994a); (You, 1995); (Liedholm, C., and Mead, D. C., 1999); (Barlett, W. and Bukvic, V., 2001); (Krasniqi, 2007); (Vivarelli, 2007). Also, he assumes that firms have different efficiencies which are not directly observable. The efficiency of the firm can only be gradually learned after the company enters into production. After learning about its true abilities, a firm will adjust its behaviour. Firms choose output levels to maximize expected profits by using imperfect information on their efficiency concentrations in each period. They also update their expectations based on their productivity level. Thus, this learning model synthesizes the key elements of the human capital model and the stochastic model as discussed above (Romer, 1990).

Psychological theories such as those presented by McClelland (1965) and which focus specifically on personal traits of the human factor, motives, and incentives of an individual to engage in entrepreneurship, conclude that entrepreneurs have a strong pursuit for achievement.

Within this similar framework, (Davidsson P., 1989) the motivation of achievement is emphasized as the most important factor explaining the variation in growth rates and entrepreneurship. Furthermore, the “population ecology” or “organizational ecology” perspective comes from sociology and the seminal contribution of Hannan, M. and J. Freeman (1984).

Since the content of research has a heterogeneous character with many implications to other disciplines, like economics, finance, human resources, psychology, sociology, anthropology and so many others, the approach of using a single theory which integrates multifactorial elements will determine a specific orientation to explain the topic accordingly to this course of study. We argue that because of the integrative nature of research strategy, it is imperative for research to adopt several structures represented by different theories for the progress of the field. Recently, the role of entrepreneurship has also been highlighted by the “*new growth theory*” with its prominence on “*knowledge*” as a key factor fundamentally stimulating economic growth (Romer, E. 1990, 1994). Also, if we look at new theories of growth, many authors have identified and confirmed that key mechanisms, through shared knowledge, contribute to job creation and overall economic growth (Schmitz, 1989); (Nooteboom, 1994); (Audretsch D.B. and A.R. Thurik, 2001). The new growth theory has been used and developed by many authors (see Davidsson, 1989, 1991, 2002, 2010; Storey, 1994a; Hashi, 2001, 2010; Krasniqi, 2007, 2011). So, in this research study, will be used different theories, but mostly focusing on the new growth theory, based on influence of institutional theory and human capital theory.

In more recent decades, interest for research on barriers has grown, due to system management transformation. During the transition process, many countries failed to build consolidated institutions and face many problems. Recently, the relationship between growth and barriers has attracted great interest of younger scholars. Different kind of obstacles tend to prevent SBs from achieving their full potential (Gruda, S., and Milo, L., 2010). Mostly, obstacles are related to the business environment. The business climate is a multi-dimensional concept representing the fundamental issue of economies in transition. In transition countries, lack of legislation, limited access to entrepreneurship, lack of infrastructure and financial resources are major obstacles to policy-making for SB development. Most transition countries are aware that SMEs have a critical role in industrial restructuring and have formulated national SB

development policies **and** enterprise development programs (Zahra, Sh. A. and Ellor , D., 1993); (Lumpkin, G. T. and Dess, G. G., 1996); (Hashi, 2001); (McMillan, J and Woodruff, C., 2002); (Pissarides, F, Singer, M., and Svejnar, J., 2003); (Smallbone, D. and F. Welter, 2006) and (Iraj, H. and Krasniqi, 2011).

### 2.3.1. Institutional theory

The rationality of this study becomes more evident as it addresses the problem of barriers in circumstances of a country emerging from the conflict, and the specific path that Kosovo has taken in its transition process. As in the case of many other countries passing through the transition process, upon transformation of the economic system towards a free market economy, Kosovo had a difficult start, with its fragile institutions and difficult environment of doing business. In such situation, it was argued that growth of SBs is substantially influenced by institutions, or the influence of such institutions on the general environment of doing business. In this context, Kosovo is characterized by unsustainable economic development, unfriendly institutional environment, lack of rule of law and lack of institutional support for small businesses.

As we stated earlier in this chapter, it was helpful to investigate the transition literature, to see what theories have been utilized to explain barriers against small business growth. According to Meyer, K. E. and Peng, M. W., (2005) existing theories in international business and management studies, such as those related to economic theories, resource-based theories, and institutional theories, may contribute to the understanding of key issues of small firm growth in a transition process. While this study deal with barriers for which most responsible are institutions or are present due to the inability of institutions to ensure a healthy business environment we have chosen the institutional theory.

Institutions are systems created by people as a political, economic, and social-cultural interrelated structure. In theory, both formal and informal institutions are recognized. Formal institutions include the constitutional, legal and organizational framework regulating actions of individuals, while informal institutions consist of unmodified attitudes that are related to society, and regulate individual behaviors of people. North (1990, 1994) makes a clear distinction between formal and non-formal institutions that have an impact on the system of inventions in a

society, which in turn form individual behaviors. In particular, it is important to distinguish formal institutions as they are creators of new laws, procedures and framework of property rights, and societal institutions (non-formal) that are embodied in the social life of entrepreneurs and society as a whole. Informal institutions are embodied in the values and norms of people. The role of informal institutions should be seen as complementary in the context of the role of other institutions. As Williamson (2000) emphasized, the neoclassical economy considers the institutions as bodies, assuming that the law and courts are determined to enforce contracts and protect property rights of parties in a transaction. Recent literature has begun paying more particular attention to the role and impact of institutions on entrepreneurial behavior (Boettke and Coyne, 2006).

The institutional theory has proven to be a significant theoretical foundation for exploring a wide variety of topics in different domains, ranging from institutional economics and political science to organization theory. The application of the institutional theory has proven to be particularly useful to entrepreneurial research (Bruton et al., 2010); (Welter, F., and Smallbone, D., 2011b). Recent studies in the field of entrepreneurship support the idea of growing prominence and explanatory power of the institutional theory. Particularly, the institutional theory appears to provide a valuable theoretical framework in an environment characterized by institutional volatility, social change, and transformation. In this context, Bruton et al., (2008) and Henrekson, M., and Johansson, D., (2009) have argued that very little is recognized about the institution's impact on the entrepreneur's behavior. They added that in both transition and mature market economies, and in terms of theory development and extension, researchers employing institutional theory have focused extensively on culture, and have largely ignored the impact of other institutions. Moreover, Henrekson, M. and Johansson, D., (2009) argue that literature specifically addressing the effects of institutions on fast growing firms is scarce. Additionally, the institutional perspective has served as theoretical path analyzing the impact of external barriers to new venture development in emerging and transition economies (Aidis, 2005); (Meyer, K. E., and Peng, M. W., 2005); (Wright, 2005).

The concept of “institutions” refers to the “the rules of the game in society” (North 1990), which when is stable can assist in reducing uncertainty and risk for individual behaviour, as well as the transaction costs connected with conducting entrepreneurial activity. These rules include

‘formal’ institutions, such as the constitutional, legal and organizational framework regulating individual actions, but also ‘informal’ institutions, which refers to culturally transmitted codes of conduct, values, and norms (North,1990). Informal institutions embrace unmodified attitudes, which are embedded in society, and which act as regulators on individual behavior. In any context, institutions represent both sides of the process, constraining and enabling forces concerning entrepreneurship. North’s (1994) approach distinguishes between formal (laws and rules) and informal (social norms) institutions; the first ones refer to the legal frame that regulates social relations produced in a specific society, such as written constitutions, norms, rules, laws, and governmental procedures. North (1994) suggests it is the interaction between the rules of the game and organizations that shape the institutional evolution of an economy, in which organizations and entrepreneurs are players. Informal institutions represent the culture of a society and include unwritten social norms of conducts that individuals follow in their day-to-day activities. In culturally homogenous groups such as beliefs, attitudes, ideas, values, traditions, perceptions, taboos, all of which are part of the social inheritance and are also socially transmitted (Sautet, 2005). Tensions derived from the confrontation between the transformed formal institutions and the persistent informal ones, produce important outcomes in the way of how economies develop; one of them is that formal rules enrich and encourage the effectiveness of informal institutions (North, 1990) cited by (Centeno-Caffarena, 2006).

However, in the early stages of transition, their role is often mainly a constraining one, as the environment is characterized by a high level of uncertainty, associated with rapidly changing external conditions and major institutional deficiencies. Such conditions can result in significant additional operating costs for businesses seeking to comply (Smallbone, D. and Welter, F., 2001a, 2010). In this course of study are investigated barriers to SB growth in the case of Kosovo, which illustrates a distinctive way of barriers that impede business growth in Kosovo, in a context of transitional and difficult environment of doing business. While most of the prior researchers in this area have delved selectively into the problem, this study aims to undertake a multidimensional approach, trying to identify a multitude of factors with impact on SB growth. Meanwhile, this study also includes general factors, both internal and external, that exert influence to SBs growth in Kosovo.

In transition countries with a low level of development, uncertainty is generated. The uncertainty is caused due to the lack of support from institutions and missing information on future behaviour in a business environment. Baumol (1990) argued that entrepreneurial activity could take productive, nonproductive and even destructive forms, depending on the institutional context. Further, he argued, “at least one of the prime determinants of entrepreneurial behavior at any particular time and place is the prevailing rules of the game that manage the payoff of one entrepreneurial activity relative to another.”

In an initial phase of transition to a market economy, the entry into force of new laws generates opportunities for the flourishing of private entrepreneurship, but on the other hand, the defective legal infrastructure hampers entrepreneurship (Smallbone and Welter, 2009). In response of weaknesses of other theories seeking to explain the growth of firms, the institutional theory provides a good guiding framework for the external environment influencing entrepreneurship, compared to the mature market economies (Smallbone and Welter, 2006, 2010). Therefore, taking in consideration the research objectives of this study, and the nature of the problem dealt with, we see the close relationship between business barriers in Kosovo and institutions to be a way to delve into the essence of the institutional theory.

### 2.3.2. Human capital theory

Small Business Growth Research, has been focal point of many researches on the context social and human dimension character considering SBs as vast contributors to the employment in transition countries. Such treatment would be very important even in the case of Kosovo where the unemployment is very high. First we can conclude that Entrepreneurship and the SBs sector contributes to the economy in the form of job creation, technological innovation, and economic growth. Neoclassical theories failed to explain the modern growth challenges of firms, especially small businesses. These theories or approaches later have been improved by Penrose theory which became the cornerstone of the theory or approach based on human resources.

The growth rate of firms is limited by the speed, which new knowledge and resources have been accumulated, and by the ability of managers to learn and react quickly to accommodate and expand this field in firm activity (Sapienza H.J. et al., 2004). So, in coherence with Penrose's theory, knowledge and learning are seen as the key factors of firm growth. For the

purpose of effective use of knowledge, small and new firms should develop learning relationships from external knowledge sources (Zahra and George, 2002). Amongst the most important forms of external interconnection between firms are the form of cooperation, strategic alliances, joint research projects, consultancy, exchange of information and experiences through association in specific industrial associations on national and international level.

According to Janssen, F. (2002), human capital is also an important component in business development; she says that young human capital was an important component for successful market entry of small firms in the countries in transition. Countries in transition are relatively good in terms of formal education. However, the social and cultural environment is less favorable. The role of managers involves the development of human resources ranging from the top management team. In the new competitive, dynamic and complex landscape, a heterogeneous and diversified management team is needed to develop appropriate strategies (Morrison, A., et al (2003).

Skills related barriers include lack of education or skills and experience of owners/managers and employees. These barriers can be summarized as human capital. Relationships between human capital and business growth have been widely studied. With the exception of any contradictory information, research shows that there is a positive relationship between small business growth and human capital (Storey, 1994b). Moreover, we can say that the importance of the human factor for business development is undisputed. Successful management and professionally prepared staff may be time-consuming for SBs. In this context, the "brain of the enterprise" could have contributed to overcoming the challenges and difficulties of the firm in the conditions of strong competition in the market, also in situations where barriers are present.

The risks more often become threats for businesses, and many businesses rest their activities due to their inability to survive in turbulent conditions. Thus, an entrepreneurial mindset can contribute to a competitive advantage (Miles, G. et al., 2000) and is necessary for creating wealth. Adapting and applying a new mindset of entrepreneurship in practice, including segments with an impact on business growth, is an issue mandatory for these countries. "Based on experience, we define an entrepreneurial mindset as a growth-oriented perspective through

which individuals promote flexibility, creativity, continuous innovation, and renewal. In other words, even under the cloak of uncertainty, the entrepreneurial minded can identify and feat new chances because they have to explore abilities that allow them to impart meaning to ambiguous and fragmented situations” (Alvarez, S. A., and Barney, J. B., 2002).

Small firms are always considered generators of economic development, job creation and the engine of the ever-expanding economic development (Schumpeter, 1942), (Galbraith, J.K., 1956), (Galbraith, J.K., 1967). This conventional wisdom was challenged by Birch D. L., (1979) who in an empirical investigation claimed small firms to be the main job generators. The influence of small firm growth to general economic development in any country is indisputable, especially in transition countries those have passed from central economy to the free market economy, faced with a lot of problems in the context of doing business. Some of them are still facing of understanding and applying the new mindset of entrepreneurship on the free market competition economy and behaving on different uncertainty circumstances. McGrath and MacMillan, (2000), view an entrepreneurial capability as a way of thinking about business that focuses on and catches the benefits of uncertainty. This can be achieved only with strong institutional support for small firms operating under marginalized conditions. Such support, among others, includes intervention to encourage more entrepreneurial attitudes, support in training, improving access to finance, promoting exports and internationalization, supporting innovation and developing business networks and clusters (Kume, V. et al., 2009). As we have argued above for the importance of human resources for the growth and development of small businesses in the empirical research of this study, have been selected some attributes as barriers related the abilities of human resources in the case of Kosovo.

### 2.4. Small business growth on perspective of owners/managers

Evidence of practices from different countries suggests that an entrepreneurial mindset based on skills may support the growth of an entire economy, as well as the growth of individual firms, and this might be a very good experience for transition countries, (Whitley, 1992).

If we look at the perspective of owners/managers of firms, another important factor that might affect growth is the willingness of the owner to keep control over the firm. It is argued that owners/managers of most businesses deal with day-to-day management tasks as well. As firms

start to grow, the willingness of the owner to keep control of the firm and not to delegate decision-making to employed managers might inhibit growth of the firm. On the other hand, as the firm gets larger, it faces a managerial challenge, as those owners who wish to keep control of the firm will not be able to manage a firm larger than the one they initially established. Literature suggests that small business owners sometimes are reluctant to grow even though they may have found opportunities to expand. In this case, desire of an owner to retain decision-making power and control acts as a barrier to growth (Krasniqi et al., 2008). At times, firm growth becomes an uncertain process, which depends on several factors, like environmental conditions, including competition and market dynamics. For small firms, growth is also influenced by personal ambition of an entrepreneur. For instance, not every entrepreneur aims to grow her business (Haibo Zhou and Gerrit de Wit, 2009). Risks become more often threats for businesses, and so many businesses rest their activities due to inability to survive in turbulence conditions. Thus, an entrepreneurial mindset can contribute to a competitive advantage and is necessary for creating wealth (Miles et al., 2005).

Continuous pursuit of profits by economic actors, that exceeds the risk-adjusted rate of return available for passive investors, leads to a situation in which entrepreneurship, talent and ownership skills are channeled to the most promising areas and supplied in the best possible quantities. This increases the probability for the new business opportunities to be exploited and developed to their full potential. This process creates the organizational and structural capital, which is an indispensable component in all successful enterprises. A potential entrepreneur can always refrain from developing and using his/her skills and remain an employee with a fixed salary; a venture capitalist can choose to remain passive instead of supplementing his/her financial investment by supplying management skills, and so on (Magnus H. and Dan J., 2009, 2010). Moreover, this is strongly correlated to the motivation of the entrepreneur to grow the firm, which Storey (1994b) ranked as a very dominant factor amongst others in terms of entrepreneur features. Employment growth indicates that a change has occurred in the organizational composition or the strategy of the firm (Hanks et al., 1993), which in turn warrants an increase in the number of persons working for the firm. This change is often due to the expansion in the scope of firm operations or an immediate increase in business. Employment growth means when a firm is equipped with new human capital, through which its objectives can

be fulfilled. The firm would then also be better enabled to assess the external environment, to ensure it can compete most effectively (Box, T. M. et al., 1993). In addition to indicating internal changes occurring in the firm, growth in employment signals the contribution the venture is making to the community from which it operates (Kirchoff, B. A., and Phillips, B. D., 1988) and (Venkataraman et al., 1990). We argue that analyses of firm growth in general, and the economic contribution of HGFs in particular, benefit from being evaluated in a broader context of structural transformation. The rapid growth of some firms, on the one hand, requires entry of new firms from which to recruit high-growth candidates, and on the other hand the contraction and exit of other firms to free up resources for expanding firms (Magnus H. and Dan J., 2010).

#### 2.4.1. Entrepreneur's Strategies as a Determinant of Growth

Strategic entrepreneurship (SE) involves simultaneous opportunity seeking and advantage seeking behaviors and results in superior firm performance. On a relative basis, small entrepreneurial ventures are effective in identifying opportunities, but are less successful in developing competitive advantages needed to appropriate value from those opportunities. In contrast, large established firms are often relatively more effective in establishing competitive advantages, but less able to identify new opportunities. We argue that SE is a unique, distinctive construct, with the use of which firms are able to create wealth. An entrepreneurial mindset, an entrepreneurial culture and entrepreneurial leadership, strategic management of resources and applying creativity to develop innovations are all important dimensions of SE. Herein, we develop a model of SE, that explains how these dimensions are integrated to create wealth (Duane I. R. et al., 2003).

Historically, small companies and start-up ventures have been relatively skilled in identifying entrepreneurial opportunities, but less effective at developing and sustaining competitive advantages needed to exploit those opportunities over time. In contrast, more established organizations have demonstrated relatively superior skills in terms of developing and sustaining competitive advantages, but have been less effective in recognizing entrepreneurial opportunities that can be exploited with their resources and resulting capabilities (Ibid, p. 966).

Thus, entrepreneurial and new venture firms tend to excel at opportunity-seeking behavior while established companies typically shine in the exercise of advantage-seeking

behavior. Alternatively, firms pursuing SE fundamentally seek new opportunities (i.e., opportunity-seeking behavior) either to disrupt an industry’s existing competitive conditions or to create new market spaces (i.e., advantage-seeking behavior). Although, early research efforts is useful to explicate SE as a unique construct do not adequately describe its distinctive dimensions.

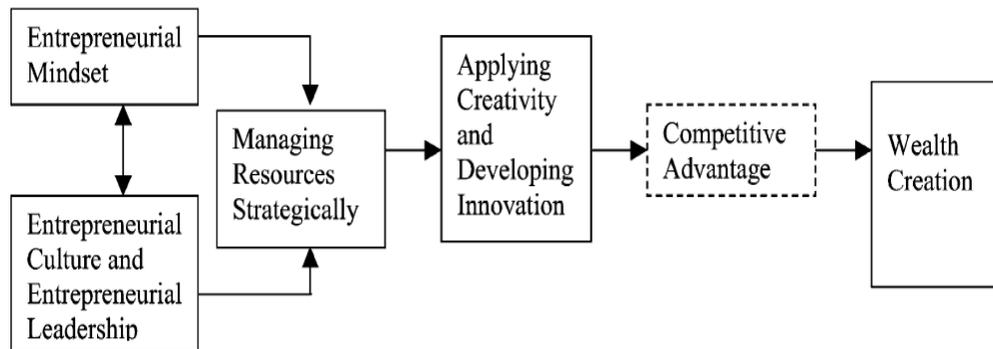


Figure 2: A model of strategic entrepreneurship - R.D. Ireland et al. / Journal of Management 2003 29(6), 963–989

Herein, we expand on contributions of prior work by identifying and critically examining SE’s underlying dimensions. Several theoretical bases, including the resource-based view (RBV) of the firm, human capital, social capital, organizational learning, and creative cognition are integrated into this work. This integration is important because it addresses how combining and synthesizing opportunity-seeking behavior and advantage-seeking behavior leads to wealth creation (Duane I. R. et al., 2003).

According to Cowfrey (2012), the characteristics that have been covered so far are necessary for someone to be able to act in an entrepreneurial way, but there is one other characteristic for success that seems to be eroding fast in the Western world, and that is the one of hard work. There seems to be a misapprehension in people’s minds that the true entrepreneur just happens. Whilst it satisfies the media to sell stories of amazing and instant success, the reality is that, along with the opportunities that appeared before them and the mindset to grasp those opportunities, there is a need to get about 10,000 hours of work in to achieve excellence.

It is interesting to read Malcolm Gladwell’s book “Outliers”, with regard to the way people as Bill Gates and the Beatles managed their ‘instant success as a result of their 10,000

hours!’ So we are now getting close to defining the mindset that we need to develop. According to Cowfrey (2012), entrepreneurs need to have:

- A clear and feasible vision
- A vision in which not all resources may be under own control
- Self-awareness
- Confidence
- Self-motivation
- A willingness to take calculated risks
- A willingness to listen to others
- A lack of fear of failure
- A willingness to work hard

Understanding of relationships between entrepreneurship and performance improves as more contiguous variables are tested and model specification increases (Lyon, D.W. et al., 2000). For instance, Dess et al., (1997) link entrepreneurial strategy-making processes to firm strategy, the environment, and performance, while Zahra (1993) has found that corporate entrepreneurship influenced firm performance depending on the external environmental context. Whilst, Covin et al., (1991) and Miller (1983) suggest innovation, risk taking, and pro-activeness as key dimensions of entrepreneurial activity. Lumpkin, G. T., and Dess, G. G., (1996) in an effort to focus on an important component of entrepreneurship, identified the dimensions of an “entrepreneurial orientation” (EO) construct (Lyon, D.W. et al., 2000).

### 2.4.2. Entrepreneur’s intentions as a strategic orientation towards growth

Growth intentions are perceived the ways how owners/managers think about growth options. There are several ways in which firms can achieve growth. For example, through various forms of co-operation through joint ventures, sales fulfilling market demands that generate rapid growth for large established organizations. Such strategic options are often used by many competitive firms in the global economy. Successful mergers and acquisitions can help firms generate additional wealth, (Ireland, 2003). Growth is also a key objective for entrepreneurial activities. In this context, growth or wealth creation is a result of entrepreneurial growth-oriented activities. Innovation, risk taking, and proactive behavior often constitute the

basis of Entrepreneurship (Morrison, 2003). Extremely ambitious entrepreneurs are the ones who undertake the growth of entrepreneurial activities that demonstrate intensity and have powerful and powerful visions for the wealth they create. With the effective integration of entrepreneurial and strategic actions, these high-growth ventures utilize unique patterns of different strategies to create growth or wealth (Davidson et al, 2002).

How barriers are perceived to influence the past or current growth intentions and behaviours, and how, if at all cases barriers were managed or overcome, this is a matter that differs from one country to another as of the specifications that they have. As the decisions for growth depend on some factors, like the "hostile environment" (e.g. economic, political and legal environment) and on "Creative use of rare resources by entrepreneurs". This also differs from developed countries to transition countries (Doern, R., 2009).

While, in term of understanding of the relationship between barriers and growth intentions and behaviours is insufficient, there is some evidence to suggest that certain factors or barriers such as (e.g. unfair competition or lack of the rule of law) may stop owner and managers from intending to grow. In some cases, exists evidence that owners/managers do not have the intention to grow their businesses (ABSDT and Industry, 1991). Alternatively, in some cases, this should be understood as the subject to the change in the behavior of managers (Cliff, 1998). In some circumstances, barriers might influence on decision of owner to grow. For example, it has also been suggested, that barriers which cannot be managed or overcome may stop owner/managers from acting on intentions to grow (Krueger, 2003).

During the process of interviewing of owners/managers, we understood the meaning of barriers in different cases and the practices where barriers may influence to growth. The situation in Kosovo differs from some other countries on the context of perception by owners and managers. For instance, they often feel 'frightened' from the barriers, and they mobilized to overcome them. As we can see the results from empirical result (in chapter 6) the aim of each enterprise is to have continuous development of the activity by carrying out projects that help to expand the activity and realize the development plans. Of course, by analyzing the business development circumstances, a large part of the respondents, or 70%, stated that they want to grow their businesses, despite the existence of barriers. Despite the existence of barriers the

owners/managers do not give up to the growth intentions! Even high presence of barriers, the intention to grow among of owners/managers exists and in some cases not only to survive in such conditions, but they put extra efforts to grow their businesses.

## CHAPTER 3

### 3. BARRIERS TO FIRM GROWTH AND DEVELOPMENT IN TRANSITION ECONOMIES

As we have stated many times in this dissertation, barriers are exclusively due to inefficiency of government institutions. Some of the barriers with impact on business growth are macroeconomic environment, legal and regulatory environment, unfair competition, informal economy and corruption, financial obstacles, tax burden (Krasniqi, 2007). In general, there are two main factors that constrain the economic development of the country:

- Political instability
- General economic policy

These factors are present due to the incapacity of institutions to build sustainable mechanisms to support the private sector development. In Central and Eastern European countries (CEECs) newly joined in the EU, the state has become a positive agent of institutional change concerning entrepreneurship development. At the same time, it may be argued that entrepreneurs have contributed to creating a demand for institutional change through the key role they played in the development of the economies in the first decade of transition. However, the process of accession to the EU has contributed to institutional development and administrative reform, driven partly by the need for accession countries to meet the conditions for entry laid down by the EU, and partly by their desire to have the institutional conditions in place that would enable them to successfully access structural funds of EU. This has affected the institutional structures, including the development of sub-national institutional frameworks (in some countries), policy processes as well as the policy itself (Smallbone, D. and Welter, F., 2010).

The institutional environment in transition economies is usually described as fragile, underdeveloped and ill-suited for SB growth. Moreover, institutional barriers faced by owners / managers in these countries, including Kosovo, have a negative effect on growth and business development. Studies in this area suggest that in transition economies, the institutional environment is not always in line with goals of small business owners / managers in terms of

growth for their businesses. For example, Manolova, S.T. and Yan, A. (2002) have analysed how the institutional environment influences the behaviour of some firms in Bulgaria. They discovered that this environment was "unpredictable, corrupt, and hostile to the growth of entrepreneurial firms". In response to this environment, owners / managers engage in informal networks, moreover the owners / managers set towards short terms, and this made them have a strategy only for limited growth, and sometimes, they have no growth strategy at all. The same situation is described by Hoxha (2009) for the case of Kosovo, and Krasniqi (2012), in which they found that owners / managers are seriously hindered from growing their businesses, due to the uncertainty for the future. This occurs due to the lack of support strategy from government institutions.

In Russia, Puffer and McCarthy (2001) argued that growth decisions depend to some extent on the "hostile environment" (e.g. economic, political and legal environment) and on "Creative use of rare resources by entrepreneurs". According to them, political power was the most important factor of survival and growth of Russian firms in the 90s. That power policy would help them secure necessary properties or licenses, for it had advantages in the field of taxes, contracts or real estate. The study of Puffer and McCarthy of five entrepreneurial enterprises for a 5-year period, found that entrepreneurs were short-term oriented; the attention of entrepreneurs in terms of survival and growth of firms differed depending on environmental changes. Therefore, one may say that in economies in transition, growth goals of owners / managers are very sensitive to the institutional environment.



*Figure 3: Relationship between SB Growth and barriers*

As in many other transition countries and in Kosovo as well, barriers are strongly correlated to the business growth. Most barriers are related to institutions and government policies that govern the business environment in Kosovo. As more as barriers are present, the lower is the growth of SBs. In the following we intend to review the development of the institutional, social and cultural environment for entrepreneurs in transition economies, focusing on difficulties in the consolidation of societies, in building a comfortable environment of doing business. Most important factors in establishing a political environment conducive to strong business and investment climate are Security, Protection and guaranteed foreign investor rights; Legislative stability; Transparency; freedom from corruption; and good governance. In general, the low percentage of companies noting the lack of human resources as a major obstacle is not too surprising. Gelb et al. (2007) found that the basic restrictions (such as macroeconomic stability, electricity, access to finance), seemed to gain more relevance at low levels of income.

Alternatively, if we compare findings from the study of Bartlett and Bukvic (2001) on barriers to SME growth in Slovenia, levels of impact of various factors weren't the same as in Kosovo. Barriers were more intensive in relation to finance, while in the situation of Kosovo, the rule of law and other negative phenomena are seriously challenging development and growth prospects of SBs. Therefore, it was concluded that the situation of Kosovo was different, while environmental barriers declared by respondents had a significant impact on SB growth, and, as a result, they seriously constrained the growth of the SB sector. From an examination of the previous analysis, and a comparison of results to this empirical study, we show that there is little change in the impact of factors on growth of small business in Kosovo. Most factors remain approximately the same, large impact, even in the period of our own research. Manolova et al. (2008) found that attitudes towards institutional environment for the development of entrepreneurship across three countries - Hungary, Latvia, and Bulgaria, were less than favorable. However, reasons given by respondents (i.e., business students) to explain why findings differed between countries, produce implications on how policy reforms should proceed in each case. Each case has own specifics, to be addressed accordingly. Kosovo should learn from the experience of those who have passed through transition, and practice some of the applicable strategies to overcome the situation.

According to Saul E. et al., (2005), institutions affect entrepreneurial endeavors in two ways: Firstly, they may hinder the creation of firms, thus lowering a total number of entrants into the market. Second, they may create obstacles to firm performance, as measured by survival period, growth or profits. The transition process opened many opportunities for entrepreneurship development, legacy of the planned area was in many ways not favourable, and many aspects of the reform process acted to make the environment even less conducive to entrepreneurs (Boettke, P. and Christopher J. C., 2006). Informal economy in general as a part of the entrepreneurs behaviour and evasion behaviour can be found in relation to many aspects of the legal and regulatory framework in the the Commonwealth of Independent States (CIS)<sup>3</sup>, reflecting deficiencies in business regulations and/or their implementation. This typically leaves too much room for interpretation by officials, thereby contributing to corruption (Smallbone, D. and Welter, F., 2009a).

Recently, literature has begun paying attention to the role and impact of institutions on entrepreneurial behavior (Boettke, P. and Christopher J. C., 2003). In the initial phase of transition to a market economy, the introduction of new laws creates new opportunities for entrepreneurship by allowing private owners to exist legally, but a deficient legal infrastructure, such as implementation gaps, and restrictive entrepreneurship development (Smallbone, D. and F. Welter, 2006). The institutional frame for entrepreneurship can be considered at different levels of scale (Welter F., 1997). This issue concerns not only institutional barriers, but it is multidimensional and more complicated, influenced by behaviour of individuals and the society. This is the reason that agenda of research on the dynamics of adoption of new economic practices, innovation, and economic growth necessitates to be extended beyond the level of the firm (Castells, 2000). However, economies in transition begin their reforms without a complete legal and institutional frameworks needed to create the basis for the market economy and entrepreneurship (Ingrid V. et al., 2003; Chilosi, 2001).

Organized crime, which is interfaced with mentioned barriers, is also considered as a serious barrier, being ranked on a high level in the overall list of barriers. There are also other indicators that highlight these barriers as problematic. Hence, unfair competition, corruption, non-competitive practices, debt collection, the lack of political stability and non-functioning of

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<sup>3</sup> The Commonwealth of Independent States is an association of countries that formerly were Soviet Republics.

the judiciary system are perceived as serious barriers. All these have one thing in common - the lack of rule of law. In lacking legal infrastructure, there is room for the appearance of negative phenomena. These phenomena hinder the normal development of the enterprises (Polishchuk, 1997). Sometimes, informal institutions are adopted because the formal rules are inefficient and individuals find it is less costly to make informal arrangements than depending on the formal rules (Feige, 1997); (Pejovich, 1999); (Smallbone, D. and Welter, F, 2003). Such conditions are present with what Baumol W. J., (1990) defines as unproductive and destructive entrepreneurship. It is only in situations where formal and informal institutions combine to form a coherent framework that formal regulations and the 'rule of law' will positively shape individual behaviour. By contrast, in fragile settings where the rule of law is largely absent, 'incompliance with the formal rules becomes pervasive,' (Feige, 1997) (Smallbone, D. and Welter, F., 17 May 2010) and (Andrew Atherton & David Smallbone, 2012).

In transition countries barriers that are more frequently mentioned in the literature are: Administrative burdens and bureaucracy, inefficiency in implementing legislation, licensing procedures, informal economy, fiscal evasion, corruption, organized crime, etc. Corruption as a phenomenon is associated mostly with countries in transition representing a significant challenge to the development of open competitive markets and entrepreneurship (Manolova et al., 2008), (Tonoyan et al., 2010), (Budak, J. and Rajh, E. , 2014), (Griffiths, et al., 2009). For example, while informal institutions can develop as a result of spontaneous and intended individual actions, they can also partly result from formal institutions, which they can in turn modify. In this regard, informal institutions evolve as a culture-specific, collective and individual interpretation of formal rules. For example, while a specific legal framework normally contains explicit regulations for implementing laws, over time these regulations are complemented by unwritten rules, which provide an implicit understanding of their content. In this sense, informal institutions may fill legal gaps, which may only become apparent when laws and regulations are applied to daily life (Smallbone, D. and Welter, F., 17 May 2010).

Formal institutions are enforced by coercive mechanisms, which are mainly set down in government rules and regulations, while informal institutions are enforced by normative and mimetic mechanisms. Normative mechanisms assist in creating legitimacy, which is of particular importance in the case of nascent entrepreneurs and entrepreneurs in contexts where the newness

of the concept of entrepreneurship may affect its acceptance in the wider society. In this context, the way that government deals with entrepreneurs influences the extent to which involvement in entrepreneurship is an acceptable form of behaviour within the population as a whole, as does the behaviour of entrepreneurs themselves. This illustrates the relationship between the behavior of formal institutions and informal institutional change; secondly, between informal institutional change and entrepreneurship development; and thirdly, the recursive link between entrepreneurship and informal institutional change (Ibid. p.5).

Earlier, there existed a perception that large firms are better able to protect themselves from corruption using political power to influence government agents (Hellman, J. and Schankerman, M., 2000). Now from the practice of the transition economies, there is corruption with implication of the people in power for their political and personal benefits. Rather, the institutional environment creates numerous barriers to market entry and further growth of new firms. This prevents entrepreneurs from exploiting opportunities created by the transition. Kosovo faced with numerous obstacles, such as lack of consolidation of law, but also various institutional constraints. The specific path of Kosovo in the past decades has made these obstacles to surface even more. Before identifying the 'kinds' of barriers that comprise the focus of the current review, it is useful to consider the classifications of barriers that have featured both in previous reviews and in previous empirical research. Further on, learning from preliminary research, investigation shall focus on sub-sections, based on the following classifications of barriers that hinder business growth, as set forth by Doern, R. (2011): *1. Financial, 2. Skills related 3. Institutional, and 4. Market-related.*

SB development, in most advanced western economies, is considered as a key factor in economic growth, innovation, and market competition (Acs, Z.J. and Audretsch, D.B., 1990). Equally, SBs are considered a central source of job generation and wealth creation (Birch, 1979; Storey, 1994b). In transition countries, the role of SBs is even more highlighted. It is expected that they take the role of renewing the economic state of the country. They contribute to regional development, and provide social wealth, through creating a substantial number of jobs and serving as an engine of growth. Still, SBs failed to be on that level of comfortability due to the barriers, even significant contribution role in most transition countries. The hostile and adverse environment for doing business, lack of financial capital and other barriers substantially impeded

SMEs growth and development in transition countries (Smallbone and Welter, 2001); (Aidis, 2005); (Bartlett and Bukvic, 2001). Certainly, firm growth is an important indicator of a thriving economy, and SB development may be seen as key to economic growth, innovation and market competition in most developed western economies. Moreover, SBs are considered to be an essential source of new job creation and profit generation (Acs and Audretsch, 1990), (Storey, 1994c), (Janssen F., 2009).

### 3.1. Lack of institutional support as a main barrier to small business growth

In the literature we find different denomination of barriers by different authors. Some of them barriers classify as internal and external barriers, internal thinking about barriers inside the enterprise and external all the other barriers that characterize a difficult business environment. Some authors, external barriers those acting outside the enterprise also called institutional barriers by making the institutions responsible for them and their inability to arrange a sustainable business environment, or the lack of support for businesses, but also the inability to eliminate negative phenomena which hinder growth and development of businesses.

It is widely recognized that the external environment plays a crucial part in SB growth. The recent line of research investigating the impact of external environment on the growth of small firms forms the focus of the so-called “barriers to growth” literature. This literature maintains that while only a proportion of small businesses are growth-oriented, the ability of this group to achieve their growth potential is impeded by the external business environment, (Hashi, I. and Krasniqi, B., 2011).

What are barriers exactly, and how they have been described in the literature? The concept of barriers to growth according to Welter, F. and D. Smallbone (2003) has been described in some ways:

- a. Factors or conditions that present a perceived discrepancy between growth prerequisites that do exist, and those considered desirable.
- b. Barriers under such circumstances where the influence on business growth is negative.
- c. Internal and/or external barriers to the firm are present, when growth is desirable but the ways and potentials for their management to overcome are limited.

While these features of barriers are discussed separately below, for the purposes of clarification, they are in fact related. Although, discussing this phenomenon, some authors (Barlett, W. and Bukovic, V., 2001); (Welter, F. and D. Smallbone, 2006) have addressed several barriers which can be classified as institutional barriers, internal organizational and resource barriers, external market barriers, financial barriers and social barriers.

Many authors stressed the importance of the factors related to the institutions and they divided the factors in groups, as factors related to strength of the rule of law, market-related factors, infrastructure, and HR factors (Morrison et al. 2003; Haber and Raichel 2007; Doern, R., 2009; Wiklund et al., 2009). According to Smallbone, D. and Welter, F., (2010), institutional factors of firm growth can be viewed in a three-dimensional concept or are distributed in three levels:

1. Internal level (firm level)
2. Intermediate level
3. External level (environment)

Or:

1. Micro
2. Mezzo
3. Macro (level)

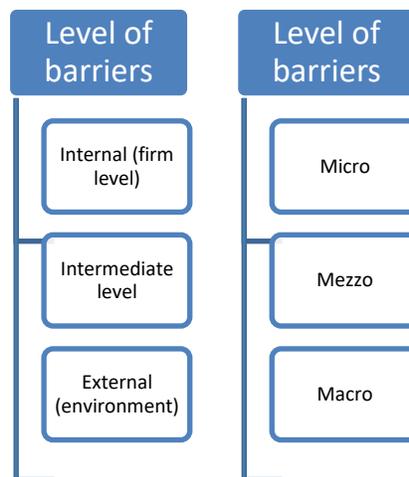


Figure 4: Levels of barriers (internal and external) based on Smallbone, D. and Welter, F., (2010)

At a macro level, they include the responsibility for policy making with respect to entrepreneurship and SB development within government, together with mechanisms for policy implementation. At a mezzo level, the concept includes the banking system and other financial institutions; training and business support systems; but also organizations that seek to represent

special interest groups in dealing with government (such as employers' associations and Chambers of Commerce). At a micro level, institutional development focuses on the operation of macro and mezzo-level organizations within the institutional frame at the local/regional level. This includes the operation and behavior of business development centres, but also local offices of regulatory bodies and those of national agencies and organizations. National policies may exist for these organizations, but their implementation at a local level may differ. The effectiveness of the overall institutional frame as an enabling influence on entrepreneurship development is affected by the relationships between these different levels, as well as by the behaviour of individual organizations within them.

Capacities of institutions in dealing with negative phenomena are still a serious challenge to be managed. They are followed by factors that support normal development of SBs, including effective services, elimination of administrative burdens, facilitation of access to finance, application of favourable tax policies, and other policies mainly attributable to formal institutional services. In this regard, in the beginning of transition, access to finance is considered an obstacle to SB development, consequently constraining their growth. According to Krasniqi (2004), the larger the firm is, the higher is probability of getting a loan, and vice versa. The age of the firm also increases the likelihood of getting a loan. This analysis confirms that smaller firms are credit-rationed in the financial market. This is because small firms are frequently not able to provide collateral. Also, banks are biased toward lending larger business because of lower administration costs. High interest rates for loans, lack of experience in applying for credit, absent capability in formulating business plans, collateral, ownership problems and others are the main challenges voiced by the firms. Good governance is a crucial factor towards sustainable development. Rodrik (2000) and Arin, K.P. et al., (2011) indicate that the better governed states are less prone to economic instability. Corruption is one of the most significant impediments to economic growth. Numerous studies have found that corruption reduces human capital, discourages investment, leads to a misallocation of resources, lowers the quality of public infrastructure and services, and thus ultimately hampers economic development (Olken et al., 2012).

There are many barriers related to institutions, and then implications of policymakers who lead institutions, as frequently underlined by owners/managers of businesses. Institutional

barriers are crucial in terms of hindering business growth. Some authors have made a confusion related to the impact of institutions. Bruton et al. (2008) have argued that not enough is known of the impact of institutions on firms' behaviour in new market economies or countries in transition. Based on empirical evidence, and findings of this study, it is proven that informal factors hinder the growth of firms. Institutional obstacles to entrepreneurship development, are characterized by many deficiencies, influencing chaotic forms of entrepreneurship, thereby generating such situations that entrepreneurs by themselves create 'new rules of the game'. This means that corruption and other negative entrepreneurial behaviors appear in the absence of an efficient legal system. Therefore, there is some consensus, to some extent, in literature, between a majority of authors that a favorable environment of doing business is necessary in transition countries. In the case of Kosovo, entrepreneurship developed under special conditions, rarely seen elsewhere, since it is one of the last countries having trouble in transitioning towards a free and open market economy. The business environment and relative entrepreneurial development served as an appropriate setting for Solymossy (2005) for expanding on previous models of entrepreneurship. He suggests that Kosovo represents the complex circumstances of a fragile climate to develop the entrepreneurship. The circumstances were specific, but the process will be similar to many Balkan countries in timeline.

In order to keep businesses informed, institutions should conduct active media campaigns to keep businesses up-to-date with all relevant information, and they need to promote their role before businesses, as it seems that a large number of businesses are not sharing information on benefits they can obtain from foreign and domestic agencies. Promotion can take various media channels, including social networks. There is a need to improve consolidation of inter-institutional communication, with all central and local organizations on one side, and then universities and the business community on the other, in networking together for institutional assistance for small businesses. Regular meetings must be held to ensure up to date information. These meetings should be open to each community resident and to be held more frequently in institutions' buildings. Participants can share their opinions and discuss general business developments and obstacles that can be eliminated, meetings with official advisers or professionals will be a benefit for SBs. This process may even engage experts of the field to teach citizens about challenges businesses might face. Ultimately, there is a need for better

institutional and organizational coordination of all actors and stakeholders in the field. Export Promotion Activities from respective institutions, such as Chambers of Commerce and Business Associations and other government bodies, are necessary and largely required; they should closely cooperate to the benefit of businesses and eliminate biased representation of partial interest of particular groups.

### 3.2. Market Barriers

In the early years of economic transition, the absence of credit markets, courts, and other market institutions created substantial impediments to entry. Potential entrants had to find money with which to purchase equipment and inputs. They had to identify reliable suppliers and customers when most firms were new and little information was available. The unusually high profit rates early in the transition provided a strong incentive for entrepreneurs. But what substituted for the missing formal institutions? How did the entrepreneurs succeed in overcoming the lack of market supporting institutions? Ongoing relationships among firms substituted for the missing institutions. Firms relied on the logic of the incentives to cooperate that arise in playing a repeated game. Where courts and laws are unreliable for settling disputes, firms trust their customers to pay their bills and their suppliers to deliver quality goods out of the prospect of future business (McMillan, J. and Woodruff, C., 2001).

Informally enforced trade rests in the shadow of the future. A firm lives up to its agreements because it wants to go on doing business with this trading partner. For the future to weigh heavily enough to induce cooperative behavior, the discounted value of the future profit stream must outweigh whatever immediate profits could be squeezed from the deal. Some of the conditions in the transition economies actually worked against cooperation. The scarcity of credit meant the opportunity cost of capital was high. With high discount rates, firms have an incentive to take current profits rather than wait for future profits. Moreover, as we saw, profits tended to decline over time. To the extent that this was predictable, the gains from forward looking behavior were lowered. That firms were nevertheless able to operate mutually beneficial relationships is striking. Other circumstances of the transition aided informal contracting. Cooperation is easier to sustain when severing the relationship results in higher costs. Early in the transition, trading partners were most often located in the same city or even the same

neighborhood. There were usually few firms nearby producing any given product. When a supplier severed the relationship with a customer, the customer had to incur a high cost of searching for another trading partner. As a result, trading partners tended to be locked to each other, inducing them to try to sustain their existing relationships, (Kranton, 1996; McMillan J., and Woodruff, C., 2002). Moreover, they suggest that the demand for the firm's products is a major external determinant of small firm growth. On the other side, the market actions of competitors, the supply of production factors, and the features of the local business environment have their substantial impact on business growth.

Environments vary along dimensions such as dynamism, heterogeneity, hostility, and munificence (Dess and Beard, 1984), and these external factors may to a considerable extent determine how much the firm grows (Davidsson et al., 2010). Alternatively, firms pursuing strategic entrepreneurship (SE) fundamentally seek new opportunities (i.e., opportunity-seeking behavior) either to disrupt an industry's existing competitive conditions or to create new market spaces, i.e., advantage-seeking behavior, (R. Duane, et al., 2003). SBs are faced with increasing competitive pressure stemming from globalization, enlargement and the opening up of markets spurred by new technologies and innovation. They will need to find ways to tackle these difficulties because the challenges are likely to persist and to increase in the future. To survive and win in such a competitive fight, to grow in such an environment, they must also develop their comparative advantages, and this requires knowledge, financial resources, and economic flexibility. Public policy at the local level can play a significant role in enhancing entrepreneurship performance by tackling the various market failures that can occur, for example in the supply of finance, premises, training and business advice, and by helping to overcome learning failures within local markets by building firm competencies and networks for knowledge exchange. This includes intervention to encourage more entrepreneurial attitudes, support for training, improving access to finance, promoting exports and internationalization, supporting innovation and developing business networks and clusters. Reform measures have largely contributed to strengthening the private sector development and supported the SME development (Kume, V., Koxhaj, A., Kume, A., 2009).

Much work remains to be done by state institutions, especially in law enforcement and ensuring equal conditions for all participants in the market, especially when considering that

businesses continue to suffer from corruption and red tape in their daily operations. According to Glancey (1998), the idea alluded to above that external constraints arise mainly from competitive conditions. Often, firms are in a situation in which market plays are not balanced and the activities of the firms are one direction oriented, creating strong competition. On the other hand, hostility may also arise from different sources, including declining demand or radically changing technology, which pushes the firm to change its technology or to seek for other market opportunities (Clement et al., 2004). In that situation, the support of institutions should be oriented towards advisory and consultancy services, in order to generate a diversity of activities and sectors. Or, in the other side of the scale, stimulate activities in deficit. This would help the creation of “sound” new firms, survival and growth of existing firms. Evidence shows that most of the transition countries were unable to achieve their pre-transition levels of GDP even after many years of recovery. However, even now when most economies of the region are more stabilized and growing, as shown by the analysis as well, low demand seems to be one of the obstacles to SB growth. If we add to this the inadequate market infrastructure, especially the underdevelopment of financial institutions, we have a clearer picture of the overall economic conditions for small business growth.

### 3.3. Internal factors

An extensive review of literature provided by Dobbs and Hamilton suggests that deterministic models are more dominant in explaining small business growth. Earlier work of Storey (1994a) provides a comprehensive framework for analyzing small business growth which integrates many factors considered by previous research such as entrepreneur, firm and strategy. Similarly, Dobbs, M. and Hamilton, T.R., (2007) in their survey of the literature also show that thirty independent variables determining small business growth and they tend to fall into four broad categories: management strategies, characteristics of the entrepreneur, environmental/industry specific factors, and finally characteristics of the firm. These sets of components are not mutually exclusive, but they frequently have to be combined in different ways in order to achieve the high growth. Similar to Dobbs and Hamilton (2007) as we see below Krasniqi et al., (2008) use a deterministic approach and in their empirical analysis include three group of factors considered to have an impact on firm growth:

- a) The characteristics of the entrepreneur, such as age, gender, education, experience, entrepreneurial team and motives for start-up a business.
- b) The characteristics of the firm, such as size, age, legal form, multi plant and separation of ownership from control.
- c) The business environment, such as factors related to the different industrial sector and the growth of the sector in which business operates.

### 3.3.1. Lack of Qualified Human Resources

Systematically, many authors have contributed related to importance of human capital for the development and growth of small businesses. In the literature it was found that human capital shortages were a major obstacle to the development and growth of the firm. Human capital resources based on capabilities of firm employees contribute positively to venture growth by helping the entrepreneurs to execute their objectives (Chandler, G. N., & Hanks, S. H., 1994). However, human resources need to change as a process of the firm progresses, from start-up to an established mature firm (Thakur, 1999). According to Cardon (2003), a start-up may require more specific expertise and highly skilled workers than a mature firm. As the firm enters its expansion stage, it may be able to use lower skilled workers to meet production demands. For a startup to survive the expansion phase, Cardon argues, it is necessary for the entrepreneur to plan staffing for the future.

The majority of researches we examined analysed the effect of human capital resources to the growth of sales or employment of the firm. However, most of the studies examined the effect over an aggregate period of time, such as a 3 or 5 year period, when human capital needs could drastically change prediction for strategic orientation of the firm. According to Gimeno, J. et al. (1997) the coherent education of human capital, enrichment with new knowledge enables normal development of the enterprise. This stage achieved by reforming formal education in the country. While, a well-known economist Gusia, I. (1982) said, "In the knowledge of cadres, much more investment have to be done to gain intensive experience in an organized way because more and more knowledge of the staff becomes substance to determine the production price."

As Birley (1987) reported, quoted by Gilbert et al., (2006) “Growth in certain classes of employees is likely to change with the needs of the firms. The rate of increase for each of these classes of employees may also inform the field as a great deal about strategic directions in which the firms exploit new strategic opportunities”.

Nowadays, strong competition in the markets, inside and outside of the county should be understood as an ‘alarm’ for small businesses to understand the importance of enhancing the professional skills of staff. For instance, entrepreneurs with specific knowledge may also be better able to detect profitable market opportunities that are still unexplored. Specific human capital may also help organize the business successfully and to enable and facilitate growth (Wiklund, J. and Shepherd, D, 2003). For example, human capital theorists argue that education and experience provide individuals with valuable skills that make them more productive. Human capital can be developed over time and transferred between individuals. This differentiates human capital from other individual characteristics, such as personality traits (Wright, 2005).

As we have seen from theoretical research and from our own results of research, we have found an interrelation between growth and entrepreneur skills. This shows several implications for entrepreneurs, like necessity of improvement of their own profiles. The first implication for entrepreneurs as a focal point, and primary in the management context, is the necessity of ensuring a proper level of education, sufficient experience, and training. Also, other staff members of firms, also considered as specific human capital, are indispensable to attend relevant business trainings from time to time. Investment in these specific training opportunities is highly recommended. The second and very important recommendation is that entrepreneurs must be ready and well trained to be able to cooperate with different partners outside of the country, in various forms of cooperation. However, for the SBs to enjoy the desired effect, entrepreneurs must be motivated to start legitimate entrepreneurship, and their enterprises must survive. The most important action is related to general reforms, as a way of incentivising and convincing entrepreneurs to work lawfully; helping them to survive in free market rules, the fair competition of doing business; ensure the prosperity on small business growth. If the burdens outweigh potential gains, businesses have little incentive to abandon the informal economy. Even in the best business environments, the majority of new businesses fail. An unfavourable environment with high taxes, corruption, and an oppressive bureaucracy further destroys the prospects of

success. Further on, responsible institutions should pay attention to promoting best practices of economic development that assist SBs in obtaining access to the markets, financing and support services, emphasizing the need for work knowledge, advises for support programs and incubators that stimulate SBs development.

It is broadly recognized that human capital is also a very important component in business development, and an invaluable factor for entry of successful firms into small markets in the countries in transition. Countries in transition are relatively good in terms of formal education. However, the social and cultural environment is less favourable. As a result, education levels are high in some transition economies and educational standards are in development trends to reach European standards. There is also evidence of lacking managerial skills in transition countries. For, example some senior directors in transition economies have engineering backgrounds, therefore lacking managerial skills as well as market experience (Estrin et al, 2005). In Kosovo the situation is different: there is absence of staff with engineering profile.

The demographic structure of Central and Eastern Europe is characterized with a relatively large number of young people, including Kosovo as well. This in itself can be seen as an advantage to entrepreneurship development. But, nowadays in Kosovo, there is quite the discrepancy between labour market requirements and profiles of education in the educational system of Kosovo. Lack of qualified human resources, including managerial staff, technical staff, finance, accounting, IT staff, field management staff, etc. is considered to be a barrier that hinders SB growth in Kosovo. The focus of the Education Ministry has been on primary education, seeing the necessity to target fundamental schooling. In 2011, only 8 percent of the population had a university degree, which is significantly lower than other Western Balkan countries (23 percent in Croatia and 17 percent in Macedonia) and below the average of EU-27 countries (34 percent). Government spending on higher education is low, reaching 11 percent of total spending in education, equivalent to 1.3 percent of total government spending in 2010. With respect to the fields of study, most students are enrolled in social sciences, and much less in natural sciences or engineering, thereby creating such gap with the labor market. On the other hand, the absence of professionals in the fields of technology and ICT is evident. An investigation conducted by OECD (2013) found that 50% of ICT companies surveyed reported

such lack of skilled labor as a major obstacle to innovation. Similarly, an analysis of the ICT industry in Kosovo shows that the gap between demand and supply of highly qualified graduates, especially in the areas of software development and programming, is a significant challenge in this sector.

### 3.3.2. Individual Determinants

Characteristics of the owner/manager and their influence on growth have been on the focus of many researchers over the last decades. Many of them have tended to focus on the relationship between the characteristics of the owner/manager and firm growth. Within the broad category of owner/manager's characteristics "*Storey (1994a) suggests five elements which are likely to influence growth, these are age, gender, education, motivation and previous work experience of the owner/manager*". Another important factor that might affect growth is the willingness of the owner to keep control over the firm. It is argued that owners of most businesses deal with day-to-day management tasks. As firms start to grow, the willingness of the owner to keep control of the firm, not to delegate decision-making to employed managers, might inhibit the growth of the firm. On the other hand as the firm gets larger it faces managerial challenges, those owners who wish to keep control of the firm, they will not be able sometimes to grow, even though they may have found opportunities to expand. In this case, the desire of the owner to retain decision-making power and control such barriers to growth is not always possible (Krasniqi et al. 2008).

According to Janssen (2003), the performance of individual influenced by the need for achievement and the growth of a firm is to a certain extent a matter of decisions made by an individual entrepreneur, as:

- Risk taking propensity
- Locus of control
- Self-Efficacy
- Extraversion
- Growth motivation
- Individual competencies
- Personal background

Determinants linked to the manager have categorized the growth determinants relative to the characteristics of the manager into five groups: the psychological characteristics of the manager, expertise and family background, motivations, demographic characteristics and the presence of a team of managers. Research on the link between psychological characteristics of the manager and growth of his firm finds its source in past studies on "traits" which aim to differentiate entrepreneurs from other professional groups (Janssen F., 2003).

### 3.4. Internal and external factors as an Integrated Model of Growth – Storey's theory

Evidently, various internal and external factors, under some different circumstances could affect firm growth, and consequently, in this regard very long list of specific growth determinants has been suggested in literature. This attitude of values of many contributors is challenge for studies aiming at approaching a full explanation of the phenomenon of small firm growth, rather than testing effects predicted by a particular theory. On the one hand, it has to include a broad range of explanatory variables; on the other hand, some abstracted sense-making is needed, that is, the grouping of the many specific variables under a smaller number of overarching themes. While similarly other individual studies cover a range of factors on different levels, e.g., Eisenhardt, K. M. and Schoonhoven, C. B., (1990); Sandberg, W. R., and Hofer, C. W., (1987); Davidsson P., (1991) and Wiklund J., (1999) represent some model of growth. In Davidsson's model, all low-level specifics are regarded as aspects of three exhaustive factors: ability, need and opportunity. He further distinguished between objective and perceived versions of these variables, but as his study was intersectional, only the objective factors could be related to actual growth in the empirical analysis. He agreed that three factors affect the growth, but the priority he assigns to the need for growth as being most influential (Davidsson P., 1991).

Wiklund (1999) combined three theoretical perspectives in his model: the resource-based view, the motivation perspective, and strategic adaptation. In his model, the strategy operationalized as Entrepreneurial Orientation (EO), Lumpkin, G. T. and Dess, G. G., (1996) stated that it "is assumed to be directly related to growth, whereas resources, motivations, and characteristics of the environment are assumed indirectly to affect growth via strategic adaptation." From the results, we learn that many factors influence growth, but variables that show the correlation of intention to grow seem to have a greater impact. Subsequent analyses

have shown that Entrepreneurial Orientation (EO) performance link increases in strength over time, at least over periods of moderate length (Wiklund J.,1999). Further on, his results support the notion that strategy has the strongest and most direct influence on growth. This is an important addition to conclusions as explicit consideration of strategy was lacking in his study (Davidsson P., 1991).

An excellent and recent example is the ‘psychological study of factors of firm growth’ (Baum, J. R., and Locke, E. A., 2004). Confining their study to a population of North American architectural woodwork firms and including a small number of firms and environment level control variables, these researchers found strong direct effects of purposes, communicated vision, and self-efficacy on growth over a six-year period. In line with their theory, they also found mostly indirect effects of passion, tenacity and new resource skills. In a less carefully operationalized study, and using a more heterogeneous sample, these relationships may as well have been undetected (Davidsson, P. et al., 2007).

As we explained above many other theoreticians have given their contributions to the growth models of SBs, but Storey’s is clearer and includes two dimensions of the scientific explanation. Storey (1994b) defines the determinants of business growth in two groups, as internal and external factors:



Figure 5: Small business growth barriers based on Storey (1994b) refined by the author

According to Hans Landstrom (1998), David Storey is perhaps the most prominent exponent of small business research in Great Britain. This research is strongly policy-oriented.

Storey's research consists of robust source, high-quality empirical work, which includes detailed literature reviews, a carefully conceived methodology, in-depth reflection and interesting conclusions. In particular, his critical reviews of earlier research deserve attention along with his ability to synthesize knowledge and to render complex phenomena understandable. In this way, Storey has provided a more balanced picture of importance of small businesses for societal development, as well as making small business research more credible. Although he is a harsh critic of prevailing small business policy, he has exerted an enormous influence on national policymakers in European countries, both directly and through bodies such as the EU and the OECD. As of many theoreticians, the determinants of entrepreneurship development are defined as internal and external. Storey (1994b), organized the evidence in three categories: the entrepreneur, the firm, and strategy. Support for influence was found in all three categories. As of factors related to the entrepreneur - according to Storey (1994b), among the variables related to the individual features of an entrepreneur, enormous of studies found that *motivation, education, management experience, number of founders, and functional skills* influence the growth. The firm's structural characteristics like firm age, size, and its legal form are exclusively related to firm growth. Internal and external determinants based on Storey's theory will be used during this research to examine barriers inside and outside of businesses. External factors are often discussed in the literature from the perspective of their negative influence. Examples include different institutional frameworks, noting the undisputable evidence of weak institutions' activities and the negative effects on business growth, especially in the countries in transition. As we can see in chapter six of this study we have adopted this model to support the empirical research. There is applied an integrated model including a large number of variables to suit the Kosovo's case.

1. In the group of external barriers, often called institutional barriers arise from the inability of the institutions to provide an adequate business environment. They are four groups of barriers:
  - a) Barriers due to the lack of institutional support
  - b) Barriers related to lack of rule of law
  - c) Barriers related to the market
  - d) Barriers related to infrastructure

2. In the group of internal barriers there are selected the barriers related lack of human resources capacities.

On this base of classification will be conducted the empirical research and extended with statistical analyses (chapter 6).

## CHAPTER 4

### 4. BARRIERS AND CHARACTERISTICS OF SB GROWTH IN KOSOVO

#### 4.1. Introduction

This chapter provides an overview of the environmental factors affecting the growth and development of small business in Kosovo, elaborating on barriers identified by various studies within Kosovo, and their theoretical explanations from different findings, especially similar situations from countries in transition. Also, this chapter describes the perception of small business owners / managers on barriers identified by previous studies. This data will serve to guide the organization of the empirical study that we will present in the chapters in follow. In the previous chapter, we found that barriers to growth and development of small businesses in transition economies have been studied by many authors, based on situations in different transition countries. In these studies, barriers have been studied to conclude why the small business sector has not grown at anticipated rates and has not played its proper part in the development of these transition economies.

At the beginning of this chapter, we have provided general information on the economic situation in Kosovo, based on domestic studies and research by foreign organizations. Also, included are the definition of small business and statistics on the size of the sector, regional concentrations and activities and the number of employees in the sector. The second part mainly presents data about the external business environment, the institutional factors that affect the growth of small business in Kosovo, together with a description of the barriers and types of previous studies in Kosovo. In the end, we present an interplay of internal and external barriers, and their impact on development of small business. Moreover, this section aims to give a clearer picture of recent developments and the overall development climate of small business sector in Kosovo.

## 4.2. Profile and general situation in Kosovo

The Republic of Kosovo is the youngest European country located in the south-eastern part of Europe, situated on the Balkan Peninsula. With its strategic position in the Balkans, it serves as a vital link between central and south Europe, the Adriatic Sea, and Black Sea (Wikipedia, 2016). Its capital and largest city is Pristina, and the other main urban areas include Prizren, Pejë and Gjakova. Kosovo is abundant with natural resources. Kosovo is mainly rich in lignite and mineral resources such as coal, zinc, lead, silver and chromium but also productive agricultural land. Kosovo is also rich in forests, rivers, mountains and soil; it is among the richest countries regarding natural resources in Europe, based on surface. Kosovo is especially rich in coal, being aligned among European countries as the third with the largest coal reserves. Kosovo possesses around 14,700 billion tons of lignite in reserves. Kosovo has an area of 10,908 square kilometers and an estimated population of 1.8 million (Albanians make for 92% and Serbs 4%, and other communities). Before 1990, Kosovo was one of the eight constitutive units of the Socialist Federation of the Republic of Yugoslavia (SFRY). Before the failure and the breakdown of former Yugoslavia, Kosovo was the least developed entity, with a per-capita output of only 28% compared to average per-capita output in Yugoslavia.

In the case of Kosovo, the advancement of entrepreneurial development must be considered within the broader spectrum of social and political changes, taking into account the period of war that has had a tremendous impact on overall entrepreneurial activities. As Stilhoff S. (2006, p. 319) states, “A central theoretical departure point in the present analysis is that the economic sphere cannot be isolated from its political and social context, but that the economy is embedded in social relations, informal and formal institutions.” This is the implication in the concept of ‘political economy’, which rejects ‘pure economic’ factors, as opposed to the non-normative and non-political conceptualization of the economy, as a single and separate unit of analysis, which was brought from development of neoclassical economics, Business Environment and Development of entrepreneurship. Under these conditions, we consider it as a more special case compared to other countries in the region. Currently, the economy of Kosovo has made progress in transitioning to a free market-based system and keeping macroeconomic stability, but it still needs much. It is highly dependent on the international community assistance and the diaspora for financial and technical assistance. With per capita GDP estimated at close to

€3,000, Kosovo is one of the poorest countries in Europe. Average per capita income is about one-tenth that of EU levels, and the incidence of poverty remains high. Standardized poverty lines used by the World Bank defined by a threshold of US\$5 per person per day (at purchasing power parities) lead to poverty rates of about 80 percent. Using the national poverty line of €1.72 per day (2011 data) as defined by the Kosovo Agency of Statistics, 29.7 percent of its population of 1.8 million are considered poor (World Bank, 2016).

There are many opportunities from many branches and economic sectors on which SBs in Kosovo can be established, mostly based on Kosovo's natural assets. They are a powerful foundation for the development of the extractive, processing, metallurgy, handicrafts and chemical industries. Specific historical and institutional context in Kosovo reflects the opportunities and threats in development of the private sector dominated by SBs. The development path begins with the so-called “small economy” during the 70’s and 80’s of the last century, with a mixture of elements of planned and market economy system within “self-management socialism” - a specific feature of former Yugoslavia. Private ownership of land, farms, handicrafts, and small firms was somewhat more pronounced in Kosovo as compared to the other TEs in CEE (Krasniqi and Mustafa, 2016).

### 4.3. Environment of Doing Business in Kosovo

Kosovo began its transition process after 1999 and is the last country in the region to embark on the road towards open market economy. In the war’s aftermath, the emphasis was put on the immediate reconstruction needs, which delayed the tackling of employment and poverty. Hence SBs and other businesses operating in Kosovo confronted a lack of support, making Kosovo's economy heavily reliant on imports. Immediately after the war, the economic growth of the country reached double digits, a growth pattern that lasted briefly and was driven mainly by the international assistance. However, from 2008 when Kosovo declared independence, the growth rates, though steady, became sluggish and stood around four percent. The economic growth of Kosovo throughout these years was driven mainly by consumption and public expenditure, while the importance of foreign aid and donations continued to be substantial. Although investments increased, they were insufficient to boost domestic production, which remained on insufficient levels, leaving the country mainly dependent on imports. Exports

remained on rather insignificant levels. Throughout this period, the main trade partners of Kosovo remained the EU, Serbia, Macedonia and Turkey (KOSME, 2016).

The growth and development of SBs remain one of the essential components for the overall socio-economic development of a country. Sector of the SBs, plays a significant role in the promotion of economic development and poverty alleviation, also contributes to the creation of employment opportunities and the improvement of the standard of living. However, the sector's contribution would be limited without a friendly business environment. Moreover, it is widely acknowledged that the business environment has a very important role in international economic integration in one country. Consequently, improving the business climate, including legal, financial, regulatory and institutional aspects, through strengthening rule of law and friendly business policies, is a very important step towards sustainable economic growth.

The business environment at the beginning of the transition phase was not favorable, institutional system in general as in many transition countries including Kosovo was not consolidated. This has prevented entrepreneurs from fully exploiting opportunities created by the process of transition. Kosovo also is hindered by a lack of consolidation of the rule of law and various institutional obstacles. The specific path Kosovo has taken in the past decades has only contributed to an underscoring of such obstacles.

In the most Central and Eastern European economies still lacked adequate laws that regulate economic relations. In this regard, the intention is to analyze the situation in Kosovo in different stages of development with particular focus on the current state of the SBs in Kosovo. The other purpose of the research is to produce significant results related to current situation, difficulties, and problems and to measure the trend of SBs development. In the mainstream of determination of criteria and proposes are drafted advanced recommendations for supporting their development.

Besides the all progress achieved, Kosovo remains behind many other countries in the region, based on reports of various international organizations. Progress is significant to all sectors of the economy. These differences are relevant not only when more mature market economies are compared with transition economies (TEs) but also when TEs are compared to each other.

The policy makers, trying to improve their economy’s regulatory environment for business, find a good place to start with comparing with the regulatory environment in other economies. Environment of Doing Business provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 190 by the ease of doing business. Doing Business presents results for 2 aggregate measures: the distance to frontier score and the ease of doing business ranking. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to two decimals. An economy’s distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. The ease of doing business ranking compares economies with one another; the distance to frontier score benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best performance on each Doing Business indicator.

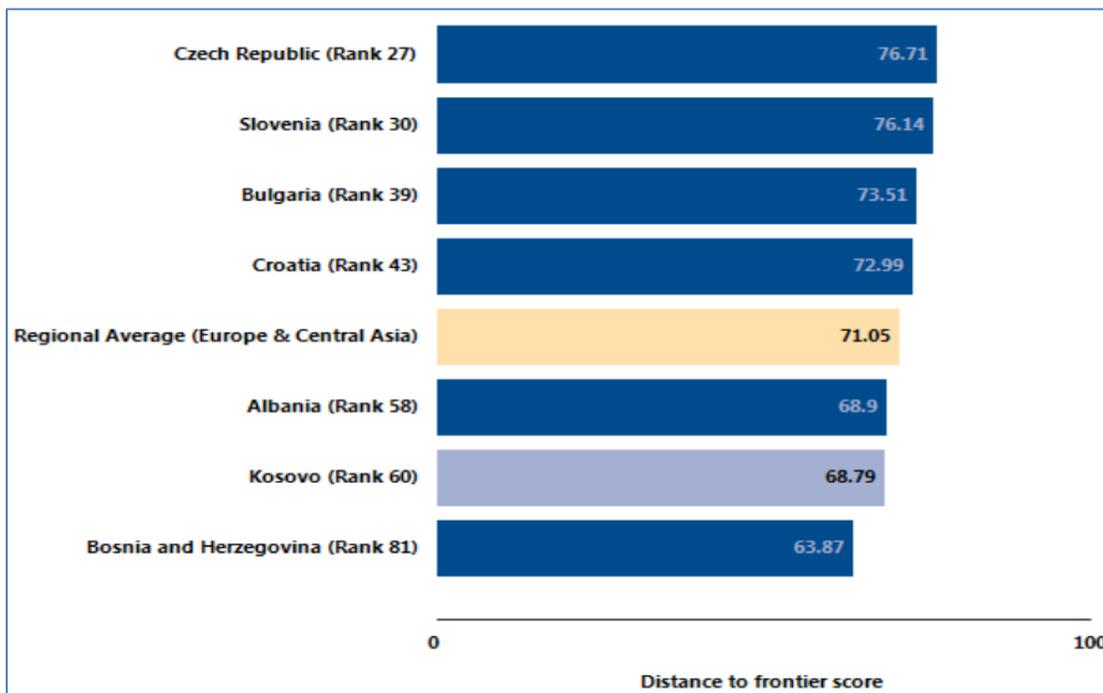


Figure 6: How Kosovo and comparator economies rank on the ease of doing business.

Source: World Bank (2017)

The 10 topics included in the ranking of Doing Business 2017 are: starting a business, dealing with construction permits, getting electricity, registering property, getting credit,

protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The labor market regulation indicators are not included in this year's aggregate ease of doing business ranking, but the data are presented in the economy profile (World Bank, 2017).<sup>4</sup>

As a conclusion we can emphasize that, as soon as Kosovo manages to reduce negative phenomena of its economy, like corruption and informality, it would also reduce its losses, which according to the Statistical Agency of Kosovo (SAK, 2017), are around 30%, or around 400 million Euros per year. Support by institutions for small businesses would also help reduce the improve unemployment rate, which is very high, at over 30%. Enforcement and rule of law are essential to encouraging new businesses to grow. All these identified factors can be considered barriers that lead to low levels of productivity and thus, to a weak competitive position in potential export markets. In the medium-term, to reach the real growth at about 4.5%, similar to Kosovo's average performance in recent years, growth should not remain driven by domestic demand, and must expanded by promoting the export sector. The trade balance deficit is too high (83% to 17%). Hence, efforts to enhance competitiveness should be considered to be of paramount importance to Kosovo's institutions in improving the external trading balance, by increasing exports. Growth rates in recent years, ranging between 3.5 – 4.5%, are simply insufficient for boasting sustainable development, while for solid economic development, these rates must be tripled.

The inefficiency of institutions in creating a more conducive business climate causes the presence of barriers to be still high. Law enforcement should positively reduce the negative effect of some barriers like organized crime, fiscal evasion, unfair competition, and corruption. Additionally, law enforcement would also positively contribute to a normal market functioning, elimination of unfair competition and stimulate businesses to increase their competitive abilities. Among legal barriers, the inefficient judicial system seems to be the largest challenge for

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<sup>4</sup> Note: The rankings are benchmarked to June 2016 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each Doing Business indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities. Source: Doing Business database, World Bank, 2017.

businesses. Fair competition will remain amongst the key challenges in establishing entrepreneurship development and a friendly business environment in Kosovo.

#### 4.3.1. Macroeconomic development trends

The institutions that are responsible for maintaining macroeconomic stability have done an admirable job in ensuring that Kosovo remains one of the most fiscally and financially stable countries in the region (USAID, 2016). Significant progress has been made in the World Bank’s *Doing Business Index*, with Kosovo’s ranking improving from 128<sup>th</sup> in 2009 to 119<sup>th</sup> in 2011, 98<sup>th</sup> in 2012 (WorldBank, 2013). This progress ranked Kosovo on 74<sup>th</sup> place in 2014. However, looking at its closest neighbors, it is clear that Kosovo still has some way to go; Macedonia ranks 23<sup>rd</sup>, Montenegro 51<sup>st</sup>, Albania 85<sup>th</sup>, and Serbia 86<sup>th</sup> in 2012. To see the progress achieved we compare the data of 2017<sup>th</sup> as it is presented in Table 4:

*Table 4: Doing business ranking position of Kosovo and neighboring countries*

Country	Year 2011	Year 2012	Year 2017
Macedonia	38	23	10
Montenegro	66	51	51
Albania	82	85	58
Serbia	89	86	48
Kosovo	119	98	60
Last position	183	183	190

*Source: World Bank, 2013, World Bank, 2017, refined by author*

Despite numerous challenges that the small business sector has faced in Kosovo over the past few years, there has been an improvement in the business climate in the country. According to the World Bank 2017 *Doing Business Report*, Kosovo ranks at 60<sup>th</sup> out of a total of 190 economies. Compared to the previous year, this year Kosovo ranked four places higher. However, despite such progress, always according to the same report, all neighboring countries are listed higher; therefore, they have a more favorable business environment. For an illustration, Albania ranks two positions higher than Kosovo, while Serbia, Montenegro and Macedonia rank in positions 47, 51 and 10 respectively. This small progress is mainly attributed to the easing of various administrative procedures pertaining to businesses, such as business registration

procedures, access to the electrical network, property registration, etc. Thus, this assessment may not reflect the real condition of the business environment in Kosovo, as the main barriers to development of the SB sector are related to corruption, informality and unfair competition, or the market in general.

The challenge now is to ensure that more improvements are made in the overall regulatory environment so that Kosovo can realize a robust private sector and attract foreign direct investment. According to the evidences of Central Bank of Kosovo (CBK), Kosovo at the end of the year 2015 has been a slight increase in Directly Foreign Investments reaching 287.3 million euros, this is a big boost compared to the value of 123.8 million euros in the previous year. However, Kosovo's policies to attract FDI remains weak compared to the countries in the region.

The path of entrepreneurship in Kosovo is unique compared to other countries in the region, due to large damages from the recent war. Kosovo remains the poorest economy in the region and struggles with high levels of poverty, massive unemployment (estimated at an average of 35% compared, for example, to 30% in Macedonia and 24% in Albania), and over-dependence on imports combined with a very small export sector, and energy shortages. The country's Gross National Income (GNI) per capita is estimated at \$3,520, ranked 93rd worldwide and behind Macedonia, Albania, Serbia and Bosnia and Herzegovina, as assessed from World Bank, 2016. The economy has maintained a growth rate of 3-5% for about a decade up to 2014. The Kosovo Agency of Statistics (KAS) estimates that during the three-year period (2013-2015), the economy had grown at an average of 4.7%, the highest average estimated growth rate among Southeastern European economies. Kosovo continues to have higher economic growth than the average in the Western Balkans region. According to the World Bank, Kosovo is expected to have stable economic growth over the next three years, with 3.9% for 2017, 4.2% for 2018, and 2019 is forecast to be 4.4%. However, this favorable economic growth stems mainly from public investments, private consumption and large incomes from diaspora remittances. However, the pace of growth is not nearly enough to have notable effects on poverty and unemployment. For example, the World Bank estimates that Kosovo would need to more than double its growth rate to 12% per year for an entire decade to reach Montenegro's current Gross Domestic Product

(GDP) per capita level. In short, the income gap between Kosovo and other countries in Southeast Europe is likely to remain large despite higher growth.

Kosovo is making steady and significant macroeconomic progress in both first-stage (price liberalization, trade and foreign exchange reforms, and privatization) and second-stage (competition policy, and enterprise, banking, infrastructure, and non-bank financial reforms) restructuring. In Table 5, we can see World Bank doing business ranking of Kosovo and other regional countries. The data presented in Fig. 7 are viewed in different ways, depending on certain criteria of the states that present the business climate. In the 2016 Doing Business survey, Kosovo ranked 64 overall, with the subcategories on starting business, registering properties, and enforcing contracts being, respectively, 13, 33, and 44. Kosovo also records steady improvement in Distance to Frontier with overall 68.79 percentage points in the 2016 Doing Business, 1.64 percentage points improvement compared to previous year (World Bank, 2017).

If we generally view the circumstances of the past, Kosovo institutions have marked good overall progress on improvement of doing business environment, but still need advancement, in order to be more consolidated, to catch the pace of development through increasing the support capacities to SBs. The World Bank's Doing Business Report published on October 31, 2017, confirms significant progress in improving the business environment by ranking Kosovo as the 40<sup>th</sup> place in the world, out of a total of 190 countries. Also, Kosovo is the only European country among the 10 most reformed states during this reporting period.

*Table 5: Doing business topics ranking position*

Indicator	Kosovo DB2017	Kosovo DB2016	Albania DB2017	B. H. DB2017	Bulgaria DB2017	Croatia DB2017	Czech Republic DB2017	Slovenia DB2017
Starting a Business	13	27	46	174	82	95	81	49
Dealing with Construction Permits	129	125	106	170	48	128	130	80
Getting Electricity	114	111	156	123	104	28	13	16
Registering Property	33	33	106	99	60	62	31	34
Getting Credit	20	19	44	44	32	75	32	133
Paying Taxes	43	77	97	133	83	49	53	24

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Trading across Borders	51	59	24	36	21	1	1	1
Enforcing Contracts	44	43	116	64	49	7	68	119
Resolving Insolvency	163	164	43	41	48	54	26	12

Source: World Bank, Doing Business 2017, refined by the author.<sup>5</sup>



Figure 7: Doing business topics ranking position, World Bank 2017

### 4.4. What are small businesses

In theory and practice of the management of European countries, the size of small enterprises is defined in different ways. Thus, the definition of SME according to the European Union takes the number of employees employed by SMEs to be a more sustainable criterion, enjoying an ever-wider approval, where businesses are divided into three categories (Table 6).

Generally, SME definitions used in different countries are different. In general, SBs are defined as businesses with fewer than 50 employees, which is also the focus of our study. Kosovo institutions adopted and use this definition officially.

- Middle-sized businesses, 50-249 employees.
- Small businesses / businesses, from 10 to 49 employees;

<sup>5</sup> Note: DB2016 rankings shown are not last year's published rankings but comparable rankings for DB2016 that capture the effects of such factors as data revisions and changes to the methodology. The global best performer on time for paying taxes is defined as the lowest time recorded among all economies in the DB2017 sample that levy the 3 major taxes: profit tax, labor taxes and mandatory contributions, and VAT or sales tax.

- Micro businesses / businesses, from 1 to 9 employees;

Table 6: Categorization of small businesses according to the EU

Enterprise category	Number of employees	Annual sale	Balance sheet total
Medium	< 250	≤ € 50 million	≤ € 43 million
<b>Small</b>	<b>&lt; 50</b>	<b>≤ € 10 million</b>	<b>≤ € 10 million</b>
Micro	< 10	≤ € 2 million	≤ € 2 million

Source: EU, 2005.

In the following sections, we will refer to the definition of the European Union for SMEs, which as a practice has been recognized by the Kosovo Institutions. Our focus of study are small businesses up 50 employees.

#### 4.4.1. Small business and their role in employment in Kosovo

As every country in the region, Kosovo is also a Micro and SB-based economy. According to the TAK, SMEs represent around 99.9% of all active businesses in Kosovo but 99.2% are Micro and SBs. Despite the many difficulties, this sector in Kosovo represent the main source of job creation and play a crucial role in the economic development of the country. As a UNDP report (2012) points out, SBs are fundamentally important for reduction of poverty and extreme poverty, therefore a drastic reform is required on business environment in order to enable the SB growth. The SBs development in Kosovo is not only relevant for economic growth, but it is also essential to increase employment opportunities, to reduce poverty rates, to enable equal regional development and to ensure inclusion of vulnerable groups i.e. youth and women. To achieve these goals, countries of the region provide various incentives to enable SBs to become more competitive and grow faster. An accelerated growth of the SBs sector creates additional value in the market and improves trade balances. For a country with a huge trade deficit like Kosovo, improvement of the SBs related business climate inevitably contributes to enhance the general economic situation and to promote exports.

There are some doubts as to the precise number of SBs in Kosovo, not only due to the fact that these numbers vary across the agencies that record such data, but also because many of the registered SBs are inactive or have ceded to exist. According to the TAK, the vast majority (95%) of businesses in Kosovo are micro enterprises, with 1 to 9 employees. The percentage is similar to the regional countries, most notably to Albania and Macedonia. The second group consists of small enterprises, with 10 to 49 employees; around 4.2% of the firms in Kosovo are small. Kosovo has only 0.7% of medium enterprises, while the large firms account only for 0.1% of the total number of businesses.

An important element in the analysis of Kosovo's economy is its demographic structure. According to latest statistics, more than 65% of Kosovo's population is under 35 years old. Although new jobs are being created (around 7-10,000 annually), the fact that the country has a very high number of job market entrants (around 30,000 each year) the unemployment rate remains constant. An important source of livelihood and social stability are the Diaspora remittances. It is estimated that Kosovo economy benefits annually from at least EUR600 million in form of remittances. However, this important income source has a limited impact on job creation as most of it goes for consumption of imported goods (KOSME, 2016).

*Table 7: SBs and Employment data in Kosovo*

<b>Company size</b>	<b>No. of emp. / category</b>	<b>No. of employees</b>	<b>Percentage (%)</b>
<b>Micro</b>	<b>1 - 9</b>	<b>185,129</b>	<b>64.2%</b>
<b>Small</b>	<b>10 - 49</b>	<b>24,877</b>	<b>10.7%</b>
<b>Medium</b>	50 - 249	22,658	12%
<b>Large</b>	250 +	55,658	13.28
<b>TOTAL</b>		288,075	100%

Source: Agency for business registration of Kosovo, MTI (2016)

Nowadays, small enterprises have high priority in combating unemployment in emerging market economies as well as in transition economies. Evidence shows that in Europe, 99% of businesses are SMEs. Within this group of SMEs, approximately 98% are micro businesses, namely those

employing fewer than 10 employees. As the EU average, there are 6 employees in an enterprise in general.

Data show that in Kosovo micro enterprises employing 64.3% of total SMEs employees, and 99.69% SBs employing 74.9%. The average number of employees for a micro enterprise is 1.57 employees (table 7). In Kosovo, large enterprises account for 0.5% while contributing to employment with 13.28%.

In EU countries, SBs are the main source of entrepreneurial skills, innovation and employment. About 20 million SBs in the 28 EU countries bring about 88 million jobs, representing about 99% of all enterprises, while large companies contribute 43 million jobs. It is already known that the MSME sector in Kosovo employs over 200,000 workers and is the most important contributor to the generation of GDP. As in all transition countries, this sector is the solution for many socio-economic problems.

Consequently, the tendencies for growth and development and entrepreneurship plans for the future are important for policy makers in Kosovo (MTI, 2016). By conducting a survey with 800 enterprises MTI found recruitment plans in enterprises which consider as works plan of the following year, or in other words, planning for filling the vacancies. Enterprises that were interviewed noted that 92.34% of them have fulfilled their plans for filling vacancies, while 7.66% have not completed their plans, as seen in table 8.

*Table 8: Filling vacancies plan of enterprises*

Filling vacancies	Total enterprises	%	Production	%	Trade	%	Service	%
Yes	723	92.34	218	90.8	411	92.8	94	94
No	60	7.66	22	9.2	32	7.2	6	6
<b>Total</b>	<b>783</b>	<b>100</b>	<b>240</b>	<b>100</b>	<b>443</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: MTI, 2016

A survey conducted by MTI showed that the legal status of enterprises and their size have an impact on management. The results from the survey show that enterprises in Kosovo still do not separate ownership and management functions. In fact, out of all surveyed enterprises, we can see that 86.46% of them are managed by the owners and only 13.54% are managed by designated managers. Meanwhile, the spatial distribution of enterprises shows the landscape of enterprises, but for the urban and rural distribution. According to the research, it follows that 61.4% of enterprises are located in urban areas, and 38.6% of them in rural areas. From this we can conclude that the expansion of enterprises is in conformity with market and social and demographic developments (Table 9).

*Table 9: The structure of enterprises according to the spatial extent (urban & rural)*

Location	Total	%	Production	%	Trade	%	Services	%
Urban	481	61.4	123	51.5	293	65.8	65	65.7
Rural	302	38.6	116	48.5	152	34.2	34	34.3
<b>Total</b>	<b>783</b>	<b>100</b>	<b>239</b>	<b>100</b>	<b>445</b>	<b>100</b>	<b>99</b>	<b>100</b>

*Source: MTI (2016)*

Also, one may notice that production activities are concentrated almost identically in spatial extent, in urban and rural areas. Expressed in percentages, of these, 51.5% of manufacturing enterprises are established in urban areas and 48.5% in rural areas. While, in enterprises with commercial activity, 65.8% are urban based and 34.2% are rural based, but also service companies are predominantly based in urban areas with 65.7%, and in rural areas with 34.3%.

In the table 10, can be seen the percentage of employees by gender and activity from the research conducted by MTI. It is already known that the SBs sector in Kosovo employs over 200,000 workers while the SMEs employ 230.000, thereby largely contributing to GDP generation. As in all transition countries, this sector represents a solution to many socio-

economic problems. Consequently, growth and development trends and entrepreneurship plans for the future are important for policy makers in Kosovo.

*Table 10: Employees by gender and activity*

<b>Employed by gender</b>	<b>Total</b>	<b>%</b>	<b>Production</b>	<b>%</b>	<b>Trade</b>	<b>%</b>	<b>Services</b>	<b>%</b>
Female	1894	20.10	611	14.00	1166	29.50	117	10.80
Male	7516	79.90	3758	86.00	2791	70.50	967	89.20
<b>Total</b>	<b>9410</b>	<b>100</b>	<b>4369</b>	<b>100</b>	<b>3957</b>	<b>100</b>	<b>1084</b>	<b>100</b>

*Source: MTI, 2016*

#### 4.4.2. Growth rates of SBs and intention to grow

According to the KOSME, 2016 SBs have performed well in the past 3 years. The average of growth in the period of three years SBs have grown annually by 15.6% in terms of employment, 25.8% in terms of sales, and 17.4% in terms of profit. The highest growth in terms of employment has been experienced in the production sector, where surveyed businesses have reported to have grown on average of 17% in the last three years, according to the data of the survey. The most prosperous development in terms of sales is seen in the construction sector with average sales growth standing at 27% annually.

For the sake of reporting accuracy, the positive responses of many businesses whether they have a written plan or not, should be taken with considerable reservations as proper planning methods are not yet a norm in Kosovo's private sector. When asked if they plan to increase the company's market (in terms of production and/or expansion), 87% of interviewed businesses reported that they are planning to do so. The highest commitment to growth is found in the production sector (91%) in contrast to the BSS and tourism sector where 71% of the interviewed companies have reported to have expansion plans. Obviously, the vast majority of interviewed companies have intentions for growth and expansion. In addition, over 90% of interviewed companies declared that they use an appropriate planning tool, such as business or strategic plan. In terms of planning period, the majority of interviewed SMEs (over 80%) plan

for 5 years or less. To note is the correlation between the length of planning period and company size, as medium enterprises have reported to also plan for periods of over 8 years. In terms of sectors, BSS and Tourism sector has a very high prevalence of no planning (29%). On the other hand, most of the interviewed companies from the construction (86%) and production (91%) sector have reported to use planning tools, while the average planning period was 5 years or less.

The KOSME, 2016 survey data reveals that interviewed companies expect highly positive growth in the next two years. The interviewed businesses have reported that they expect to grow by 24% in terms of employment in 2016 and by almost 29% in 2017. While the expected employment growth in interviewed micro and small enterprises shows a yearly increase, medium enterprises are more pessimistic in terms of expected employment growth in 2017. Also in terms of sales growth, the interviewed SMEs are expecting a very positive trend. The interviewed companies expect that their sales will grow by 32% in 2016 and by 40% in 2017.

### 4.4.3. Barriers to the growth of SBs in Kosovo

In general, the Kosovo SB sector experienced a fast growth both in terms of number of enterprises and employment. In particular, this sector outperformed large-scaled enterprises in creation of jobs. However, much of the growth in the SME sector happens in the micro-enterprise segment and this appears to be concentrated on relatively few companies, while the majority of companies are more or less stagnating. The SB sector continues to be dominated by micro and small enterprises, whilst the medium ones have relatively small relevance in the overall economy. Yet, despite this early success, Kosovo's micro enterprises are often economically fragile and vulnerable and most of them are struggling to survive. There are a number of obstacles that influence the growth and expansion of SBs in Kosovo, including external factors such as access to finance, competition, corruption and barriers to trade, as well as internal factors like management competences, lack of skilled labor, marketing strategies, level of innovation and investment in technology. Kosovo institutions have recently put the emphasis on supporting the SME sector as it is broadly acknowledged that its growth will have a crucial impact in fighting unemployment and poverty (KOSME, 2016).

Regarding the barriers to growth businesses in Kosovo, some researches have been conducted by local institutions. Below in table 11 is presented the list of barriers derived from

one of widest research reports conducted by MTI of Kosovo. The research was based on a business survey conducted by the MTI with 800 businesses in all regions of Kosovo, and its identification of barriers that mostly hinder doing business in Kosovo. Most of them are still present. The sample was designed to investigate the general stance and the development trends of the SBs, including all regions of Kosovo and covered all sectors of business activities (MTI, 2011).

*Table 11: Barriers related to the environment*

Financial barriers	Access to finance High interest rates Credit terms (short terms for returning credits) Difficulties in accessing credit etc.
Economic policy and general situation	Political instability General economic policy, Trade policy etc.
Power Rule of Law	Inefficiency of the judiciary, corruption in courts, policy implications in justice, etc.
Fiscal policy	High VAT rate, VAT Reimbursement
Infrastructure	Lack of electricity, Telecommunications, Lack of water, underdeveloped Networks, Lack of roads
Access to raw materials and equipment	High customs tariffs for import of raw materials Lack of raw materials in country
Negative phenomena	Administrative burden and bureaucracy, inefficiency, enforcement of legislation, licensing procedures, informal economy, fiscal evasion, corruption, organized crime, etc.
Market barriers	Unfair competition, Access to foreign markets, Limited capacity of local market High shipping costs quality of transport services
Supply, equipment, and machinery	Lack of machinery and other equipment
Workspace	Insufficient work space, offices, buildings, etc. Location inappropriate

Lack of qualified Human Resources	Managerial staff, technical staff, finance accounting, IT staff, field management staff, etc.
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Source: Report - Research of 800 Small and Medium 2011 - MTI, refined by author

According to the RIINVEST, unfair competition (arising from tax evasion and under-declaration of workers) is referred as one of the major barriers in doing business (from a list of 22 barriers) by respondents. Given the level of public services, respondents believe that they should pay 60 percent less taxes than they pay now. In a hypothetical case, if there is a tax increase of 10 percentage points, 78 percent of respondents have shown readiness to evade taxes. Potential tax evasion rate increases to 82.5 percent, if taxes go up with 20 additional percentage points. Managers and owners interviewed believe that businesses in their respective industries reported an average 63 percent of their employees. This means that on average 37 percent of the total workforce is not reported (RIINVEST, 2013).

The Small and Medium Enterprise Support Agency (SMESA) considers that SBs in Kosovo are experiencing several barriers in accessing finance. This realization led to the inclusion of “Improving SBs access to finance” as “Strategic Goal 2” in the development strategy for Kosovo 2012-2016 (MTI, 2012). They mainly use personal resources, borrowing from relatives, selling something from ownership and other alternatives. In such conditions, the commencement of businesses is challenging and does not follow up with growth. Regarding the origin of financial resources (investment) in Kosovo, it follows that they are secured from different sources. Thus, a survey of 800 enterprises, conducted by MTI, notes that 57% of funding, comes from internal sources, while 43% of the funds are from external sources. Furthermore, bank loans make for 32.1%, loans from individuals and households 9.8%, financial funding without return 0.3%, and 0.7% other sources. Also, due to the aforementioned institutional difficulties and the rule of law issues, specifically in the area of commercial courts and contract enforcement, Kosovo is faced with a very high cost of finance. Some of the constraints mostly reported by managers of businesses are:

- ✓ High interest rates
- ✓ Credit terms (short repayment periods)
- ✓ Difficulties in accessing credit etc.

Lack of transparency in the judiciary creates more opportunities for corruption, which is not limited to bribes or misuse of funds attributed to the judiciary, but goes to the bias of decisions and judgments in litigation, arising as a result of politicized judiciary and partisan bias of judges. Among many other issues, an ongoing judicial challenge in Kosovo is the lack of transparency (Riinvest, 2014). Based on a survey conducted by the RIINVEST Institute, the most serious barrier of doing business is estimated unfair competition (mainly from tax evasion). Since this barrier is very serious, it reflected in the report as the main cause of informality (RIINVEST, 2013). According to the report, tax evasion is considered to be close to 40%. The most serious barrier of doing business is perceived to be unfair competition (mainly from tax evasion). The same report finds that nearly 36% of workers in businesses in Kosovo are not declared. The most extreme case is that of the agricultural sector where the percentage of workers who do not declare goes up to 70%. Unfair competition in the list is followed by intensity of corruption barriers (78). The dominance of this barrier is not surprising, considering that the international indicators of corruption, regardless of the method of measurement, suggest that Kosovo continues to be one of the most corrupted countries in the region. In International Transparency Report (2012), for example, in a rating of 1 to 100, Kosovo ranks in 105th place. In addition, third place is taken by road barriers, crime and theft intensity (74 points). Even international organizations consider this phenomenon as a problem. The US State Department, for example, finds that the Kosovars, driven by unemployment and other socio-economic factors, involved in street crime, namely the theft, and so do that Kosovo ranked alongside other countries not good. The department also documents that businesses, among other things, are the subject of these thefts. Further, in fourth place, come again issues related to competition, namely the barrier of anti-competitive practices of competitors (Riinvest I., 2013).

According to RIINVEST research, there have been many violations in procurement procedures in Kosovo. The lack of a non-discriminatory procurement system not only endangers the provision of public services of poor quality but also undermines fair competition. Therefore public procurement is an area of government where it is very important to have transparency as it constitutes the bulk of public expenditure and also has implications in the form of market operation (Riinvest, 2014). According to the Public Procurement Regulatory Commission (PPRC), the annual value of public contracts in Kosovo is around 800 million Euro. Almost all

contracts are awarded using the criterion of lowest price, and only a small fraction of them using most economically advantageous tender. Deficiencies in paperwork, bureaucratic procedures and lack of efficiency of the above two forms of contracting are high.

Lack of e-procurement is one of the biggest threats to transparency in the procurement of public funds. Actually, PPRC website publishes almost all public contracts; however, the process up to the award of the contract is hardly followed by all stakeholders. Contract notices are also not always posted on the website of the PPRC. Although current legislation guarantees that the process should be transparent, yet there is a lack of mechanisms to ensure easy access to information. Electronic procurement solves many of these issues. Application instructions are located on the system; so that the problems associated with the application process are less costly. Electronic procurement makes the whole process more transparent, making the information more easily accessible, and leaving less discretion to procurement officials.

#### 4.5. SWOT Analysis in context of environment of SBs growth

The Strength, Weakness, Opportunity and Threat (SWOT) analysis is a useful tool to investigate internal and external factors influencing small business development. It is one of the methods and techniques to conduct a more structural analysis of the business environment in order to formulate an easy-to-implement SB. The Government of Kosovo strategy portrays specific strengths, weaknesses, opportunities and threats pertaining to current position of SBs in Kosovo. The SWOT analysis was produced by Kosovo Government after several brainstorming sessions, and it was discussed and agreed in Working Group Meetings. Prior to that, a number of meetings with different stakeholders took place and reviewing several documents such as WB Doing business report, EU progress report, and SWOT analysis addresses strategies of more than 14 developing and transition countries. Notably, each selected strengths, weaknesses, opportunities or threats are linked to specific Strategic Goals (KoG, 2011).

Table 12: SWOT Analyses in context of environment for SBs growth in Kosovo

<b>S T R E N</b>	<ul style="list-style-type: none"> <li>➤ Continued growth of GDP from 3.5 to 5.8, low cost educated young labour force, and increased harmonization of Kosovo development policy with EU standards.</li> <li>➤ Human capital is very cheap, due to the younger and relatively educated population. Kosovo's large natural resources bear opportunity for economic growth goals.</li> <li>➤ The World Bank identifies Kosovo's abundant natural resources, particularly those in the energy sector. Boasting great reserves of coal, construction of power plants with EU</li> </ul>
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## BARRIERS TO THE GROWTH OF SMALL BUSINESSES IN KOSOVO

<b>G T H</b>	<p><i>standards can provide stable energy supply, and that will certainly be a major factor for businesses growth.</i></p> <ul style="list-style-type: none"> <li>➤ <i>Harnessing vast natural resources as a key source of growth to use would help remove one of the biggest constraints facing Kosovo's firms and could generate substantial revenue for the central budget and possibly electricity exports. Lead, zinc and magnesium resources are also abundant and restarting these mines could make a valuable contribution to GDP and employment growth.</i></li> </ul>
<b>W E A K N E S S E S</b>	<p><i>Weaknesses are the substantial deficiencies that hinder SBs growth and survival.</i></p> <p><i>Main weaknesses are:</i></p> <ul style="list-style-type: none"> <li>➤ <i>Lack of clear strategy framework for the development of SBs and unfavourable legislative framework for business startups and development.</i></li> <li>➤ <i>The challenge now is to ensure that more improvements are made in the overall regulatory environment, so that Kosovo can realize a robust private sector and attract foreign direct investment. For instance, Kosovo still suffers from excessive Government regulation of private economic activity through the use of licenses, permits, and other inhibiting processes at the national and local levels that increase the cost of business and make Kosovo less competitive in attracting new investments.</i></li> <li>➤ <i>Besides institutional weaknesses, identified inadequate learning in the education system in entrepreneurship. Kosovo continues to be plagued by an education system that at all levels fails to address the pedagogical and skills training needs of its students to labour trade demands.</i></li> <li>➤ <i>While in some areas the business climate in Kosovo has improved still the environment faces with five sets of obstacles of doing business, such as: several infrastructure gaps, deficiencies in the rule of law, shortages of appropriately skilled labour, limited access to finance, and challenging regulatory procedures for business entry and operations.</i></li> <li>➤ <i>Research and technology development are at an embryonic stage in Kosovo. According to recent statistics, general public expenditures on R&amp;D in Kosovo amounted to only around 0.1 percent of GDP. For these tasks, institutional capabilities need to be established and strengthened.</i></li> <li>➤ <i>The lack of qualified human resources is an important constraint to innovation. In an OECD survey of 153 companies in Kosovo, the lack of qualified human resources was considered an obstacle to innovation by 25 percent of companies, while it was a relevant obstacle for 50 percent of information and communications technology (ICT) companies.</i></li> <li>➤ <i>Kosovo does not have a competitive based on export economy, and the trade imbalances continue to be high. The level of private investment is growing, but investment efficiency is a major concern still are not stimulating the companies to increase the export.</i></li> <li>➤ <i>Improved Access to Finance will address financial sector weaknesses. The financial sector in Kosovo offers a limited range of products to clients. Interest rates and collateral requirements are higher than in neighbouring countries, putting local firms at a competitive disadvantage. There is a lack of generally available financial instruments, such as leasing and purchase order financing.</i></li> </ul>

<b>O P P O R T U N I T I E S</b>	<p><i>The SWOT analyses identifies many opportunities:</i></p> <ul style="list-style-type: none"> <li>➤ <i>While addressing unemployment and the need for stronger and more sustainable enterprises, there must be a particular emphasis on increasing agricultural productivity, assumed that 60% of Kosovo's population is rural and mostly poor.</i></li> <li>➤ <i>These opportunities could be exploited mainly by strengthening the domestic and international competitiveness of SBs. Kosovo has a clear opportunity to shift towards private sector faster growth, raise the quality of products have free market access to neighbouring and the European Union countries. Unleashing this potential will involve bringing into play three production factors that are now sitting partially idle: labour, land, minerals and energy. Unleashing this potential is within the country's own grasp, because most of the current obstacles are of a policy nature.</i></li> <li>➤ <i>A continued growth of GDP encourages the new entrepreneurs for new ideas to enhance capacities and ensure sustainability of their businesses.</i></li> <li>➤ <i>Flexible labour market with the lowest labour cost in Europe.</i></li> <li>➤ <i>Rapid development of the electronic communication sector and access to the internet around of 90% of the population.</i></li> </ul>
<b>T H R E A T S</b>	<ul style="list-style-type: none"> <li>➤ <i>Environment of doing business, the high level of the corruption and weak contract enforcement law, are only few out of several identified threats to SBs development in Kosovo that could be addressed through strategic development.</i></li> <li>➤ <i>Continuing the energy shortage seriously threatens economic growth.</i></li> <li>➤ <i>Even significant improvement the high credit interest remain real constrain if continues will discourage the entrepreneurs and will have a negative impact in general development of entrepreneurship.</i></li> <li>➤ <i>High scale of informal sector seriously damages the SBs growth and is the real threat for formal sector.</i></li> <li>➤ <i>Emergency need without delay is improving rule of law in all segments of the society, in particular laws with impact on environment of doing business.</i></li> </ul>

Source: GoK Strategy 2012-2016 with vision to 2020, refined by author

#### 4.6. The need for a new growth strategy of SBs

Despite progress made, design and implementation of a new overall growth strategy, and in this context, growth support small businesses as major contributors, is necessary in Kosovo. The economy of country is characterized with disequilibrium between sectors; mostly small businesses belonging to retail, then service sector, leaving the production sector the third one. Hence, limited capacities of domestic production, even though being well endowed with productive factors such as arable land, natural resources, energy sources, water springs, and a young population, lag behind in absence of a properly implemented support strategy for SBs. Sectors of the economy have not benefited proportionally from increasing direct investment and financial assistance. Private investments are more focused on the trade and service sector. This is due to the lack of financial capital at the start up stage of business. Few investments have been

made in agriculture, factories and traditional export sectors such as mining and in construction industry but the increase of financial support is necessary.

Meanwhile, this reflects with disadvantage of the production sector following with low productivity and it shows clearly that current growth efforts characterised with absence of a clear vision for the development. UNDP report found that “*Kosovo’s enterprise culture has energy without organization. Businesses are regularly coming and going, without taking advantage of any regional or sector clustering.*” The challenge will be to capitalize on growth-ready sectors, in order to achieve the level of increased employment that Kosovo needs (UNDP, 2012). Even though, addressing unemployment and the need for stronger and more sustainable enterprises, there must be a particular emphasis on increasing agricultural productivity, given that 60% of Kosovo’s population is rural and mostly poor. Challenges to be faced and circumstances to be overcome include limited access to credit and markets, inadequate greenhouse facilities; weak “farm-to-fork” value added linkages, and poor quality farm inputs (seeds, fertilizers, and pesticides) and food safety infrastructures. While having the Euro as its currency simplifies monetary policy, it also closes off export-led growth based on an attractive exchange rate (USAID, 2015).

### 4.6.1. Kosovo’s government strategy to support SBs

Kosovo government with other respective bodies responsible to support the private sector has prepared different strategies for development of entrepreneurship. One of the best is strategy of 2012 with vision to 2020 which include a wide specter of activities that Kosovo institutions have to undertake in order to support small businesses. Some of the activities that are foreseen to be applied are elaborated in following (Kos. Gov. 2011).

*Strengthen the entrepreneurial culture* - One of the main preconditions for business development is to strengthen the entrepreneurial culture. Based on the current situation in Kosovo this goal will be achieved by: extending entrepreneurship curriculum in Primary Schools, High Schools and Higher Education Institutions; promoting success stories of enterprises implementing entrepreneurship programs for young people, women and minorities; promoting and recognizing the most successful enterprises; and, encouraging and increasing

business networking. This will build upon and align with current and proposed donor interventions.

*Promote and increase cooperation between schools and businesses* - Education in business skills and entrepreneurship must focus on the core curriculum for all forms of education. This means changing attitudes and education skills for entrepreneurship, expressed through general and vocational education. The goal is to help pupils and students develop into independent citizens who know how to take initiatives and cooperate with others in developing business ideas. The main aim of this goal is to create a basis for choosing entrepreneurship as a career option. One of the goals of basic vocational education is the ability to operate as an independent business person in the formal economy. To achieve this goal Kosovo needs to:

- Introduce a Graduate Enterprise Scheme;
- Increase the number of students' internships in entrepreneurship.
- Encourage the establishment of business hubs within universities: expand mentorship schemes for coaching start-up businesses; and, promoting entrepreneurship understanding among teachers, lecturers, professors and academics.

*Stimulating creativity and Innovation* - Creativity and innovation are increasingly needed for businesses to gain and sustain competitive advantage. There is a shortage of ideas on what kinds of businesses to start. Most new businesses are 'me-too' business because of this lack of ideas generation, innovation and creativity. This Goal will develop training schemes introducing creativity and innovation to SB owners and managers, and potential new entrepreneurs. In a further move towards EU candidate status Kosovo will begin to implement the EU Entrepreneurship and Innovation Program (EIP).

*Develop technical, innovative and managerial skills of SBs* - Strategy activities will encourage the use of new technologies, fully utilizing electronic communications, and applications in e-business, e-procurement and computer-aided manufacturing. All activities will be in line with the EU Information and Communications Technology Policy Support Programme (ICT- PSP) and the Intelligent Energy Europe Programme (IEEP). Related to the managerial skills of SBs owners and managers should be upgraded through training programs following

Training Needs Analyses. Particular attention will be paid to the problems of managing a family-owned business.

*Develop and establish a Business Innovation Centre (BIC)* - The establishment of a BIC will contribute to the SME development process by combining national and regional sources of knowledge and innovation into a functional network of competencies. Regional knowledge groups consist of Public Universities, Institutes, Research and Development Agencies (RDAs), Business Associations and Private colleges should become a functional network. Research organizations will be linked with enterprises to further promote innovations in their businesses. This process will enable SMEs to realize their creative development potential, increase competitiveness, and establish cooperation with local and international research and industrial partners.

*Develop capacities of the Municipal Business Centers (MBCs)* - The Municipal Business Centers (MBCs) are being established with technical assistance from the World Bank's 'Establishment of Municipal Business Centers' project. The MBCs are not business centers but are business registration points within the municipality of their residence. The WB is considering expanding their responsibilities to cover wider administrative activities including work permits, tax numbers and licenses. The MBCs are an important place for business owners to meet with the public sector and often inquire accessing other business services. The EUSME project has developed a catalogue of competencies where businesses can get access to skills online. A Business Information Point (BIP), reporting to SMESA<sup>6</sup>, could be established within MBCs to act as an information node where businesses could be directed towards services, training providers, sources of finance and other business services. The BIP would act as a 'thermometer' of the kinds of services SMEs are requesting and could be an important source of information on the business services market in Kosovo. Central Government of Kosovo information could also be disseminated through the BIPs.

*Improving the position of female entrepreneurs* - Despite the fact that females comprise more than 50% of Kosovo population, extremely low female entrepreneurial participation and female entrepreneurial activity prove the imbalanced position of female entrepreneurs. The

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<sup>6</sup> Small and Medium Enterprises Support Agency (SMESA).

Kosovo Business Registration Agency does not provide the exact data on the gender of the business owners; therefore it is impossible to find exact number of female entrepreneurs. However all estimations made by different agencies, research institutes, and other researchers point to less than 10% of female entrepreneurs in the entire population of entrepreneurs. This figure is substantially less compared to western developed economies where the female entrepreneurial participation ranges from 25 – 45 % (Kos. Gov. 2011).

### 4.6.2. Implementation of the strategy

As a matter of fact, this strategy is not being properly implemented, so it is necessary to increase the institutional responsibility towards the work tasks in support of this sector. Failure to comply with law and poor efficiency in various departments dedicated to supporting the small business sector has left ‘under shadow’ of many policies and not completed, therefore this phenomenon aggravates and hinder the growth of small business. In this regard we can conclude that more than ever is necessary that government of Kosovo including all bodies and agencies responsible for support of SBs have to increase their capacities and solve the all disputed issues to face the requirements of SBs. Moreover, continuing deep reforms in all government agencies to support small businesses is imperative, namely:

- Deep and continuous reformation of institutions that provide administration services to small business.
- Deep reforms of the tax system in favor of domestic production.
- Functionalization of financial assistance and establishment of the guarantee fund in order to facilitate the obtaining loans from banks.
- Improve electronic services in the administration system as in procurement system, transport and customs services to stimulate and increase exports.
- Providing assistance to small business on professional staff training, especially in the field of information technology.
- Assisting on consilience and advocacy services to small businesses when they need.

## CHAPTER 5

### 5. RESEARCH METHODOLOGY

#### 5.1. Introduction

As it is discussed in previous chapters, various theoretical concepts are elaborated, to provide enough arguments for theoretical support of research. Starting from what it is learned from the theory in this chapter, it will be continued with the empirical part of the study, elaborating the modalities of data collection. The research methodology will include the various data collection methods to fulfill objectives of the research.

In literature, methodology is described as the following: "steps to be taken in order to give a reliable and valuable answer to the questions and determine the eligibility of the tool set research" (Ellis, T., and Levy, Y., 2008). Furthermore, in this chapter, is explained the proper approach using different methods to provide the dataset for analysis. Any empirical research precedes theoretical baseline from previous studies related to the field of study. Therefore, to ensure continuity a stepwise logical procedure is applied in order to accomplish the study. Thus, there are used qualitative data, primary and secondary, continuing with pilot research work, learning the ideas for the design of main study sample size and structure. Additionally, there is extended the scope by conducting interviews and surveys directly with owners/managers of businesses.

#### 5.2. Methods of empirical study - Procedures and instruments for gathering data

As it is stated before, in the literature exist many empirical researches and data analysis all over the world, but there have also been attempts by different authors within the country to analyse business growth barriers. During the review of literature, a distinction has been made both in content and in the study approach of this phenomenon. According to Denzin, N.K. and Lincoln, Y.S, (1994), "Qualitative research includes the studies and collection of a variety of

empirical materials: a case study, personal experience, introspective, life story, interviews, observational, historical, interactional, and visual texts that describe routine and problematic moments and meaning in individuals' experiences". Qualitative methods may shed light on these issues and reveal other important differences between transition countries, such as differences in the institutional environment (Doern R., 2009).

To explore the historical evolution of the phenomenon are used empirical data from relevant recent literature. Additionally, to comprehend developments of business growth and barriers in the country, are investigated a lot of exclusive and complementary literature. Also are investigated various reports and researches in different national and international agencies documents, business associations reports, government institutions publications, online library researches, annual reports, conferences, etc.

Moreover, there are used research publications by many national and international agencies, government and non-governmental organizations, related to small business growth obstacles. Further on, are reviewed in depth the factors that inhibit growth, based on previous researchers, and are made efforts to fill existing gaps.

### 5.2.1. Pilot research work and interviews

As mentioned earlier, 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 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. A pilot study is described as "a small study, which aims to test protocol research, data collection instruments, model recruitment strategies and other research techniques in preparation for a wider study" (Polit D.F. & Beck C.T., 2004, p.196). The same questionnaire, with minor changes, is used in the main empirical research distributed throughout Kosovo.

At the end of this chapter, are listed some of the concerns of some selected companies related to the barriers that they face. These direct interviews enabled us to see closely expressions of owners/managers regarding obstacles in operations and growth processes. They narrate their different situations, events, incidents and problems that relate mostly to their

performance of activities. According to Robinson (2002), the importance of interviews in a quality research is vital, and respondents should be allowed considerable flexibility in their responses for a more detailed explanation with minimal incentives by the interviewer.

In designing the interview schedule, were planned to ask questions to yield as much information as possible about the phenomenon in study, and also to be able to address aims and objectives of research. Typically, trying the best starting with questions that participants could answer easily and then proceeding to more difficult or sensitive topics. This is done in order to relax respondents, build up confidence and rapport, and often generate rich data that subsequently develops the interview further.

Before an interview takes place, respondents are informed about the study details and given assurances about ethical principles, including anonymity and confidentiality. This gives respondents some idea of what to expect from the interview, thereby upholding the value of honesty and becoming a fundamental aspect of an informed consent process.

In addition, another aim of pilot study was to test procedures and learn about the barriers hindering SB growth, and complete the questionnaire for the main research. A pilot phase was conducted, since it is not easy to predict how the target sample will respond and react to survey questions. Moreover, it provides an opportunity to identify and correct potential problems in the format of the research questions. One of the main advantages of carrying out pilot studies in this research was mentioned by Vaus (De Vaus, 1993, p. 54), who said: "To not take the risk, one should first pilot test." In addition, a pilot test is used to control the full study and results of the analysis, to assess the adequacy of the study degree, to determine the sample design and framework properly, and collect some initial information about the study area and customers (Teijlingen, E.R.V, and Hundley, V., 2001). Beside the interviews, owners/managers of these businesses were asked to fill out the surveys which are included in the main study. Their perceptions related to the barriers of some selected businesses are described at the end of this chapter.

### 5.2.2. The questionnaire design scheme

In order to obtain accurate information and coverage of a wide range of problems special attention devoted to prepare the questionnaire draft. Questions were formulated clearly, in a

meaningful order and format, and some questions were repeated in different ways, to assure accurate answers. It is followed up the procedure of questions interactively linked to each other, giving a systemic form to achieve the purpose of the research. Also, the questionnaire was organized to develop questions in a correct format, to be easily understandable for the managers/owners surveyed, and to allow for an extraction of required information, in order to fulfil the research objective. In the beginning, the questionnaire was pre-tested and at the end, a final questionnaire form was developed. Mostly, multiple choice questions are used. The Likert five point *scale*, ranging from ‘strongly disagree’ to ‘strongly agree’ was implemented in the questionnaire, in order to examine the level of perception of managers/owners. Figure 8 depicts the scheme of the questionnaire.

The questionnaire contained three groups of questions:

1. Questions related to the profile of owner/manager and company, according to anticipated sample of research;
2. General questions related to external and internal barriers (institutional barriers, barriers related to the market, rule of law, barriers related to infrastructure, and barriers related to human resources skills.
3. Growth of businesses in the last five years, expressed in percentages (indicators: growth of sales; growth of employment).

Special attention was paid to a well-designed questionnaire survey to be well formulated, easy to understand and ensure best completion possible, in order to meet the research objectives. The intention was to encourage respondents to fill out whole surveys, and not leave blank answers, so as to avoid the need for further research on the same issues. Therefore, in compiling the questionnaire, was taken care to ensure it becomes simpler, to minimize the problems that damage quality of research. It should achieve to collect the most complete and accurate information possible.

A well-drafted questionnaire makes it easy for respondents to give essential information and for the interviewer to record answers easily. It was arranged so that sound analysis and interpretation are possible. This should help to keep the interview brief to an extent in which the interviewees remain interested throughout the interview process.

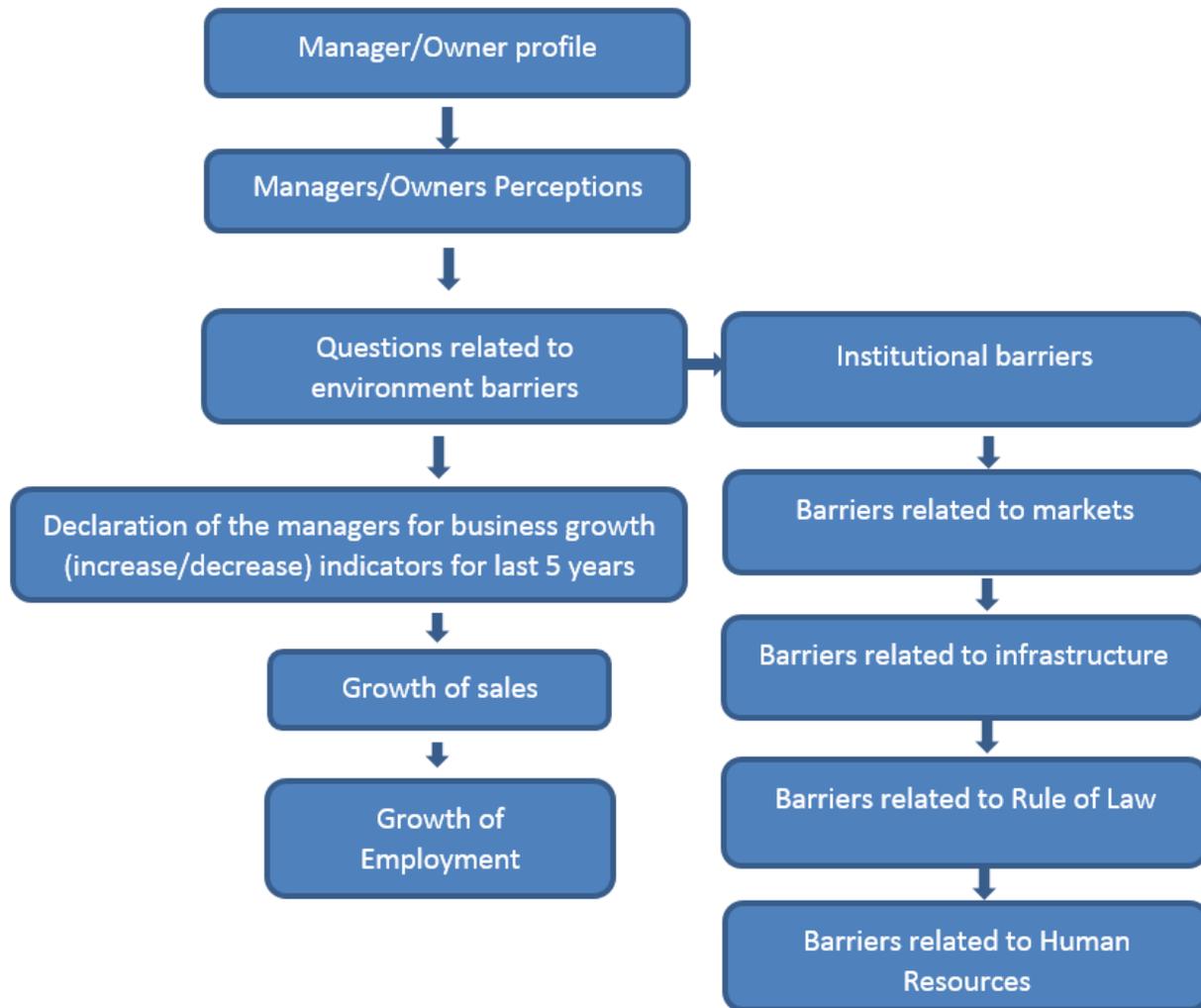


Figure 8: Design scheme of questionnaire refined by the author

### 5.2.3. Determining the sample size and distribution of the questionnaire

Many authors have proposed different ideas for determining the size of the sample to be taken in a study. For example, Comfrey, A. L., and Lee, H. B., (1992), suggested instructions related to determining appropriate sample size: 50 - very poor, 100 - poor, 150 - 200 – right, 300 - well, 500 - very good, 1000 or more - excellent.

As stated above, the selection of monitoring sites was made on the basis of completion of a basic statistical analysis, which requires the sample to be as representative as possible. However, to meet this condition it is necessary to accurately determine the size of the sample.

*In the case of this study, primary data collection in the field, directly from businesses was conducted through a process of distribution of more than 200 questionnaires. The distribution process was conducted in a period February - June 2017. The process was repeated several times using e-mail, but again failed to reach the determined sample size. The procedure continued systematically using different other methods, by phone and physical visits to businesses. 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 and refined by BSCK, thereby including all regions of Kosovo. The sample structure contains two categories: size and sectors where businesses operate. Table 13 provides more detailed information on the share of enterprises in population and sample, by size and sector.*

*Table 13: Share of businesses in the population and the sample by size and sector*

Sector size	Micro	Small	Medium	Total	Share of sector in population (%)	Share of sector in the sample (%)
Manufacturing	95.2	<b>2.4</b>	2.4	100	10.1	23
Services	97	<b>1.7</b>	1.3	100	40	35
Trade	98.7	<b>0.8</b>	0.6	100	50	42
Share of company size in the population (%)	97.7	<b>1.3</b>	1	100	100	100
Share of company size in the sample (%)	70	<b>25</b>	5	100	-	-

*Note: Total number of businesses is 100,000. Source: BSCK, 2016*

On the basis of the above sample refined by BSCK experts, is constructed the representative sample which will be used in the research. All small sized firms included in the sample are defined as following: micro firms, 1 to 9 employees; small firms, 10–49 employees. *This sample avoided the category of medium-sized enterprises, since the topic of research is small businesses.* The structure of the sample is presented in table 14. This randomly stratified sample enabled to draw significant data about the whole population of SBs in Kosovo.

Table 14: Sample structure by sector and size

Sector Size	Micro	Small	Total	Share of sector (%)
<b>Manufacturing</b>	12	6	18	10
<b>Service</b>	60	22	82	40
<b>Trade</b>	80	20	100	50
<b>Total</b>	<b>152</b>	<b>48</b>	<b>200</b>	<b>100</b>

Source: Self-refined.

The sample included SBs across all regions of Kosovo and is stratified into three main sectors (production, trade, and service).

There are different opinions on the impact of location in firm growth. Davidsson et al., (2002) in several studies advise that regional location of firms may have an impact on growth opportunities. For a difference, a study of UK firms by Storey, (1994) suggests the contrary, while other researchers (Almus, M., and Nerlinger, E., 1999) do not find any association between location and firms' growth, based on population density as the primary location variable. Table 15 provides an allocation of businesses in 7 regions of Kosovo. It is on such basis are distributed questionnaires.

Table 15: Regional Distribution of Enterprises

Gjakova	Mitrovica	Gjilan	Peja	Ferizaj	Prizren	Prishtina	Total
7%	8%	11%	11%	12%	16%	35%	100%

Source: BSCK, 2016

Statistical classification would pursue general representation of SBs, based on their regional and sectorial alignment, in order to ensure equitable representation of SBs from all regions of the country. In this study, in order to provide a more comprehensive research, and based on percentages of businesses registered in each region, are engaged into a distribution

process 7 regions of Kosovo. The sample structure for distribution into regions is presented in table 16.

*Table 16: Sample structure by region (in percent)*

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

*Source: Refined by author*

#### 5.2.4. Respondents and criteria of the research sample

The subject of the population of this research will be the managers or owners of SBs. The list of businesses is selected from different regions of Kosovo including three sectors: Production, Trade, and Services. Since the focus of the study is the perception of barriers to growth by owners/managers of small businesses on a more mature stage of development, it is considered important to interview owners/managers who work for consolidated businesses (not start-ups), owners/managers who have grown their businesses or intend to grow.

Firms are selected on the basis of some specifications, as:

1. At least 5 years old businesses;
2. Businesses with more than 5 employees, but not more than 50;
3. The businesses independently owned.

Additionally, related to specifications of individuals: Respondents primarily are supposed to be owner or manager of the firm, and it was been made clear to the participants that it is very important to discuss directly with owners/managers of businesses who have experience in growing the business or planning to do so in the future.

#### 5.2.5. Critical Incident Technique (CIT)

The process of identifying critical events was initially applied in the relationship between business and consumer, explaining events that have left ‘traces’ of further business life, whether good or bad event for the future. Apart from the nature of events though, it is also very important

to learn whether different events are influencing positively or negatively the future of “business life.” In this case, this technique is applicable, and many owners/managers described different situations which have influenced their behaviour in relation to the barriers. As mentioned by Keaveney (1995), CIT is appropriate when the purpose of the analysis includes the theoretical benefit and practical application of management and development. The method of critical incidents described by Senge, P. M., et al., (1994) explained it succinctly: “As a natural mechanism to cultivate meaning, people learn to divide the world into categories and distinctions in our thoughts. We then try to get fascinated by these differences, forgetting that we have created them. 'The economy is breaking up' or 'people are corrupt', these negative phenomena become our reality, with a visible independent power over us”. This is an appropriate way to investigate the perception of managers related to barriers of doing business (negative phenomena) and their behaviour in different situations. For example, there have been extreme cases of organized crime corruption implications or various threats that have influenced businesses to change the orientation to finally decide on termination of the activity.

The method was developed by Flanagan (1954), and it is similar to the analysis of complaints and compliments. He classifies variables into three types: basic, exciting and performance. The basic principle of this procedure is that the core variables are never associated with pleasure. Exciting variables enable us to state happiness or lack of it and finally, performance variables can be associated with both pleasure and discontent. In such situation, when we investigate the barriers to growth in challenging environments those stories are present. Managers and owners are asked to show the underlying factors of frustration and satisfaction, specific benefits from institutions or the feeling of being forgotten by them. If the process of data collection occurs after the incidents (good experience or bad) then perception of the respondents may be modified. However, this method is complementary and sometimes helps to argue around an issue or phenomenon with influence to the objectivity of the study. In this case, one of the questions to the respondents was: Did they had any experience (positive or negative) of someone threatening business activities in one way or another, or any action that may have damaged the businesses? Certainly, there were cases both positive and negative, but most were negative, and they helped on the orientation process of research.

### 5.2.6. Standardization and ethics in the research

Adhering to ethical criteria is the fundamental principle of any academic research. The information collection processes have been carried out based on the highest ethical standards to protect and respect the rights of affected individuals. No data have been collected or stored that would in any way jeopardize security or safety of businesses, individuals and others subject implicated. In particular, direct interview methods with business managers/owners and others are used if such collected information is to be kept confidential and safe. There are two main issues concerning ethical considerations, which need more explanation on this point: anonymity and confidentiality. According to Armstrong, J., and E. Lusk (1987) the anonymity and procedure have privacy impact on the response rates and for different studies is essentially different depending on the sensitivity.

This research deals with human behaviour, so all the necessary ethical procedures, including instructions and regulations of the "Kliment Ohridski" University, Ph.D. study are taken into consideration.

This study is conducted in accordance with ethical procedures, author's commitment to the anonymity of respondents, and data from the survey are used only for research purposes. According to Fuller (1974), "An anonymous survey is one in which no one can identify data provided on questionnaires completed," and the lack of anonymity reduces the rate of responses.

Some participants fear for their identity to be disclosed, particularly when they are asked about some critical issues (Klein, S., J. Mahler, and R. Dunnington., 1967). An anonymous study is one in which nobody (not even the study directors) can identify who provided data on completed questionnaires" (Berdie, 1973). Details of the respondents were strictly confidential, and their privacy is guaranteed.

The purpose of the study is explained to all participants, while anonymity, confidentiality, storage and use of data were diligently upheld. Also, the purpose of the survey was explained beforehand, questionnaires were disseminated, while subjects were informed that the survey completion process is entirely voluntary (Armstrong, J., and T. Overton., 1977). Participants were also informed that any information derived from interviews and surveys will be retained and requested by participants to give verbal participation consent.

### 5.3. A brief description of the owners/managers' statements regarding the barriers of some selected businesses

As we stated at the beginning of this chapter the intention of the pilot study was to extract and generate ideas for the main study. The questionnaire survey used was then prepared to proceed with changes and to adapt accordingly for use in the main study. Pilot studies are used in different ways in scientific research to serve many purposes, including the preparation of the main study and a special instrument, the pre-test study (Baker, 1994), Teijlingen, E.R.V and Hundley, V., 2001). Interviews were conducted in an open and free atmosphere, talking responsively with owners or managers of those businesses, exclusively related to barriers and general obstacles they face continuously. The questions were of a general character, describing in a narrative way barriers in the context of perceptions of owners/managers of SBs. After interviewing process owner or manager of business was asked to complete the survey for using to the main study. The main questions were related to:

- Personal background – education, work history and roles/responsibilities within the business at present;
- Company profile – number of employees, years in operation, sector (production, service, and trade).
- Discussion about the company's past, present, and future developments; critical incidents with influence to the future of the company.
- Attitudes towards the business climate - resources, competition, regulation and key barriers which hinder business growth.
- Growth of their businesses in a period of last five years, the growth of sales and employment, etc.

#### 5.3.1. Small Business A

The owner of this business is an expert in economics, and knew well about small business barriers in Kosovo. He manages a small modern company, a modern facility manufacturing high quality materials for the construction industry. The facility was built with state-of-the-art technical and technological achievements in this field. High quality production is ensured and guaranteed by the full automation of technological processes of manufacturing. The company

was founded in 2008, and now employs 46 people. The owner was more open to explain market barriers of his business and other SBs in their operations. Before a new business can compete in a market, it must initially enter into that market. Many markets have some obstacles that render difficult for the small or new firms to enter. These barriers he called "barriers to entry" and have several meanings. These explanations complement each other and it is difficult to determine the most accurate version. Here we can mention several barriers, although not specifying them, indicating their core components, and their implications.

According to the owner barriers to entry in the market are the main barriers they are facing. These barriers are a structural feature of a market that protects existing businesses in the market, providing them with some specific advantages, but on the other side making it more difficult for new firms to enter in the market. This situation is associated with unfair competition. In such cases of unequal competition, for which institutions would be responsible to fight, there are often suspicions of implication of institutions in terms of relations they may have with those businesses.

In relation to unequal competition, according to the owner of this company, one of the most important barriers are those related to the phenomenon of economy of scale. This concept has to do with the advantage of large existing firms, which produce and buy raw materials in very large quantities, or even take advantage of the experience and ability of experienced staff. The key is that existing firms have per unit production costs that are many times lower than a new firm. This phenomenon occurs mainly in the case of domination of larger businesses. Because of a higher initial investment value, there are more barriers to entry into that market for small businesses. In this context, the intervention of the institutions by making facilities for small businesses would be very profitable.

The networking effect is another kind of barrier that allows for no loyal competition. This effect is created when an existing business makes advantages for their self and both for its suppliers and customers. Also, their products are so popular among consumers, that the weight of this firm is no longer just individual, but within a network of firms, where a small and new firm is unable to enter. The networking effect allows different firms take advantage of each other's customers. In this way, the strongest players in a particular field cooperate with the strongest of another, to prevent the entry of any new firm seeking to compete in that market. This situation

can often create monopolistic markets, which is contrary to the interests of small firms and consumers in general.

Another barrier can be created with long-term contracts that an existing business makes with a single regional supplier or an important customer in the market. These barriers, though different, have the same effect. They all hinder small firms in their entry to the market, and consequently benefit larger existing businesses. This in many cases impedes those that may energize the economy and entrepreneurship and damage the general process of economic development. Of course, all this has an impact on consumer's interests. As a rule, more perfect is the competition in the free market where the fewer barriers to small firms are present. But in this respect, different types of barriers differ from one to another. So, an erroneous government rule, lack of rule of law, undue or corruptive connections of businesses with institutions and so on make the market unsustainable and rather discouraging for SBs. Moreover, long-term contracts with a dominating tendency, monopoly situations created by negligence of institutions, or sometimes for individual benefits and different interests, can and should be prevented. While, because of other reasons, as for other reasonable barriers, such as a famous brand or firm, or a price cut to eliminate competition, this is part of the free market operation, and government intervention in an effort to improve the situation may in fact only exacerbate.

### 5.3.2. Small Business B

This business was established in 1989 and currently employs about 48 workers in various professional fields. Among other activities of this company, there is production of alcoholic beverages, mainly during summer season. Due to the nature of work, full force production occurs around the months of July, August and September, thereby requiring a larger number of employees. However, electricity bills are three times more expensive during the winter season, despite not working at full capacity. Therefore, electricity tariffs for businesses, specifically in the manufacturing sector, continue to be a serious barrier for their business.

The application of winter tariffs and frequent load shedding are seen as challenges, but also obstacles that their business is facing. This is the right reason that representatives of the business community have raised concerns, and in that way also demanding from governmental institutions to ensure that relevant energy authorities provide stable and qualitative electricity

supply to businesses. Expensive electricity bills in the winter season make it impossible to re-invest in the company. The owner of this business states that during the winter season, the company only has the administration and maintenance working, but monthly bills surge. "The invoice for July compared with invoices for August and in September 2016, where double amount of euros, while, the bill for October has reached close to triple and so growing in following months."

"It is clear that in the winter season, when there is almost no work, electricity bills are almost threefold compared to the summer months, when the company works at full capacity and almost threefold more manpower," says the owner. There is no sense in using summer and winter tariffs, since according to him, this only causes further problems to business activities. Therefore, we have demanded to remove this regime, in favor of businesses, and that there is no reason for such differentiation between seasons. There is a need to seek for other modalities, which renders electricity bills more predictable for businesses," says the owner. According to him, if electricity expense is reduced for the winter season, the company would invest in expanding vineyards, which would also bring about the employment of more workers. In the past, and currently we have demanded that business community to have a stable supply of electricity and at the same price to all seasons in order to be competitive in the domestic and international market.

### 5.3.3. Small Business C

This enterprise was established in September 2009 and works with export of plastic packaging. This enterprise employs 35 workers and has perform a modest success in recent years. As a junior venture, it still continues to face many different problems. Initially, there was a lack of qualified staff for operating machinery that produces such packaging items, and staff needed to be sent abroad for training. Beyond such costs, the company needed to bring a foreign specialist worker to operate the machine. This also highlights the absence of professional technical workers in the country, and the demand for additional costs in bringing external experts.

The firm has also faced other trade and export barriers. The firm does not have own trucks and always needs to contract transport companies. It often happens that a truck does not

arrive in due time, and goods are delivered with delay. Hence, there is a lack of adequate transport means.

The firm has also faced with customs barriers. Since the raw material is imported, the exported amount should at least be equal to the amount imported. The firm requires its suppliers to separate the merchandise on the packaging list, so that part of the raw material is produced for sale within the country, should be taxed and registered with VAT, while for raw material to be prepared for export, there is no duty and VAT. But such an action is impossible with Customs authority due to the difficulties and bureaucracy, so we do not enjoy this benefit. Therefore, the firm has often faced such problems with clients and problems with customs. All of these incur additional expenses and increase cost of production, and often limits the ability to increase quality as a primary condition to meet the foreign market criteria.

### 5.3.4. Small Business D

This business was established in 2005 and is one of the first manufacturing companies in Kosovo which produce hygienic paper. Thanks to the entrepreneurial spirit and the passionate belief of the founder the company the company has recorded continuous successes. This company was established mainly by own funds and initially operated as a family business. This company in the beginning had 10 employees in two production units, in two locations, the first with a 90m<sup>2</sup> where is slatted production machine, and the second production unit located in a 70m<sup>2</sup>. During this period it managed to enter into cooperation with an "X" firm abroad. In April 2007, the two production units were merged into a production unit which was placed in a business premise of 540m<sup>2</sup> in a suburb of Pristina, and a 45m<sup>2</sup> office only for administrative work.

Since moving from one location to another, for this company the main barrier was the location, lack of space of work and high expenses for rent. In 2014, the company changed its location again and moved to a third location, with larger working spaces and expanding its activity. In 2015 the company has 25 employees with the relevant qualifications, a coordinator, a manager, two distributors, and 21 employees in production.

Currently, the company counts 28 employees in different areas. In its activity, the company has managed to expand its cooperation with many other companies as a supplier of its hi-quality paper products with a high quality of production. The facility is now equipped with modern manufacturing machines, covering market demands and customers' requirements with over 20 types of European quality products. Given the difficulty of competing with foreign products, both product quality and market price have managed to survive and cover most of the market in Kosovo, by providing supply according to customer needs. Moreover, no apparent growth has been achieved for the last three years. The firm operates successfully today, despite the major difficulties faced in terms of informal competition, along with the lack of support from the state. Thanks to profits and savings, and also a loan obtained from a bank, the company has managed to expand capacities and increase the number of employees, despite the fact that the company pays high interest rates on the loan, and that there are plenty of impediments to getting to the loan. During its activity, the company has been able to expand its cooperation with many other companies as a supplier of production with a high quality. Even though the competitiveness of foreign products both in terms of product quality and market price, it has managed to cover most of the market in Kosovo and offering them the supply opportunity according to customer needs.

### 5.3.5. Small Business E

Enterprise "E" with 43 employees for some decades has been a successful manufacturer and exporter of rubber belts. More recently, the enterprise encountered some difficulties in securing sufficient working capital to resume its activity, and therefore had to engage its own capabilities in processing raw materials offered by external partners. In this method, the foreign contractor brought batches of raw material, while the company "E" processed and delivered final products to the contractor.

However, this arrangement cannot last long; on the one hand, when raw material is imported by the contractor for processing in Kosovo, from the company is required to pay customs and VAT duties. On the other hand, in exporting final products, the enterprise is confronted with administrative barriers in terms of VAT reimbursement (to the return of customs and VAT), which took up to three months. Consequently, the enterprise was not able to finance

its production on a continuous basis. Later, the Kosovo Customs Service introduced an administrative regulation doing away with such arrangements, which prevented the stipulation of the contract with that foreign company. This way, the company risks losing its partners in the activity of raw material processing. The enterprise also faces problems of informal competition. One specific difficulty in terms of excise duties is payment of excise duty on gasoline used as input in production. The company management claims this does not happen in other countries or to competing companies.

### 5.3.6. Small Business F

This company is a key Kosovar Company in the field of services, providing different ICT services. Company's core business is development and systems integration in the ICT field. It provides a complete set of services in the life cycle of integrated end-to-end ICT systems, such as consulting, systems design and planning, project management, research and development, delivery of various system components (hardware and software), systems implementation and integration, support and maintenance of operational systems.

With over a decade of experience and more experienced individual management staff, the company has gained a reputation for high performance and reliability based on delivering services and products to customers. Moreover, represent innovation and quality in a wide range of industries. The range of services includes professional consultancy in the field of ICT, telecommunication and networking, system integration, implementation, software development and problem solving, training and business support. The company possesses highly qualified engineers, specialists and developers on board, equipped with the most respected industry certifications, and offers integrated ICT solutions for the customers. By designing and implementing modern and adaptable ICT infrastructure and solutions for customers, they help customers modernize operations and increase their business. With all of its overall success, the company still faces barriers hindering the capability and intentions of growth. Among other obstacles, there is the lack of qualified ICT staffs. The company has had several occasions in which they had difficulties to fill out the vacancies and they had to repeat vacancy announcements. Even after recruitment, it was required that recruited staff to attend further internally training for the many services they would have to provide in their engagement. This is

due to the competition that derives from a high demand of companies for experts in this field. “Due to such retention difficulties, we are often obliged to operate under limited conditions and may decline our services to our customers. Rent payment for work premises have also increased the costs. We have used a credit line, but due to high interest rates, we are not going to apply for a loan. In addition, apart from some small donations from some international organizations, we have not received any support from relevant institutions”.

### 5.3.7. Small Business G

Small business ‘G’ is a Kosovo based company in Pristina, which provides consulting services in the development of finance systems based on ‘QuickBooks’ software, which is a leader in the segment of small enterprises. They have developed a wide range of good practices in implementing and professionalizing ‘QuickBooks’ based on financial systems for small and medium sized businesses and acting as a reliable business associate. This business has 23 employees and have experience in financial management and consulting services dates back to 1995, and since 2010 we have provided true experience in implementing and adapting ‘QuickBooks’ solutions for industries and business size. Consultants of the company are certified by credible institutions and are certified accountants of the Association of Certified Accountants and Auditors of Kosovo. As a primary barrier, the company mentions the lack of demand for services, especially from small businesses. Small businesses do not have sufficient financial means to pay for consultancy services and quality accounting and marketing services. Because of the inability to survive, there are many informal businesses in this sector.

## CHAPTER 6

### 6. DATA ANALYSIS

#### 6.1. Introduction

The study 'Barriers to SBs Growth' required a wide landscape on exploration of a large number of studies of this field. However, the focal point of this work has been the comprehensive approach including a wide number of barriers that hinder the growth or mostly influence to SBs growth in Kosovo. This is preceded by the exploration of quality literature in this field, providing sufficient theoretical knowledge as a strong ground-breaking support for the empirical research ensuring the significant information to draw the right conclusions. It is well known that the lack of a favorable business environment and insufficient institutional support remain key factors preventing private sector growth and overall economic development. So, as a result, Kosovo still faces low development rates, as evaluated with some indicative parameters, such as: with particular emphasis on low economic growth, high unemployment rate, high trade deficit, lack of foreign investment and lack of favorable policies to business growth. Based on a Riinvest Institute survey with around 1000 businesses, over 56% of Kosovar businesses have grown or remained the same over the past four years, while 44% have decline. Regarding major private sector barriers mentioned by entrepreneurs, they relate to high cost of finance, high prevalence of corruption, lack of state support, unfair competition (driven by informality and fiscal evasion) and a poorly operating judicial system.

Therefore, based on theoretical explanations presented earlier, but also from other researches related to business growth barriers in Kosovo, in this study is developed an empirical analysis of data gained from the field to further contribute in this field of study.

In statistical analysis, are included a large number of factors that hinder the growth of small businesses. Initially, there are developed a descriptive statistical analysis, elaborating some important data related to the profile of the interviewed companies, their managers/owners, the sector in which they operate, number of employees, region of operation and the longevity of

businesses. The rest includes variables that mostly express barriers that hinder the growth of small businesses. The rest includes variables that mainly represent barriers that hinder the growth of small businesses. Furthermore, in analysis process are included a large number of variables initially selected and classified into 5 groups and their impact on business growth is assessed through the five point Likert scale: 1. Strongly disagree, 2. Disagree 3. Neither agree nor disagree 4. Agree and 5. Strongly agree. Therefore, meaning that in relation to a particular variable, owners/managers express their perception. Descriptive statistics have also been presented with the average growth of businesses for the last 5 years, based on growth of sales and growth employment. As a next step to assess the validity of data the reliability test was conducted, then to proceed with other analyses. This included factorial analysis, where factorization of variables is conducted, and values shown their impact on business growth. Further, we proceeded with measure of assumptions and hypothesis testing through regression analysis and some other statistical techniques.

### 6.2. Theoretical background

As is discussed above in chapter two, the phenomena of firm growth and barriers that hinder the growth represent a continuous problem. Therefore, continuous efforts to contribute to this issue are necessary. Moreover, there is still a need for contribution to fill in deficiencies and to find an appropriate measure of firm growth in literature. Theoreticians have used different measures of growth, ranging from employment to profits, value-added, turnover, and total assets. Most studies have been one-dimensional, looking at a single or few indicators only. Many models of firm growth exist in literature, some of them identified to be most applicable to small enterprises. They include many models in different dimensions. In this case, research shows the complex landscape of the question of firm growth. When we approach to the study of small firm growth, it is important to pay attention to the multi-dimensional nature of growth, as we have stated previously in this study. Thus, it is useful to combine or modify existing models and observing theories of firm growth and studies about small firm growth. Initially, it was intended for the model and comprehensive approach to the problem to comply with this case and provide a wide-ranging overview of the information to facilitate the drawing of conclusions. Also, the literature in this area is often fragmented, many studies focus only on a certain perspective. Hence, there is an absence of an inclusive model to measure the small firm growth. When it

comes to the discussion about determinants of growth, firm size and firm age, have always been dominant (Davidsson, P., Delmar, F., & Wiklund, J., 2002). Is this enough and should we stop with that? Of course not! We need to get more variables and expand the research, in order to choose and classify the only most important ones. Therefore, it is considered the necessity of analyses on the influence of a large number of variables in order to give a clearer and more realistic explanation of this issue of study.

Why multidimensional approach to research barriers to firm growth? Liedholm and Mead (1999, p. 20-21) list a number of other variables that influence small firm growth in addition to the key variables of age and size. Specific to the sector of operation, location, gender, and human capital can influence growth. Also, relevant macro variables, such as the aggregate level of economic activity, policy, and constraints can have a direct effect on firm growth. But, we may not forget that focus is on SBs, and we cannot take in account the size as a factor of growth. New growth theory, based on comprehensive approach, is being met with the support of many new scientists. Wiklund, J. et al. (2009), referring to the indicators of firm growth, attempted to build an integrated model. They identified four groups of factors to build the growth model. These include entrepreneurial orientation, environment, resources and growth attitude. However, they note that these perspectives are not necessary independent from each other. For example, they view entrepreneurial orientation as the central construct mediating the impact of resources, environment, and attitude on growth. However, based on this model and so many others mentioned in this dissertation (Storey, 1994, Barlet and Bukvic 2001, Rachel, 2011, Davidson 2006, and so on), the question is: Whether or not these models can be applied in the case of Kosovo? For the main purpose of this study, it is decided to select the most important factors that hinder business growth in Kosovo, those generally considered by others. Or, it would merge and adopt the main factors that influence the SBs growth in Kosovo, also taking into consideration research on perceptions of owners/managers. Many other theoreticians have given inputs on the determination of factors that impact growth of SBs, but Storey's work is clearer and includes two dimensions of the scientific explanation. Storey (1994b) defines the determinants of business growth into two groups, internal and external factors. Based on the Storey's theory we have adopted this concept of empirical research in the case of Kosovo. Therefore, the main field

research of this study based on perceptions of the owner/managers has been focused on two main directions:

1. Institutional barriers (external barriers)
2. Human resource capacities (internal barriers)

Moreover, to analyse these two groups of factors in the case of Kosovo and their impact on SBs growth theoretically found support in the institutional theory and growth model of David Storey (1994).

### 6.3. Measurement of indicators and variables

Referring to the indicators that influence growth of small firms, a permanent question will be: what are the factors to be measured? Let see what different authors say. The growth of SBs 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, L. G. et al., 1998); (Wiklund J., 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 P., 1991). The fundamental theory here is that the same illustrative factors facilitate or hinder growth of the firms, but the growth in some firms manifests itself as radically increased turnover without much change in assets or employment, whereas for other types of firm the result is moderate and growth is balanced across assets, employment, and sales. The sum of standardized versions of all three indicators would then be a better representation of the theoretical growth concept. If only one indicator was used, results would be weak and possibly distorted (Davidsson P., 1989). Alternatively, the underlying theory predicts that certain antecedents would be related e.g. to growth in sales and market share, while other predictors are believed to influence growth in employment and profits, respectively. If so, the sensible course of action is to include and analyze different growth indicators separately (Delmar, 1997).

If only one indicator is used, and the study has a cross industry design, there is growing consensus that sales growth should be the preferred choice (Ardishvili et al., 1998); (Hoy, F. et

al., 1992); (Weinzimmer, et al. S. J., 1998); (Wiklund J., 1998). It is the most generic of the alternatives, as all commercial firms need to have sales to survive. According to Barkham, Gudgin, Hart, and Hanvey (1996), it is also the indicator that small firm owners/managers use themselves. Additionally, it may be argued that sales often precede the other indicators; it is the increase in sales that necessitates increases in assets and employees and results in rising profits or market share (Flamholtz, 1986). These favorable aspects of sales as an indicator are reflected in the fact that in 30.9 percent of the studies, it is most used in research, as reviewed by Delmar (1997). It has always been so popular, so that employment growth was widely used in 29.1% of studies reviewed, it was considered relevant by policy makers for multiple purposes, interest in speeding up employment growth and in terms of data availability (Davidsson, P. & Wiklund, J., 2000). Very few managers see growth in employees as a goal in itself (Gray, 1990); (Wiklund J., 1998); (Robson, P. J.A. & Bennett, R. J., 2000) and because some growing firms largely outsource employment, this is not always highly correlated with the growth of sales (Delmar, F. et al., 2003). Furthermore, we see differing opinions regarding the selection of indicators of measurement, as presented in literature, but measuring growth on the basis of a single indicator cannot be sufficient. More indicators to be included in the analysis, the accuracy of the results will be higher, but at least two indicators should be included in the analysis.

Different studies have used a range of diverse theoretical concepts of firm growth to measure the numbers within any given economy (Henrekson, M. and Johansson, D., 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, E., Stam, E. and Heffernan, P., 2006); (Moran, P., and Ghoshal, S., 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)

However, the overlap between these different measures of growth is relatively weak; hence a firm may be identified to have high growth in terms of sales turnover but not employment, or vice versa (Delmar, F. et al., 2003). Meanwhile, recognizing that a single metric

will not capture all elements of firm growth (Janssen F. , 2009), *turnover* will be used as a key indicator of high growth in this study (Mason, C. and Brown, R. , 2010). Based on the foregoing considerations for this imperial study, we have made tangible choice and have selected two indicators of growth, *growth of sales* and *growth of employment*.

### 6.3.1. Dependent Variable

The dependent variable in this study is firm growth. As it is stated above, firm growth, as many authors have estimated, can be measured by several indicators, including annual turnover, sales, employment, assets, market shares, profits, etc. In particular, sales and employment are widely used indicators for firm growth (Davidsson P., 1991); (Delmar, 1997); (Ardishvili, A. et al., 1998). Previous studies differ enormously in relation to the period included in the research. According to Weinzimmer, L. G. et al., (1998), to improve accuracy, to avoid short-term tendencies and to enable for a reliable estimation of organizational performance, the time period explored should be at least 5 years. The data will present two indicators of firm growth such as employment and sales for last five years (2012-2016). The average data per year from questionnaire are calculated for each case as representative of growth.

### 6.3.2. Independent Variables

Independent variables, based on theory discussed above, are divided into 5 groups, which include factors and determinant variables representing the correlation and impact to the dependent variable – firm growth. Independent variables mostly included are environmental barriers (the rule of law, market-related barriers, and infrastructure related barriers) considered as external barriers, while barriers related to human resources capabilities of the firm as internal barriers. Among external barriers are those related to institutional deficiencies that negatively influence the growth of SBs? In this context, there are analysed factors related to negative impact to growth, in particular lack of institutional support. On the other side amongst internal factors, are selected factors related to the lack of human resource capacities.

### 6.3.3. Description of variables and coding

Due to a large number of questions, the variables are compounded into 5 groups in order to facilitate the process of data analyses and interpreting. The table below shows groups of

independent variables and dependent variables (growth of sales and growth of employment in percentage for a period from 2012 to 2016). In a follow-up on the data analysis process, there will be analyzed the impact of barriers to the growth of employment and growth of sales of SBs, initially through factor analyses, multiple linear regression and other statistical techniques. In case of performing regression analyses, due to the large number of variables to facilitate the data analysis procedure there are calculated the average of each group of variables and are converted to one variable for each group. So, for five groups of variables, 5 independent variables are created that will represent all the variables. 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 their growth of business. The table 17 shows the list and description of individual independent variables as well as grouping them in 5 groups and 2 dependent variables:

*Table 17: Description of variables, coding and groups formation*

Group	Barriers related to:	Independent variables (X1-X5)	Coding	
<b>1</b>	<b>Lack of Institutional support</b>	Current tax policy Access to finance; Administrative procedures Economic policy	<b>LOIS</b>	<b>X1</b>
<b>2</b>	<b>Lack of rule of law</b>	Nonefficiency of justice system Corruption in Courts Politics interruption The informal economy Tax evasion obstructs Organized crime Corruption in government institutions	<b>LORL</b>	<b>X2</b>
<b>3</b>	<b>Market barriers</b>	Customs fees on imports of raw materials Lack of raw materials in country Unfair competition in the market Access to foreign markets The limited capacity of the local market High transport costs are a barrier to your business	<b>MB</b>	<b>X3</b>
<b>4</b>	<b>Barriers related to infrastructure</b>	Lack of electricity Lack of internet Lack of water Lack of roads Insufficient space of work The location of your business is an obstacle	<b>BOI</b>	<b>X4</b>

<b>5</b>	<b>Incapacity of human resources</b>	Lack of motivation Lack of experience in management Insufficient level of professional skills Lack of management staff A lack of technical staff Lack of staff for accounting and finance Lack of IT staff	<b>IOHR</b>	<b>X5</b>
	<b>Growth of SBs</b>	<b>Dependent variables (Y1,Y2)</b>	<b>GOSB</b>	<b>Y</b>
<b>1</b>	<b>Growth of sales</b>	Average Growth per year – Last Five Years (2012-2016) in percentage (%).	<b>GOS</b>	<b>Y1</b>
<b>2</b>	<b>Growth of employment</b>	Average Growth per year – Last Five Years (2012-2016) in percentage (%).	<b>GOE</b>	<b>Y2</b>

#### 6.4. Conceptual model of data processing

In addressing the issue of small firm growth, is explored the literature that explains growth barriers. This literature assumes that a number of small firms want to grow, but they are hindered in different ways due to barriers. From the literature review, on the purpose of this dissertation, one may see a set of determinants that impact the growth of SBs. But, according to Rodriguez et al. (2003), there is no single theory which provides a generalized framework for small firm growth. There is a lot of literature from everywhere that have mentioned different factors that hinder the growth of small firms. It should be noted that these factors differ from country to country and due to different development circumstances. The idea is the same as presented above by D.J. Storey (1994a). The factors that influence the growth of a small business are just those obstacles that in the matter of growing the small business seem to act in a negative way. The barriers or factors of SBs growth can be broadly distributed into external and internal factors. The main concerns related to the barriers of growth which are interrelated to the institutions and their impact to growth of SBs are elaborated in this research. In the second chapter of this research is described an elaboration of concepts of different theories that explain factors with an impact on small business growth. Among those theories, are explored the institutional theory which explains mostly the deficiencies of institutions to provide healthy environment of doing business. There is evidence from many studies of this field that poor institution performance impacts SME growth (North D., 1990, Storey, 1994., Aidis, R., and

Estrin, S., 2006, Barlett, W., Bukovic, V., 2001, Hashi, 2001 Bartlett, 1995, Krasniqi, 2007 and so on).

A general consensus among numerous studies on transitioning economies is that external determinants, including legal environment, level of corruption, financial institution, regulatory and taxes are far more important for SB growth than internal factors, such as individual firm characteristics. Institutional factors are mainly external indicators, factors beyond firms' control that can have a negative impact on the firms' growth.

A majority of studies dealing with economies in transition argue that these factors tend to be the main barriers that hinder firm growth. Institutional constraints are considered to be those manifested in negative phenomena that hinder business growth, like the lack of a functional judicial system, criminality rates and the weak functionality of governing bodies (Hashi, 2001, Storey D. J., 1994b, Smallbone, D., and Welter, F., 2009b).

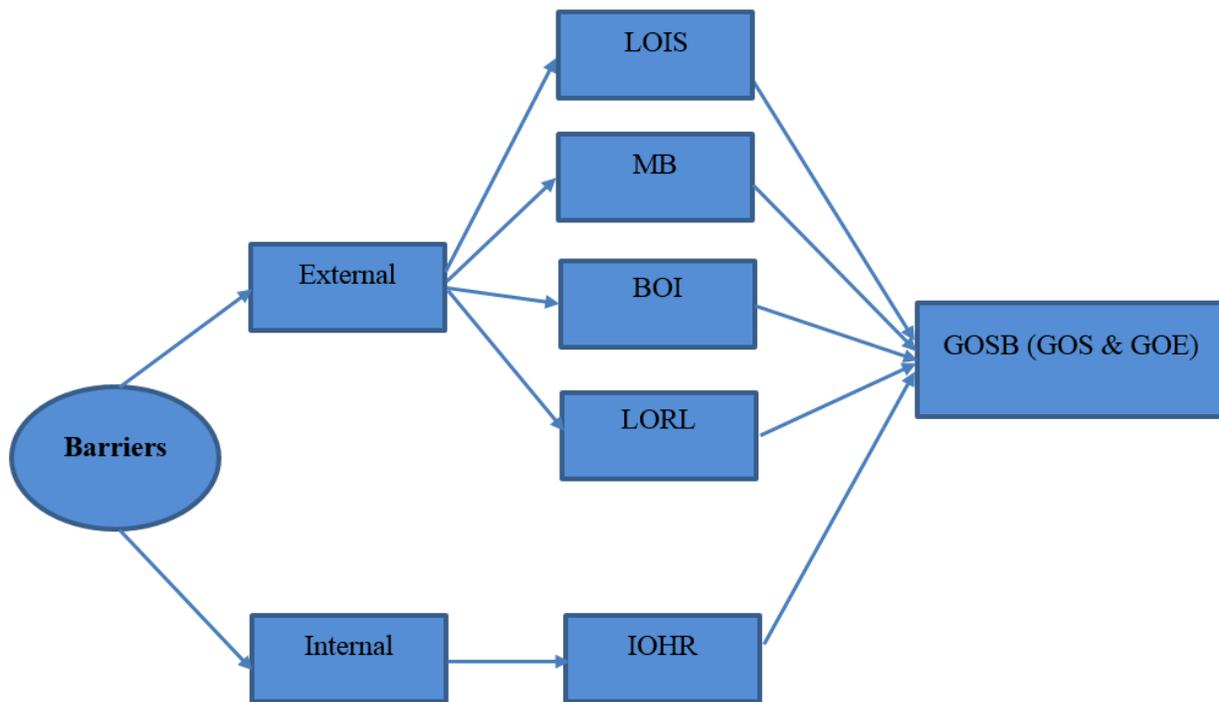


Figure 9: The conceptual model of data processing based on Storey's model (1994a)

To measure the impact of these factors in the case of Kosovo, is adapted the theoretical model conceptualized by Storey (1994a) stated earlier in the second chapter of this study (Figure

9). Related to environment factors are included institutional factors that have negative impact on small business growth and incapacity of human resources as an internal factor. The decision for this model of research was made according to the situation and dimension in which the barriers are present in Kosovo, attempting a wider approach to investigation.

### 6.5. Procedure of data analysis

In this chapter are presented the procedures and results of data processing. Initially, is started with descriptive statistics to show the profile of companies interviewed, including: level of education of owners/managers, operating sector, longevity of their activity, and region of operating and so on. In the following sections, the analyses are conducted step-by-step, applying different statistical techniques, ensuring that outputs show the data that are required. Econometric models will show the dependent and independent variables and the structural equation of the model including all groups of variables.

Statistical analysis is based on a chronological link of preliminary research work, empirical and theoretical analysis, raising research questions and hypotheses extending with data collection, data analysis and output of results. The data are analysed through stepwise process using different statistical techniques, as:

- Descriptive statistics
- Assesment of reliability and validity of data
- Factor analysis (PCA)
- Hypotheses testing through Multiple Regression Analyses, One Way ANOVA nalyes and independent Sample T Test

After completion of the data collection process, they were prepared for extensive analysis through SPSS software. Why it is selected SPSS to work with? There is no doubt that businesses, education institutions, and all fields of science have come to depend on the computer. This dependence has become so high that it is no longer possible to understand social science research without substantial knowledge of statistics and at least some rudimentary understanding of statistical software (Arkkelin, 2014). The number and types of statistical software packages that are available continue to grow each year. In this dissertation, is chosen to work with SPSS or the Statistical Package for the Social Sciences because of its popularity within both academic and

business circles, making it the most widely used package of its type. According to Arkkelin (2014), SPSS is also a multi-purpose package that allows many different types of analyses, data transformations, and forms of output - in short, it will more than adequately serve to this study purposes. The SPSS software package is continually being updated and improved, and so with each major revision comes a new version of that package. Data analysis is done based on the assessment indicators provided and key research findings. Data obtained from the survey was recorded in a special database for relevant statistical analysis, interpretation, and argumentation of the main study findings.

### 6.5.1. Descriptive analysis

The table 18 describes the frequency distribution for owners/managers surveyed. As we mentioned before, the study is based on the perceptions of owners/managers related to barriers that hinder SBs growth. The data show that from 200 businesses surveyed, 49 (24.5%) were managers of businesses and 151, or 75.5% owners. We see that 3 out of four businesses surveyed are managed by owners. This is a characteristic of small businesses in Kosovo. As it can be observed from the graph (Fig.10) as well, the bar chart gives a visual overview of this distribution.

*Table 18: Frequency Distribution of owners/managers surveyed*

<b>Owner / Manager Frequency Distribution</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manager	49	24.5	24.5	24.5
	Owner	151	75.5	75.5	100.0
	Total	200	100.0	100.0	

Table 19 presents the frequency distribution for level of education of participants. Most of the participants, 113 or 56.5%, pursued a high school degree, 58 or 29% of the participants have a university degree, while only 29 or 14.5% have finished elementary school. The chart bar graphically depicts this distribution.

Table 19: Frequency Distribution of participant's education level

Participants Education Level					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Elementary	29	14.5	14.5	14.5
	High school	113	56.5	56.5	71.0
	University	58	29.0	29.0	100.0
	Total	200	100.0	100.0	

As it is mentioned earlier, the surveys are spread on the basis of the regional distribution of businesses registered in Kosovo. The following table (Table 20) shows that we have included 7 Kosovo regions to ensure over all inclusion. The next table provides descriptive data on regions of businesses' operations. Most of the surveyed businesses are located in the capital city of Kosovo, in Prishtina and its district with 38.5%, 17 % in Prizren and the rest of businesses are located in other cities, in Peja, Mitrovica, Ferizaj etc. This distribution can be observed in chart too.

Table 20: Regional Frequency distribution of surveys

The region of business location					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Pr	77	38.5	38.5	38.5
	Pz	34	17.0	17.0	55.5
	Pe	22	11.0	11.0	66.5
	Mt	14	7.0	7.0	73.5
	Gl	18	9.0	9.0	82.5
	Fr	17	8.5	8.5	91.0
	Gj	18	9.0	9.0	100.0
	Total	200	100.0	100.0	

As it is mentioned earlier, the focus of research is on SBs on a mature stage of growth, not their startup stage, since the interest was the impact of barriers on growth in a period of five years. Therefore, there are surveyed the companies with 5 years of longevity and more. As it can be seen in table 21, from a sample of 200 surveyed companies based on the longevity of businesses, there are different frequency distribution: 39% of businesses have been operating between 5-10 years, 32.5% between 11-15 years, 26%, 16-20 years and only 2.5% are operating

longer than 20 years, between 21-25 years. This distribution is shown graphically through the bar chart.

*Table 21: Longevity of surveyed businesses*

<b>Longevity of business</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5-10 years	78	39.0	39.0	39.0
	11-15 years	65	32.5	32.5	71.5
	16-20 years	52	26.0	26.0	97.5
	21-25 years	5	2.5	2.5	100.0
	Total	200	100.0	100.0	

Table 22 shows the number of employees that companies host: 39.5% of companies have 5-15 employees, 24.5% have 16-25 employees, 18.5% have 26-35 employees and 17.5% of companies have over 36 employees. Moreover, here one can see that in this research are included companies with more than 5 employees, respectively small businesses from 5 to 50. As seen in the table, from the sample of 200 are dominant companies employing from 5-15 employees and the rest have more than 45 which are only 3%.

*Table 22: Number of employees of companies surveyed*

<b>Number of employees</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5-15 employees	79	39.5	39.5	39.5
	16-25 employees	49	24.5	24.5	64.0
	26-35 employees	37	18.5	18.5	82.5
	36-45 employees	29	14.5	14.5	97.0
	Over 45 employees	6	3.0	3.0	100.0
	Total	200	100.0	100.0	

The last table of descriptive statistics (table 23) related to profile of companies gives statistics for the type of businesses. Most of the business surveyed belong to the trade and service sector 82.5 %, while only 17,5% are manufacturing companies. Such distribution is approximately the same in the list of registered businesses at Kosovo level. Trade sector is the dominant sector, following by service and the last one is production sector with only 17.5%.

Table 23: Distribution of types of business surveyed

		Type of business			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Production	35	17.5	17.5	17.5
	Trade	95	47.5	47.5	65.0
	Services	70	35.0	35.0	100.0
	Total	200	100.0	100.0	

### 6.5.1.1. Descriptive statistics of owners/managers perceptions regarding of barriers presence, plans and objective and intentions to grow

Before starting with whatever analysis of barriers it was predestined to be asked owners/managers for the existence of barriers. Do the barriers of doing business are present in Kosovo? How they are working on the presence of barriers that hinder the growth of their business? Based on the reports of owners / managers, we are dealing with a relatively large number of barriers that affect different ways in different areas. The output of descriptive statistics shows that 67.5% of owners/managers are strongly agree and 12.5 agree (total 80%) that barriers of doing business in Kosovo are present. The presence of these barriers influences the formulation of the growth plans and objectives and their realization. The degree of impact of these factors also depends on how the owners/managers perceive the various barriers that damage the environment of doing business.

Table 24: Opinions of owners / managers regarding the presence of barriers

		Barriers of doing business in Kosovo are present			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	1.5	1.5	1.5
	Disagree	19	9.5	9.5	11.0
	Neither Agree nor Disagree	18	9.0	9.0	20.0
	Agree	25	12.5	12.5	32.5
	Strongly Agree	135	67.5	67.5	100.0
	Total	200	100.0	100.0	

Institutional environment in transition economies is described as underdeveloped and some institutional barriers faced by the owners / managers of these countries, including Kosovo,

have a negative effect on the planning of growth and business development. Therefore, owners / managers often are oriented in short term planning, without a real strategy for growth and they do not have any growth plan. Therefore, it can be said that in transition economies including Kosovo, due to the high level of barriers, the goals of owners / managers for growth are very sensitive to the institutional environment. Due to the high presence of barriers, based on the reported data, (80%) of owners / managers perceived that barriers hinder growth plans and objectives (Table 25).

*Table 25: Opinions of owners / managers regarding their plans and objectives*

<b>Barriers hinder growth plans and objectives</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	40	20.0	20.0	20.0
	Yes	160	80.0	80.0	100.0
	Total	200	100.0	100.0	

Growth goals are considered the ways of thinking by owners/managers about growth alternatives. According to Rachel (2011), objectives of growth are the subject of behavior of owners/managers. Since various studies have revealed that owners/managers' objectives change from time to time and may happen that changing of objectives affect the change of barriers, and the process of their occurrence is dynamic.

*Table 26: Opinions of owners / managers regarding their intentions to grow*

<b>Do you have intention to grow your business?</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	60	30.0	30.0	30.0
	Yes	140	70.0	70.0	100.0
	Total	200	100.0	100.0	

On the question, do you have intention to grow your business, as seen in the table 26 around 70% of owners/managers reported affirmatively their intention to grow and 30% don't have intention to grow. In transition countries' including Kosovo this perception is high due to limited opportunities in building carrier and high level of economic uncertainty. In addition,

besides to the economic goals of growth, goals may also be uneconomical or related to personal performance, including the goal of the owners/managers to grow in career, and to shape their personality by raising wealth. This is also related to the employment of many members of the family, raising their personal or family status, increasing family wealth, security or personal autonomy as well as creating family perspective.

### 6.5.1.2. Descriptive statistics related to growth of small businesses

The following describes descriptive statistics of dependent and independent variables. As it is mentioned before the dependent variable is business growth, in this term there are used two indicators of growth:

1. Growth of sales (GOS) and
2. Growth of employment (GOE)

In the succeeding analysis (table 27) will be discussed the mean values and standard deviation as per perception of owners/managers surveyed. The descriptive data in the table show that from the sample of 200 businesses surveyed, there are businesses that have declared the growth of sales and some did not have any growth or have decline. The average growth in the five year period is 19.67%. If it is divided by 5, the average increase rate per year is 3.93. Meanwhile, in the table is presented the minimum and maximum, which show that the scale of decrease in percentage is -8.00 and the increase is 98%, even though businesses with two extremes values are very few in number.

Table 27: Descriptive statistics - Growth of sales

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Growth of sales (2011-2016)	200	-8.00	98.00	19.6730	21.43947
Valid N (listwise)	200				

Approximately the same data is shown in the table 28, in terms of average growth of employment. In the period of five years the average growth of employment in percentages is 18.05%, while the minimum growth rate is -10 and maximum 90.00%. In this case the average growth per year is 3.61.

Table 28: Descriptive statistics - Growth of employment

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Growth of employment (2011 - 2016)	200	-10.00	90.00	18.0550	20.22094
Valid N (listwise)	200				

### 6.5.1.3. Descriptive statistics according to the perception of owners/managers related to the impact of barriers to the growth of SBs

In the 5-point Likert scale assessment presented in the questionnaire, (1. Strongly disagree to 5 - Strongly agree) we can see the mean values of respective barriers, respectively the effect of each barrier to growth. The mean value of 'Access to finance' factor is 4.43 i.e. most respondents agree or strongly agree that this barrier hinders their business to growth. Moreover, if we compare the data in descending order (from largest to smallest), it can be seen that 'access to finance' to be an essential factor with a high level effect in business growth. Furthermore, this barrier largely affects business growth and in the perception of owners/managers, this barrier is a dominant factor that impacts growth of their business. The second factor in the group of barriers 'Lack of institutional support' is 'Tax policy' resulting in a mean value of 4.06, again with a large impact. Both these factors are very important in relation to business growth. Access to finance and lack of finance are consistently perceived by businesses to be a large discontent. High interest rates in banking loans, collateral issues and complicated administrative procedures are some of the obstacles which complicate the issue of access to finance.

Inadequate tax policies, together with the change of tax policies, due to the frequent switching of governments, are causing many problems to businesses. Therefore, businesses are not satisfied with these changes, they always require a stable tax policy for businesses. The third indicator of this group is 'Economic policy'; the mean value 3.09 shows that has a moderate effect as well. A sustainable economic policy, followed by a new development and support strategy for small businesses in Kosovo, has always been demanded by businesses. Therefore, this indicator is valued by respondents to be important and influencing their growth, but compared to the other factors, it has a smaller effect. Balanced distribution of and the right investment in the interest of development of small businesses would have an impact on

sustainable development. As for the ‘administrative procedures’ there is still bureaucracy in offices providing services for business, like registration, licences and so on, but recently, there need to be some improvement in this regard, it is observed an increase in the efficiency of services due to the use of information technology. The data show that according to perception of owners/managers this indicator is perceived as an obstacle to their business growth (Table 52).

As can be seen in the table 52 the mean value, as assessed from respondents from 1 to 5, regarding the corruption in courts is 4.56, which means that a majority of respondents perceive that there is a high level of corruption in courts. Also, as of perception of owners/managers regarding the ‘inefficiency of the justice system’, the mean value of 4.53, shown that this barrier is a major obstacle to growth of SBs. In the group of barriers related to ‘lack of rule of law’ there is a characteristic that the mean value of all variables is 4 and over 4 (4.00 – 4.56) which shows that the presence of these barriers based on respondents' perception is high and the impact of these factors on business growth is too high.

Moreover, table 52 (Annex 1) depicts the data regarding ‘market barriers’ which considered with highly influence to growth. In some cases, barriers in this group are correlated to each other and act simultaneously. In the survey, special attention was paid to the obstacles SBs face in accessing internal and foreign markets. A major obstacle listed in this group, as per the perception of respondents, is also unfair competition in the market assessed with a mean value of 4.39. This means that smuggling and a high level of informality in the internal market are evident. The following barrier in terms of importance is the limited capacity of local markets, with a mean of 3.79.

Despite a major progress in infrastructure development in Kosovo, there are still some evident barriers that influence growth of SBs. The data in the table 52 show that this group of barriers have the least impact on the growth of businesses compared to other group of barriers. The exception is ‘lack of electricity’, which considered a serious obstacle hindering the growth of small businesses. According to respondents’ assessment related to this factor is estimated by the average of 4.51, means that most of the entrepreneurs perceive this as a major obstacle. Thus, this barrier is at the top of the list of barriers. The next barriers listed are insufficient working spaces with an average value of 3.30 and location of business 2.39, while others are assessed to

have lesser effect. This group of barriers taking on consideration all barriers, except the lack of electricity considered to have a lower impact in relation to other groups of barriers.

In the bottom of table 52 are listed 6 determinant factors, as perceived by owners/managers, which hinder business growth. Namely, the descriptive analyses include barriers related to the lack of qualified staff to perform different business activities, like lack of motivation, lack of IT staff, lack of experience in management etc. The results from the survey data presented in the table demonstrate human resource capacities compared to other groups of determinants are not such a big problem for their growth with all their influence. On average, 'insufficient level of professional skills' is rated 3.95, 'lack of IT staff' 3.90 lack of technical staff, 3.72 and others are rated in lower averages compare to some other group of barriers.

Additionally, the data presented in the table 52 show that representatives of companies have stated that labour market relatively meets their needs for skilled workers. Therefore, compared to other groups of barriers, this group of barriers has a lower impact on small business growth. The result obtained shows how much the labour market meets the requirements of companies for workers. One such finding is in line with other studies conducted on staff skills that indicate that the labour market does not meet all the requirements of companies. Therefore, we can say that barriers related to the lack of human resources abilities do hamper the growth of small businesses in Kosovo. As can be seen the values of standard deviation of all factors are relatively low that confirm the level of accuracy of the results.

### 6.6. Reliability and availability of statistical data

Testing the validity and reliability of the survey data is 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). Reliability was tested with parameters through the coefficient of Cronbach's alpha, standardized for each distinct construct, which flowed from the factorial analysis (Cronbach, 1951). First, it was predicted that a respondent must answer the questionnaire in the same way at different times. Secondly, two respondents with the same attitude towards related to one variable to be able to respond to the survey in an identical manner.

Thus, the degree of reliability is a necessary prerequisite for the study of test validity (Carmines, E. G., and Zeller, R. A., 1979).

$$\alpha = \frac{N2Cov}{\Sigma S2 Question + \Sigma Cov Question}$$

*N = Number of questions*  
*Cov = covariance / average questions*  
*S = variance between questions*

In this micro-test, "α" 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 "α" are considered to be acceptable, as it is seen in the literature, but this is not always correct. This depends from a number of items and the construct of questionnaire measured. He goes on to say that when dealing with psychological construct values below; even 0.7 can realistically be expected because of the diversity of the constructs being measured.

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, as in the table 29.

Table 29: Reliability Statistics - Cronbach's Alpha

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.732	.700	30

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 analyses is reduced to 29. The Alpha coefficient shows that the measure is very reliable.

Table 30: Reliability Statistics after Removing an Item

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
<b>.770</b>	.740	29

From the table above are seen a large number of variables. To facilitate the procedure of data analyses are used different statistical methods. 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.

### 6.7. Factorial Analyses

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, there is no available variance set and independent variables, the latter tend is to explain the dependent variable through regression analysis. 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

The factor analysis is based on the analysis of the main factors extracted from values above the limit selected (e.g. in this case over 0.4), also, grouping variables with common correlation. This analysis is based on the analysis 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, through PCA analyses the intention is to analyze factorization of independent variables and formation of factors based on previously formed groups. In this context are formed 5 groups of variables with overall 30 variables and are shown the results for each variable and group separately.

A principal component analysis (PCA) was conducted including 30 variables with orthogonal rotation (varimax). The Kaiser–Meyer–Olkin (KMO) measure verified the sampling adequacy for the analysis. As seen in the table 31 below, 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 31 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 31: KMO Results and Bartlett’s Test*

<b>KMO and Bartlett's Test</b>		
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 32 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 32, there are 5 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 and all factors together explain 65.1%. This means that all variables of this group have a high effect on SBs growth. 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 32 shows that the total of the components gained have the Eigen-value indicator greater than 1, as specific characteristic of factor analysis.

*Table 32: Explanatory percentage of variation of variables*

<b>Total Variance Explained</b>									
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
3	1.646	5.486	47.950	1.646	5.486	47.950	2.089	6.965	46.593
4	1.352	4.507	57.348	1.352	4.507	57.348	1.838	6.126	58.216
5	1.068	3.562	65.116	1.068	3.562	65.116	1.343	4.477	65.116

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 33 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, institutional barriers resulted to be with high factorial weight that has its influence on their business growth. Among such barriers, are selected four determinants, those that are more dominant and have more effect on

business growth: administrative procedures, access to finance, tax policy and economic policy. 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, five 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 33, we can see the impact of each variable separately to the growth of businesses, based on a comparison of the highest value. Moreover, we have made the classification of the factors according to the groups, and then we will explain the influence of each barrier within a group separately based on the ranked value.

*Table 33: Factorial analyses of variables*

<b>Rotated Component Matrix<sup>a</sup></b>					
	Component				
	1	2	3	4	5
Economic policy	0.807				
Access to finance	0.788				
Administrative procedures	0.762				
Current tax policy	0.759				
Tax evasion		0.873			
Organized crime		0.746			
Informal economy		0.712			
Political influence		0.690			
Corruption in government institutions		0.677			
Corruption in courts		0.620			
Inefficiency of justice system		0.538			
High transport costs			0.857		
Limited capacity of the local market			0.834		
Customs fees			0.817		
Lack of raw materials in country			0.729		
Access to foreign markets			0.676		
Unfair competition in the market			0.670		
Lack of electricity				0.844	
Insufficient space of work				0.691	
Lack of internet				0.681	
Location of business				0.597	
Lack of water				0.472	

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Lack of roads				0.416	
Lack of experience					.830
Lack of IT staff					.809
Lack of motivation					.783
Insufficient level of professional skills					.777
Lack of management staff					.744
Lack of technical staff					.727
Lack of staff for accounting and finance					.537
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 21 iterations.					

In the following under factor 1 in the table 33 are displayed the results of factor weight and interpretations of factorial analysis of variables related to ‘Lack of institutional support’. All environment factors influence business growth, and the importance of these factors consist on the interrelation of daily activities to institutions and mechanisms that regulate their activities. From the table 33 can be seen the ‘Economic policy’ variable has the largest weight (importance (0.807), following variables ‘Access to finance’ (0.788), ‘Administrative procedures’ (0.762) and the last one is ‘Current tax policy’ rated with factor Wight (0.759). Finally, we conclude that in the first group of barriers, regarding the *lack of institutional support* (LOIS), the barriers with the highest weight (importance) values are: ‘Economic policy’ (0.807) and ‘Access to finance’ (0.788).

The high presence of negative phenomena in the economy comes because of the lack of rule of law and deficiencies of institutions in ensuring a better environment of doing business. This set of barriers is dominant and mostly hampers the growth of small businesses. This is also reflected in factor analysis below where the factor weight of each variables is high (over 0.5); thus, the values show that most respondents agree that they are the main determinants that hinder the growth of their business.

From the data obtained it can be seen the ‘Tax evasion’ variable has the largest weight (0.873), and in the following the variables with highest value are rated ‘Organized crime’ (0.746), ‘Informal economy’ (0.712), ‘Political influence ‘ (0.690), ‘Corruption in government institutions ‘ (0.677) and so on. Finally, we conclude that in the first group of barriers, regarding the *lack of rule of law* (LORL), the barriers with the highest weight (importance) values are:

‘Tax evasion’ (0.873) from the first factor and ‘Organized crime’ (0.746). Looking the results of all variables in this group can be seen that all variables resulted to be with factor weight over than 0.50. This means that all variables of this group have a high effect on SBs growth.

The first variable in factor 3 (related to market barriers) with highest values of importance is ‘High transport costs’ (0.857) and ‘Limited capacity of the local market’ (0.834). While, ‘Customs fees on imports of raw materials’ have the highest weight (0.817). In this case, all the variables are above the value of 0.4, which suggests that the importance of these barriers is significant for the growth of small businesses or their impact is quite pronounced. As can be seen the market barriers are evident, such situation is a result of unsustainable economic policies and institutional deficiencies to carry out consolidated policies for regulating domestic markets.

Also, a host of other barriers are related to the issue of obstacles in export, when aiming to identify factors that determine the poor performance of Kosovo companies in foreign markets. Another barrier considered by entrepreneurs is high customs fees. The Customs policy does not favour domestic production and the uniform customs rate discourages the development of manufacturing businesses in Kosovo. Next determinants of barriers related to the market are high transport costs which follow other expenses in the context of export to foreign markets and facilitation of access to the foreign markets. The data shows that Kosovo is still behind in the process of internationalization of SBs and facilitation of access to foreign markets. The high transport costs and other costs of enterprise activity are high. These costs are much higher when doing business beyond the limits of internal transactions for obvious reasons. Factors that increase costs for international trade exchanges required a special support from the institutions through favourable trade policies.

The data in table 33 show the different values under factor 4. ‘Lack of electricity’ is one of the barriers that mostly effected SB growth as perceived by owners/managers, assessed with the highest value (0.844), followed by ‘Insufficient space of work’ (0.691), ‘Lack of internet hinder’ (0.681) and other variables that are not perceived as very important barriers. Regarding all values of indexes, this group of barriers (as altogether), except ‘Lack of electricity’, is not considered as a major obstacle that hinder business growth in Kosovo. Lack of electricity today is a serious barrier to most small businesses, as well as the high-priced imports, which imply that

businesses are not constantly supplied with enough energy and the price offered is very high. Insufficient work spaces are accounted as barriers that hinder small business growth as well. This is due to the lack of work spaces and high prices of rents. Barriers like, 'lack of water' assessed with factor weight 0.472 and 'lack of roads' 0.416 are ranked as the last ones and are not considered as important barriers that hinder business growth. This resulted due to the fact that there has been considerable progress in improving the general infrastructure throughout the country.

Many theoretical or empirical studies have found that human capital factors are crucial for development and growth of firms. Most of them mainly concentrate on the level of managerial skills development, as well as on other important skills to perform the firm activities. Therefore, limited human resources are considered to be key internal obstacles in the firm's activity. The fifth and last group of barriers selected for analysis are barriers related to *Incapacity of Human resources*, classified as internal factors that hinder SB growth. A principal component analysis (PCA) conducted are included 7 variables that belongs to this group. This group of barriers includes barriers related to absence of professional skills to perform daily operation tasks. The data in the table 33 under component 5 show the factorial weight of each variable.

Within this group of barriers, valued with highest loading values and perceived that largely effect business growth. The ranking from the factorial analysis are: Lack of experience (0.830), Lack of IT staff (0.809), Lack of motivation (0.783), insufficient level of professional skills (0.777), Lack of management staff (0.744) and Lack of technical staff (0.727). As can be seen Lack of staff for accounting and finance is rated with lower value of importance compare to the others (0.537). Moreover, the values of weight of all variables show that variables of this group have significant impact on business growth or, say in other word these barriers extensively hinder the SBs growth in Kosovo. The highest rated barriers in this group are 'Lack of experience (0.830) and Lack of IT staff (0.809). Thus, the lack of advanced IT staff is evident and some companies have difficulty to fill the vacant positions with proper staff of that profile.

Despite the large number of graduates of different profiles in Kosovo, the opportunities to complete the practice pre-employment are very limited and the institutions of the country don't offer enough opportunities. Finally, can be concluded that as can be seen individually all

variables resulted that from all groups are not found variables rated under 0.4, all variables assessed to be with very high factorial weight. In this regard, the high percentage of variance explanation of variables means that all variables that represent the barriers in a large extent hinder the growth of small business.

At the end we have ranked the all variables of all groups according to factor weight or importance starting from those with greater weight from highest to lowest; no matter what group they belong to (Annex 1, Table 53).

## 6.8. Regression analyses and hypotheses testing

According to David R. A. et al. (2011), it is not always obvious how null and alternative hypotheses should be formulated. Care must be taken on appropriately formulation of the hypotheses, so that the testing and conclusion provides the required information to the researcher or decision maker. So, it is need to test the hypotheses to proceed further with data analyses. In this context of the situation, it is very important to determine how the hypotheses should be stated (David R. at al., p.346), and all hypotheses tested involve data analyses and use the sample results to provide evidence for drawing a conclusion.

Relationships between existing barriers that owners/managers consider important for increasing their business can be considered positive and negative in relation to growth. According to Storey (1994), the interest in the negative impact or negative perception of certain factors in the growth of small business is required. This negative impact may be expressed due to obstacles during their development. In this case, even in the theoretical part of explanations, was assumed a negative impact of barriers. Therefore, there will be tested hypotheses of negative impact on the growth of small businesses. In this context, barriers to growth have a widespread dimension and many hypotheses can be raised. However, based on their importance and the focus of study there are classified 4 hypotheses for testing:

### **H1. Barriers influence negatively to growth of SBs**

**H<sub>1.1</sub>: Barriers influence negatively to growth of sales.** It is assumed that there is a negative correlation between barriers and growth of sales. As the sales level increases, the impact of the barriers is smaller and vice versa.

**H<sub>1,2</sub>: Barriers influence negatively to growth of employment.** Also, it is assumed that there is a negative correlation between barriers and growth of employment.

**H2: The impact of barriers differ according to business longevity.** The level of business growth varies from business age and from one phase to the next.

**H3: The impact of barriers differ according to business type.** This case of analysis includes businesses from 3 sectors: production, trade and services.

**H4: The perception of barriers from owners/managers influence their intention to grow (some barriers impact more on intentions to grow some less).** This Hypothesis is formulated to investigate the perception of owners/managers how they influence their behaviour and intention to grow.

### 6.8.1. Regression analysis

Through MLR analysis, will be explained how dependent variables  $Y_1$ ,  $Y_2$  are correlated with independent variables. How much variance in the dependent variable does each independent variable explain? In the general case, to illustrate the number of independent variables is used  $p$ .

The equation illustrates how the dependent variable (growth)  $y$  is related to the independent variables  $x_1$ ,  $x_2$ , . . .  $x_p$  and an error term that is called the *multiple regression model* (David R. A. et al., 2011); (Studenmund, 2014). It begins with the assumption that the multiple regression model takes the following form:

$$Y = \alpha + \beta_1x_1 + \beta_2x_2 + \dots + \beta_nx_n + \varepsilon$$

$Y$  is the outcome variable,  $b_1$  is the coefficient of the first predictor ( $X_1$ ),  $b_2$  is the coefficient of the second predictor ( $X_2$ ),  $b_n$  is the coefficient of the  $n^{\text{th}}$  predictor ( $X_n$ ), and  $\varepsilon_i$  is the difference between the predicted and the observed value of  $Y$  for the  $i^{\text{th}}$  participant. That is, it seeks to find the linear combination of predictors that correlate maximally with the outcome variable. Therefore, when referring to the regression model in multiple regression, it means a model in the form of equation (Field, 2009). Further, due to the large number of variables drawn from the factor analyses, resulted to be significant, it is calculated the average of each group and it was reduced the number of variables into 5. Thus, variables are compounded in 5 factors that

represent 5 groups of barriers previously formed. The same practice has also been applied by other authors such as Gill, A. and Mand, H.S., 2013. In this context, it is constructed an econometric model of multiple regression in order to assess the impact of each group. This model in the form of the equation would look like this:

$$GOSB = \alpha + \beta_1 LOIS + \beta_2 LORL + \beta_3 MB + \beta_4 BOI + \beta_5 IOHR + \varepsilon.$$

Where shortcuts means:

*GOSB = Growth of small businesses (Growth of Sales GOS and Growth of employment GOE)*

*LOIS=Lack of intuitional support*

*LORL=Lack of rule of law*

*MB=Market related barriers*

*BOI=barriers of infrastructure*

*IOHR=Incapacity of human resources*

In the following analyses of association between dependent variables is decided to select growth of sale (GOS) and growth of employment (GOE) and independent variables. In our case, it can be seen how the independent variables  $X_1(LOIS)$ ,  $X_2(LORL)$ ,  $X_3(MB)$ ,  $X_4(LOI)$  and  $X_5(IOHR)$  have affect to the dependent variables  $Y_1 (GOS)$  and  $Y_2 (GOE)$ . In this instance, is written as 'n', number of the independent variable. Based on the distribution of data, the focus will be mainly on the analysis applying the Multiple Linear regression models, and other models as needed. Multiple Linear regression analysis is used to assess the statistical dependence between dependent variable and independent variables. In the context of influence of variables on each other, the intention is to analyse the effect of independent variables (barriers) to the dependent variable (growth). Multifactorial model variables can contain positive values which present the positive correlation between variables and negative values which explain the negative correlation or negative impact. Regression analysis can be given a better understanding of elements in interpretation and analyse the impact of independent variables to the dependent

variable, holding constant other variables included in the model. In the following process of analyses we will proceed with hypothesis testing accordingly.

### 6.8.2. Hypotheses Testing

#### **H1: Barriers influence negatively to business growth**

##### *H<sub>1.1</sub>. Barriers influence negatively to growth of sales*

To test this hypothesis, through multiple regression a stepwise analysis is conducted. As it was described in the methodology section, due to the large number of variables to facilitate the data analysis procedure there are calculated the average of each group of variables and are converted to one variable for each group. Preliminarily, it is expected that independent variables (barriers) will have a negative relationship to the dependent variables (growth of sales) as is emphasized in the theoretical background. The output described in the following is produced using the *Multiple Linear Regression: Statistics* provided from SPSS. Table 34 represents the mean and standard deviation of each factor in our data set and number of participations (200). The table shows that regression analysis used all variables (IOHR, LORL, LOIS, MB, and BOI). If we compare the mean data we see the impact of factors is different and ranked between 0.4231 (BOI) and 0.6267 (LORL). The data shows that barriers related to Rule of Law (LORL) ranked higher in effect than other groups of factors (0.6267) as of perceptions of owners/managers in measuring scale from strongly disagree to strongly agree. Standard deviation from the mean is small for each group of variables.

*Table 34: Descriptive Statistics of barriers in relation to growth of sales*

<b>Descriptive Statistics</b>			
	Mean	Std. Deviation	N
GOS	.4205	.45588	200
LOIS	.5388	.04694	200
MB	.5070	.09088	200
BOI	.4231	.08455	200
LORL	.6267	.04954	200
IOHR	.5081	.07269	200

The following table (no. 35) gives the correlations between variables. At this point, no high correlations between independent variables are required, because in this case the contributions of independent variables in the model are very close to each other, and the presence or the absence of variables in the model does not affect the model's power. If the correlation between independent variables is 0.80 or above, this case indicates that there is a problem of multiple correlations. In this case, the researcher should extract some variables from the model (Kalayci, 2014, p. 309). As it can be seen, there are no high correlations between independent variables. All correlation coefficients are lower than the acceptable level (the highest coefficient is 0.159), suggesting that there is no multicollinearity in the data. Additionally, as can be seen in Table 35, growth of sales (GOS) of small businesses is not correlated or negatively correlated with LOIS, MB, BOI, LORL and IOHR, meaning that all predicted factors included in the analysis negatively impact on the growth of small business firms in Kosovo.

Table 35: Pearson Correlation of independent variables

		Correlations					
		GOS	LOIS	MB	BOI	LORL	IOHR
Pearson Correlation	GOS	1.000	-.133	.003	.098	-.182	.159
	LOIS		1.000	-.043	-.185	-.028	.074
	MB			1.000	.546	.203	.563
	BOI				1.000	.013	.626
	LORL					1.000	.004
	IOHR						1.000

The Model Summary table is an important table of regression analysis. R Square indicates the percentage of dependent variable that is explained by independent variables. In this case, 68% of the change in dependent variable (growth of sales) is explained by the independent variables (IOHR, LORL, LOIS, MB and BOI). However, when the number of independent variables is large, we need to look at the Adjusted R Square, because Adjusted R Square increases only when these variables are related to the model. The Adjusted R Square is 0.640. IOHR, LORL, LOIS, MB and BOI explain 60.4% of the variance in the degree of growth of sales (GOS) of businesses.

Another important test from the table is the Durbin-Watson test which shows whether there is autocorrelation in this model. Usually, Durbin Watson test values between 1.5 and 2.5 show that there is no autocorrelation. As it can be seen, there's no autocorrelation in the model, because the Durbin-Watson value is 1.737.

Table 36: Model summary - explanation of barriers impact to the growth of sales

Model Summary <sup>b</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.297 <sup>a</sup>	.680	.640	.44096	.680	3.740	5	194	.003	1.737
a. Predictors: (Constant), IOHR, LORL, LOIS, MB, BOI										
b. Dependent Variable: GOS										

The ANOVA table is useful to test the importance of the model as a whole. The value of F in the table of 3,740 indicates that this model is important at each level as a whole (Sig = 0.003). Using  $\alpha = .01$ , the p-value = 0.000 in the last column of the analysis of variance table indicates the *p* value is less than  $\alpha = .01$  and conclude that a significant relationship exists between *Y* growth of sales (GOS) and five independent variables (LOIS, MB, BOI, LORL, IOHR), since the  $p < .001$  (significant).

Table 37: ANOVA - Importance of the model and analysis of variance

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.636	5	.727	3.740	.003 <sup>b</sup>
	Residual	37.722	194	.194		
	Total	41.358	199			
a. Dependent Variable: GOS						
b. Predictors: (Constant), IOHR, LORL, LOIS, MB, BOI						

The next part of the output is a *coefficient table* concerned with parameters of the model. We want to see the final model because this includes all factors (5 independent variables) that make a significant contribution to predicting the growth of sales (GOS) as a dependent variable.

Table 38 displays the values of parameters of the predicted model results and the *t* values

in relation to those. It results that the statistical values of Constant, LOIS, LORL and IOHR are significant (at the 5% level of significance). As it is mentioned above, while the *F* value is used to test the importance of the model as a whole, the *t* statistic is used to test the importance of the variables separately. As it can be seen, the data in table 38, each of these data values has one associated standard error indicating to what extent these values would change in different samples, and these standard errors are used to determine whether or not the *b* value differs significantly from zero using t-statistic. Therefore, if the *t-test* associated with a *b* value is significant, less than 0.05, then that predictor is making an important contribution to the model. The smaller value of *p* (sig.) and larger value of *t* the greater is the contribution to the model of that predictor (Field, 2009). Further on, it can be seen that the data in the table prove that all independent variables have very important affect in assuming of dependent variable (GOS). In this case the data of *p* value are different with *t* values and all variables are significant ( $p < 0.05$ ). This matches the theoretical conclusions elaborated previously that institutional barriers, rule of law, barriers related to the market, infrastructure barriers, and barriers related to human resources capacities impact negatively to growth of sales of SBs.

Table 38: Coefficients – Assumptions of the impact of barriers to the growth of sales

Coefficients <sup>a</sup>													
Model	Unst. Coeff.		St. Coeff	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF	
1	(Constant)	1.790	.591		3.029	.003	.624	2.955					
	LOIS	-1.609	.700	-.166	-2.300	.023	-2.988	-.229	-.133	-.163	-.158	.906	1.104
	MB	-.445	.451	-.089	-.986	.015	-1.334	.445	.003	-.071	-.068	.582	1.719
	BOI	-.182	.519	-.034	-.351	.026	-1.205	.841	.098	-.025	-.024	.508	1.970
	LORL	-1.555	.652	-.169	-2.385	.018	-2.841	-.269	-.182	-.169	-.164	.936	1.068
	IOHR	1.524	.606	.243	2.518	.013	.330	2.719	.159	.178	.173	.504	1.983

a. Dependent Variable: GOS

The coefficients estimates for these *b* values indicate the individual contribution of each predictor to the model. The *b* values tell us about the relationship between growth of sales (GOS) and each predictor as an independent variable. If the value is positive, we can say that there is a

positive relationship between the predictor and the outcome, whereas a negative coefficient represents a negative relationship. In this case, there are mostly negative values of the predictors, and it means that there is a negative relationship between growth of sales and barriers. In a certain period, if the negative values will be increased the growth will be decreased, and if the negative values are decreased the effect of those predictors to the growth will be decreased.

Based on the perception of owners/managers factors related to the lack of institutional support (LOIS) is assumed to be a significant predictor ( $p = 0.023$ ). From the coefficients table, results that the constant value is 1,790, means that, in the case of no barriers, the business will have growth sales from 1,790 units. The parameter of lack of institutional support (LOIS) is -1,609, which accordingly means that, an increase in LOIS predictors will contribute to the decrease of sales for 1,609 units, if other predictors hold constant.

As of lack of rule of law barriers are assessed to be a significant predictor ( $p = 0.018$ ). The B value of lack of rule of law (LORL) factors is -1,555, specified that when barriers related to these factors (LORL) will increase, they will impact on the decrease of the growth of sales for 1.555 units, if other predictors hold as constant.

As it is previously explained by the theory in this research, barriers related to market are important factors that impact to the growth of the firm, this was supported from the results of the research as well. In term of market barriers resulted that this group of barriers is important in relation to SBs growth. Moreover, market barriers asses to be significant ( $p = 0.015$ ). While, the B value of market factors (MB) is -0.445, tell us that increase on MB factors will impact on decrease of sales for 0.445 units, always keeping other predictors constant.

Regarding the data of barriers related to infrastructure (BOI), they are significant predictors ( $p = 0.026$ ), assumed that B value related of infrastructure barriers show that an increase of B value of BOI will contribute to decrease the sales for 0.182 units.

Barriers related to incapacity of human resources are very important with high effect on SBs growth. The results show that these barriers are estimated to be significant ( $p = 0.013$ ), estimated B value of 1.524 shows that an increase of this value, IOHR barriers will contribute to the decrease of the sales for 1,524 units.

In this mainstream, we can write the regression model as following:

$$GOS = 1.790 (Const.) - 1.609 (LOIS) - 1.555 (LORL) - 0.445MB - 0.182 BOI + 1.524 (IOHR)$$

In this relation it can be said that all B values of predictors (variables) are negative, except incapacity of human resources (IOHR) and that all groups of variables impact negatively the growth of sales (GOS). From the Standard Coefficients section, *Beta* shows the importance of independent variables in order. In this case is not necessary to look at *Beta*'s significance, *Beta*'s highest value variable is the most important independent variable (Kalayci, 2014, p. 311). In the coefficients table *Beta* column values shows the order of importance of each variable in model. The variable with the highest negative value in the model is lack of rule of law (LORL) with *Beta* value -0.169 following by lack of institutional support (LOIS), *Beta* value of -0.166. Market barriers with *Beta* value -0.089 and barriers of infrastructure, *Beta* value -0.034 appeared to be with lower importance compared with LORL and IOHR. While the *Beta* value of the barriers related to incapacity of human resources (IOHR) is positive and is considered as a predictor with lower effect to the model.

Other important statistics from the table, labeled by the collinearity statistics section are the tolerance and VIF values that indicate whether the problem of multiple correlations exists. Low tolerance values and high VIF values show that there are multiple connections between independent variables (Kalayci, 2014, p. 310-311).

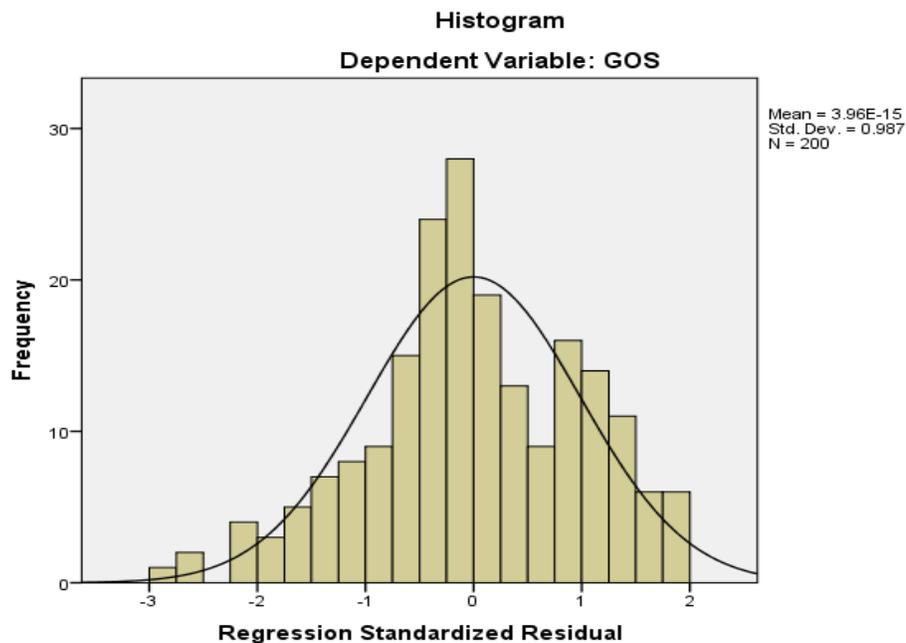


Figure 10: Histogram of distribution data (GOS)

Referring to Gujarati (2004), Studenmund (2014), David, R.A. et al. (2011), to test the validity of the models it is good to apply some of the multicollinearity detection tests, "diagnosis of collinearity", such as Confidence Interval (CI), Variance Inflation Factor (VIF) and Tolerance. With 95.0% Confidence Interval for B, all the variance inflation factor (VIF) coefficients are less than 2 and tolerance coefficients are greater than 0.50, therefore it can be proved that the model is statistically valid.

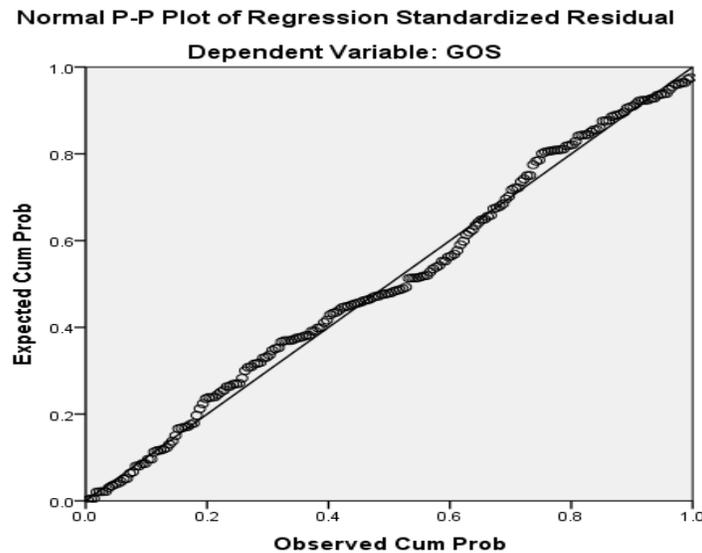


Figure 11: Regression distribution line (GOS)

Figure 10 and 11 show the histogram and normal probability plot of the data for the current regression model analysed above. The histogram seems to provide a normal distribution (a bell-shaped curve). From the histogram, it can be observed that the data are normally distributed. The same thing can be noted from the next chart. The data is distributed normal or close to the regression line. Here it can be concluded that  $H_1$ , hypothesis, that *barriers impact negatively to the growth of sales of SBs is accepted*.

*H<sub>1.2</sub>. Barriers influence negatively to growth of employment*

Also in this case, is performed regression in the same way, and the model takes the form of an equation that contains a coefficient  $b$  for each predictor (variable). The data shows the estimates for  $b$  values that indicate the individual contribution of each predictor to the model. The  $b$  values present the correlation between growth of employment (GOE) as a dependent

variable and each predictor as independent variables ( $x_1$ ,  $x_2$ ,  $x_3$ , and  $x_5$  respectively IOHR, LORL, LOIS, MB and BOI). If the value is positive, there is a positive relationship between predictor and outcome while a negative coefficient represents a negative relationship, according to (Field, 2009). In this case were expected the negative values of predictors which represent the barriers that negatively influence to business growth. To test this hypothesis, the multiple regression analysis has been performed. This hypothesis testing follows the same procedure as above.

*Table 39: Descriptive Statistics of barriers in relation to growth of employment*

<b>Descriptive Statistics</b>			
	Mean	Std. Deviation	N
GOE	.5766	.27253	200
LOIS	.5388	.04694	200
MB	.5070	.09088	200
BOI	.4231	.08455	200
LORL	.6267	.04954	200
IOHR	.5081	.07269	200

The first table (no. 39) reports the descriptive statistics for each factor. There are shown the means and standard deviations for each variable separately. The data included 200 participants. The mean values show the ranking from highest value 0.6267 (LORL) which estimated to have the highest impact on growth of employment and lowest value of 0.4231 (BOI) with the lowest impact compared to other factors.

Table 40 shows the value of Pearson’s correlation  $r$  coefficient between every group of variables with growth of employment (GOE). The correlation table gives the correlation between dependent and independent variables. Along the diagonal of the matrix the values for the correlation coefficients are all 1.00 (highlighted in table), thus, a perfect correlation exist between dependent variable (GOE) and independent variables (LOIS, MB, BOI, LORL and IOHR).

The correlation matrix is extremely valuable for having an idea of the relationships between dependent and independent variables, and randomly for a preliminary look for multicollinearity (Field, 2009). As it is mentioned before, in terms of assessment the

multicollinearity, it is no need for high correlations between the independent variables. If there is no multicollinearity in the data, then there should be no substantial correlations to one or some cases ( $r > 0.9$ ) between independent variables. The data shows that none of the variables exceeds that parameter ( $r > 0.9$ ), so no multicollinearity on the data exists. It can be noted that there is no high correlation between independent variables.

Table 40: Pearson Correlation of independent variables

Correlations							
		GOE	LOIS	MB	BOI	LORL	IOHR
Pearson Correlation	GOE	<b>1.000</b>	-.028	.053	.143	-.041	.223
	LOIS		<b>1.000</b>	-.043	-.185	-.028	.074
	MB			<b>1.000</b>	.546	.203	.563
	BOI				<b>1.000</b>	.013	.626
	LORL					<b>1.000</b>	.004
	IOHR						<b>1.000</b>

The model summary table summarizes the results of regression analysis. The *Adjusted R Square* value is 0,530. According to this, 53% of the change in the dependent variable is explained by the independent variables, as they are ‘Incapacity of Human Resources’, ‘Lack of Rule of Law’, ‘Lack of Institutional Support’, ‘Market related barriers’ and ‘Barriers of infrastructure’. Respectively, the IOHR, LORL, LOIS, MB and BOI explain 53% of the variance of growth of employment of business in Kosovo. Durbin-Watson value is 1,787 and this value is between 1.5 and 2.5. This, again, shows that there’s no autocorrelation between variables.

Table 41: Model summary – explanation of barriers impact to the growth of employment

Model Summary <sup>b</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.247 <sup>a</sup>	.610	.530	.26748	.610	2.515	5	194	.031	1.787
a. Predictors: (Constant), IOHR, LORL, LOIS, MB, BOI										
b. Dependent Variable: GOE										

ANOVA results show that the model is significant as whole. The  $F$  value is 2,515 and this is significant at the level 0,031. As it can be seen above,  $p$  value =  $(0.031) < 0.05$ , which means that variables are statistically supported by results testing. Therefore, variables obtained (considered barriers) as groups all together are important to growth of employment (GOE). Respectively, the SPSS outputs for the multiple regression model with independent variables (IOHR, LORL, LOIS, MB and BOI), in the last column of the analysis of variance, indicates the  $p$ -value = 0.031 is less than 0.05 and conclude that a significant relationship exists between  $Y$  (GOE) and five independent variables  $x_1, x_2 \dots x_5$  (IOHR, LORL, LOIS, MB and BOI).

Table 42: ANOVA - Importance of the model and analysis of variance

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.900	5	.180	2.515	.031 <sup>b</sup>
	Residual	13.880	194	.072		
	Total	14.780	199			
a. Dependent Variable: GOE						
b. Predictors: (Constant), IOHR, LORL, LOIS, MB, BOI						

The table of coefficients is decisive and contains the most important data to be interpreted. In the section of ‘Unstandardized Coefficients’ we see the  $B$  values that predict the relationship between growth and barriers considered by owners/managers of businesses, and their influence to the growth. So, if are compared the  $B$  data coefficients in coefficients table, there are three predictors (variables), that have a negative relationship (LOIS, MB and LORL), because the values are negative and BOI and IOHR with positive values. At this point, results the significant level for each variable. Accordingly, only the IOHR variable is significant at the level 0,006 ( $p = 0.06$ ). This does not mean that other variables are not important to the model or other variables do not have an impact on the dependent variable (GOE).

However, while there are no barriers, whether external or internal, when all variables are interpreted the growth rate of employment is 0.417 unit. The parameters of variables are, LOIS (-0.284), MB (-0.340), BOI (0,080), LORL (-0,115) and IOHR (1,029). The decrease value of lack of institutional support (LOIS) for one unit will increase the employment rate for 0,284 units.

The decrease of market barriers (MB) for one unit will increase the employment rate for 0,340 units.

Table 43: Coefficients – Assumptions of the impact of barriers to the growth of employment

Coefficients <sup>a</sup>													
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF	
1	(Constant)	.417	.358		1.162	<b>.246</b>	-.290	1.124					
	LOIS	-.284	.424	-.049	-.668	<b>.505</b>	-1.121	.553	-.028	-.048	-.047	.906	1.104
	MB	-.340	.274	-.113	-1.242	<b>.216</b>	-.879	.200	.053	-.089	-.086	.582	1.719
	BOI	.080	.315	.025	.255	<b>.799</b>	-.540	.701	.143	.018	.018	.508	1.970
	LORL	-.115	.396	-.021	-.290	<b>.772</b>	-.895	.666	-.041	-.021	-.020	.936	1.068
	IOHR	1.029	.367	.274	2.801	<b>.006</b>	.305	1.753	.223	.197	.195	.504	1.983

a. Dependent Variable: GOE

The decrease of B value of barriers of infrastructure (BOI) for one unit will increase employment rate for 0,080. The decrease of lack of rule of law (LORL) value for one unit will increase employment rate for 0,115. And, finally the increase of IOHR for one unit will decrease the employment rate for 1,029 unit. Incapacity of human resources resulted to be a significant predictor ( $p = 0.006$ ). Values in *Beta* column show the order of importance of each variable in the model. The variable with the highest value in the model is IOHR (0.274).

Additionally, looking at the variance inflation factor (VIF) coefficients are less than 2 and tolerance coefficients are greater than 0.50. In conclusion, the regression model is as following:

$$GOE = 0.417 + -0.284 (LOIS) - 0.340 (MB) + 0.080 (BOI) - 0.0115 (LORL) + 1.029 (IOHR)$$

The Histogram and the Normal P-Plot of Regression bar chart, visually shows the normality of data distribution. As it can be viewed, from both histogram and bar chart (Figure 12 and 13), the data are distributed normally or very close to the regression line.

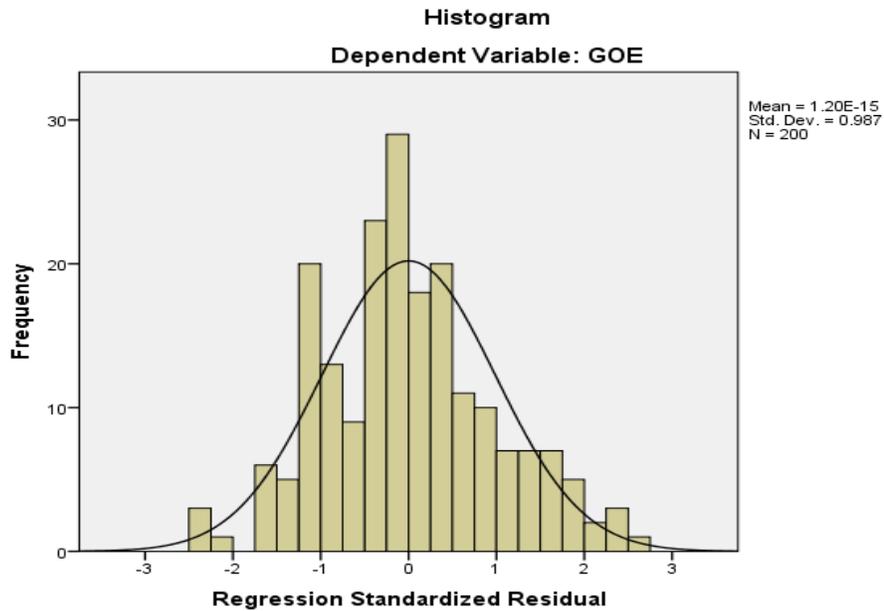


Figure 12: Histogram of distribution data (GOE)

In conclusion, looking at the above analysis results that barriers related to institutional support (LOIS), barriers related to the market (MB) and barriers related to Lack of rule of law (LORL) are perceived as factors that negatively affect growth of employment (GE). Therefore, if are viewed the negative values of  $B$  for three predictors (LOIS, MB, and LORL) and very low positive values of BOI, and IOHR, results that the  $H_2$  hypothesis that “barriers influence negatively to the growth of employment” is accepted.

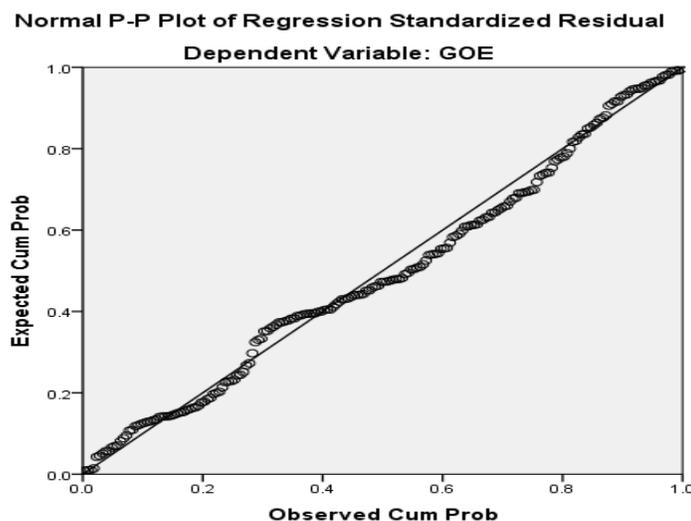


Figure 13: Regression distribution line (GOE)

**H2: The impact of barriers differ according to business longevity**

From the data obtained from the businesses surveyed, the age of the businesses was different, but the impact of the barriers in their growth is different depending on their age. Businesses with older age grew faster and were less oppressed by barriers. The following analysis will provide some data to test this hypothesis. To test this hypothesis, One Way ANOVA analysis has been performed, applying some techniques. Moreover, the assumptions are tested through homogeneity and variances test. The descriptive table provides descriptive statistics for each variable according to the longevity of business. In this context, mean, standard deviation, standard error, lower bound and upper bound, minimum and maximum values for each group are included in the table. The number of the sample for each group is 200, so it is obvious that all of them have been observed and there are no missing cases in the data (Annex 1. Table 54).

In the table 44 the result of One Way ANOVA's Basic Assumption Test shows the homogeneity of the variance. If the significance values are greater than 0.05, it can be said that the variances are homogenous. Except IOHR variable, all other variables are greater than 0.05 (Sig.: 0,921; 0,120; 0,227; 0,082). Since the basic assumption of the variance analysis is provided, it can be said that the results obtained from the variance analysis are healthy. In the case, for those variables when the homogeneity assumption is not provided, Tamhane results will be used if there are found significant differences.

*Table 44: Test of Homogeneity of Variances based on mean of all variables*

Test of Homogeneity of Variances					
		Levene Statistic	df1	df2	Sig.
LOIS	Based on Mean	.163	3	196	<b>.921</b>
MB	Based on Mean	1.967	3	196	<b>.120</b>
BOI	Based on Mean	1.460	3	196	<b>.227</b>
LORL	Based on Mean	2.264	3	196	<b>.082</b>
IOHR	Based on Mean	3.255	3	196	.023

The ANOVA table tests the difference between groups in dealing with barriers. If here the value of  $F$  is greater than the value of significance in the table at the 95% significance level, the hypothesis will be accepted. Of course, it is not necessary here to look at the value of the  $F$  in the table. SPSS gives the value of  $p$  (Sig.). If this value is less than 0.05, hypothesis will be accepted. The value of  $p$  (0,000) in the table 45 is less than 0.005 only for the Lack of Rule of Law variable. Herewith, it can be viewed that there are significant differences between business's longevity and impact of barriers. Exactly at this point are sorted out Post Hoc tests. There is a difference between the groups, okay, but between which groups? The Post Hoc Tests give the answer to this question (Kalayci, 2014, p. 154).

Table 45: ANOVA - Difference between groups in relation to barriers

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
LOIS	Between Groups	.337	3	.112	.839	.474
	Within Groups	26.258	196	.134		
	Total	26.596	199			
MB	Between Groups	1.097	3	.366	.962	.412
	Within Groups	74.496	196	.380		
	Total	75.593	199			
BOI	Between Groups	.745	3	.248	.935	.425
	Within Groups	52.103	196	.266		
	Total	52.849	199			
LORL	Between Groups	2.214	3	.738	3.452	<b>.018</b>
	Within Groups	41.904	196	.214		
	Total	44.118	199			
IOHR	Between Groups	.453	3	.151	.536	.658
	Within Groups	55.182	196	.282		
	Total	55.634	199			

Table 46 is reduced only to the LORL variable and was not given place in the entire table because of its size and insignificant values to be interpreted. Tukey test results show that there is a difference between a business operating for 5-10 years and a business operating 16-20 years. These differences are displayed with asterisk symbol. According to this difference, businesses

with longevity 5-10 years face more problems with the lack of rule of law compare to the others with longevity from 16-20 years.

Table 46: Multiple Comparisons of barriers in relation to longevity of businesses

Multiple Comparisons								
Dependent Variable		(I) Longevity of business	(J) Longevity of business	Mean Differ. (I-J)	Std. Error	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
LORL	Tukey HSD	5-10 years	11-15 years	.07692	.07765	.755	-.1243	.2781
			16-20 years	<b>.22837*</b>	.08278	.032	.0139	.4429
			21-25 years	.43077	.21331	.184	-.1220	.9835
		11-15 years	5-10 years	-.07692	.07765	.755	-.2781	.1243
			16-20 years	.15144	.08603	.296	-.0715	.3744
			21-25 years	.35385	.21459	.354	-.2022	.9099
		16-20 years	5-10 years	<b>-.22837*</b>	.08278	.032	-.4429	-.0139
			11-15 years	-.15144	.08603	.296	-.3744	.0715
			21-25 years	.20240	.21650	.786	-.3586	.7634
		21-25 years	5-10 years	-.43077	.21331	.184	-.9835	.1220
			11-15 years	-.35385	.21459	.354	-.9099	.2022
			16-20 years	-.20240	.21650	.786	-.7634	.3586

\*. The mean difference is significant at the 0.05 level.

This difference can also be understood by the following graph (fig. 14). This graph gives the means of the business longevity. The vertical axis shows the level of the lack of rule of law and the horizontal axis show the longevity of business. However, this graph displays the visual results, and they are not enough to understand if there is any significant difference between groups, therefore we will take on consideration the data of results in table 46. As a result, it can be concluded that there's a significant difference of the impact of the barriers according to business longevity. Hence, **H2 hypothesis has been accepted.**

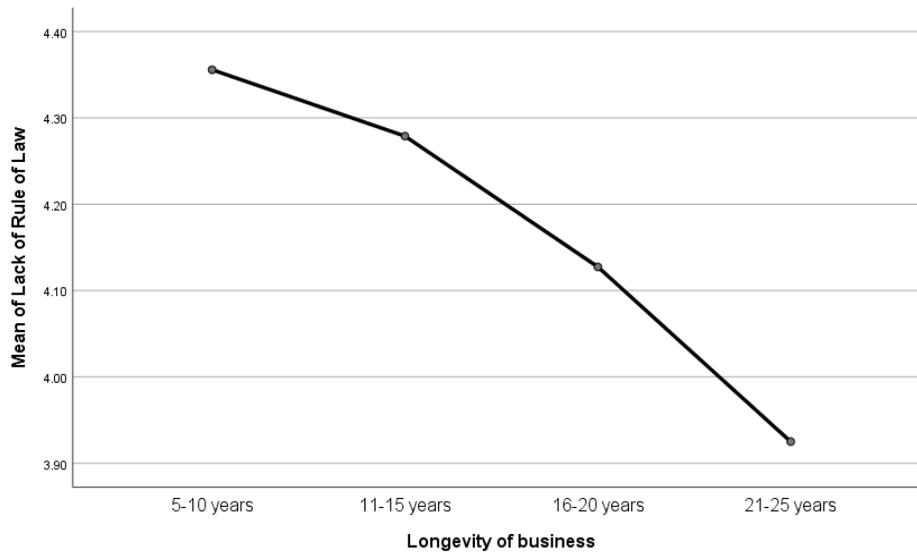


Figure 14: Difference between LOROL and business longevity

### H3: The impact of barriers differs according to business type

As it can be seen from descriptive analysis, the distribution of businesses in the research sample included three activities. Based on the study, it turns out that the distribution is more or less standardized in the manufacturing, trade and service sector. Moreover, the impact of barriers differ according to the activity. The descriptive data in table 55 (Annex 1. Tables and figures) shows that all data are observed and there are no data left out of the analysis. The table gives basic statistical data for each group, similar to the last hypothesis, are presented: standard deviation, standard error, lower bound, upper bound, minimum and maximum values.

Table 47: Test of Homogeneity of Variances based on mean of variables

Test of Homogeneity of Variances					
		Levene Statistic	df1	df2	Sig.
LOIS	Based on Mean	.183	2	197	<b>.833</b>
MB	Based on Mean	2.068	2	197	<b>.129</b>
BOI	Based on Mean	1.138	2	197	<b>.322</b>
LORL	Based on Mean	.762	2	197	<b>.468</b>
IOHR	Based on Mean	1.263	2	197	<b>.285</b>

Test of Homogeneity of Variances is intended to test the first condition of ANOVA analysis, the homogeneity of variances. According to the significant value, the homogeneity of variances is provided for all variables, since all significant values are greater than 0.05 as shown in table 47.

According to ANOVA results, there's a difference between groups only for BOI variable. To understand between which groups, are used Tukey test results. In the following table (no. 48), because of the table's size are given place only to results for this variable. The multiple comparison in the table displays the final results of the One-Way ANOVA.

Table 48: ANOVA - Difference between groups in relation to barriers

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
LOIS	Between Groups	.002	2	.001	.431	.651
	Within Groups	.437	197	.002		
	Total	.438	199			
MB	Between Groups	.018	2	.009	1.074	.344
	Within Groups	1.626	197	.008		
	Total	1.643	199			
BOI	Between Groups	.048	2	.024	3.470	<b>.033</b>
	Within Groups	1.374	197	.007		
	Total	1.423	199			
LORL	Between Groups	.003	2	.002	.661	.517
	Within Groups	.485	197	.002		
	Total	.488	199			
IOHR	Between Groups	.028	2	.014	2.713	.069
	Within Groups	1.023	197	.005		
	Total	1.051	199			

There can be viewed differences between trading businesses and service businesses according to barriers related to infrastructure. According to this difference, trade type businesses face more barriers related to infrastructure comparing with service type businesses. This difference is 0.03341 and is significant at the 0.032 level. Moreover, results that barrier's effect differs according to business type, and therefore it can be concluded that **H3 hypothesis has been accepted.**

Table 49: Multiple Comparisons of barriers (BOI) in relation type of businesses

Multiple Comparisons								
Dependent Variable		(I) Type of business	(J) Type of business	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
BOI	Tukey HSD	Production	Trade	-.00328	.01651	.978	-.0423	.0357
			Services	.03012	.01729	.192	-.0107	.0710
		Trade	Production	.00328	.01651	.978	-.0357	.0423
			Services	<b>.03341*</b>	.01316	.032	.0023	.0645
		Services	Production	-.03012	.01729	.192	-.0710	.0107
			Trade	<b>-.03341*</b>	.01316	<b>.032</b>	-.0645	-.0023

\*. The mean difference is significant at the 0.05 level.

**H4: The perception of barriers from owners/managers influence their intention to grow (Some barriers impact more on intentions to grow some less)**

The ways how barriers are perceived can affect to intentions and the behavior of owners/managers towards growth. These perceptions leads to some findings that barriers affect owners/managers to change their thinking about growth; undermine growth goals; increase doubts about growth goals; push goals for growth; and slow down the process of achieving growth goals. Another conclusion was that barriers act in different ways, in the goals and behaviors of growth. For example, barriers related to the rule of law seem to hinder actions towards growth; institutional barriers also undermine goals for growth or slow down achievement of these goals.

Another finding was that the effects of the barriers are critical or decisive. For example the effect of a 'critical incident' when a business or some businesses experience an unfair attack as a result of unjustified competition, the uninhibited corruption or handle contraband then the impact of this phenomenon is very bad for healthy businesses. Therefore, the barriers also have an effect on the emotional level considering the barriers "disgusting," and "terrible". Otherwise, certain institutional barriers, such as many bureaucracies, frequent inspections, and bribes of officials were perceived by managers / owners as chronic, which would never disappear.

Interestingly, it was found that some owners / managers interpreted barriers in individual ways. To illustrate, an interviewee (owner) referring to the bureaucracy's effect on business growth and development compared it to a person who tries to work when there was work equipment in front him, while on the other hand his hands were tied, when some businesses were favored by institutions and some remained without any support. Therefore, the impact of barriers differs according to the intentions to grow. To test this hypothesis, the Independent Samples T Test has been performed. The *t* test results are represented in two tables. The first table (no. 50) gives the descriptive statistics of variables. At the first sight, there cannot be noted any large differences between variables, but to understand which differences are significant it is need to have a look at the second table no. 51. The table 51 is the final product of the test. The value F gives the value of differences for each variable. But there are only two significant differences, for market barriers (MB) and lack of rule of law barriers (LORL). To understand better these barriers, it is need to go back and check the means of these two factors.

Table 50: Group Statistics of barriers impact on the intentions to growth

Group Statistics					
	Do you have intention to growth your business?	N	Mean	Std. Deviation	Std. Error Mean
LOIS	No	60	3.5357	.43109	.05565
	Yes	140	3.4531	.33225	.02808
MB	No	60	<b>2.9563</b>	.70929	.09157
	Yes	140	<b>3.4179</b>	.51567	.04358
BOI	No	60	2.6333	.59303	.07656
	Yes	140	2.7265	.47781	.04038
LORL	No	60	<b>4.1604</b>	.29838	.03852
	Yes	140	<b>4.3036</b>	.52289	.04419
IOHR	No	60	3.2881	.55390	.07151
	Yes	140	3.2561	.51934	.04389

Related to market (MB) variable, there's a difference between businesses which intend to grow and those that have no intention to grow. The mean value of businesses saying they have no intention to grow their business is 2.95, and the mean value of businesses saying they do have

an intention to grow their business is 3.41. So, businesses facing problems with market barriers are less keen in growing their business. And businesses facing less with this problem, are more willing to grow their business.

Table 51: Independent Samples Test – Difference of impact between groups of barriers to the growth intentions

Independent Samples Test										
Equal variances assumed (EVA) / Equal variances not assumed (EVNA)		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2- tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
LOIS	EVA/EVNA	11.794	.001	1.469	198	.143	.08265	.05625	-.02827	.19357
	EVA/EVNA			1.326	90.379	.188	.08265	.06234	-.04118	.20649
MB	EVA/EVNA	24.190	.000	-5.156	198	<b>.000</b>	-.46161	.08952	-.63814	-.28507
	EVA/EVNA			-4.552	86.866	.000	-.46161	.10141	-.66318	-.26004
BOI	EVA/EVNA	3.433	.065	-1.173	198	.242	-.09320	.07944	-.24986	.06347
	EVA/EVNA			-1.077	93.329	.284	-.09320	.08656	-.26508	.07868
LORL	EVA/EVNA	22.568	.000	-1.985	198	<b>.049</b>	-.14315	.07212	-.28538	-.00093
	EVA/EVNA			-2.442	182.396	.016	-.14315	.05862	-.25882	-.02749
IOHR	EVA/EVNA	.741	.390	.391	198	.696	.03197	.08176	-.12926	.19321
	EVA/EVNA			.381	105.476	.704	.03197	.08390	-.13439	.19833

The second significant difference is found among these two groups in the variable of the lack of rule of law. Businesses with no growth intention face fewer problems with the lack of rule of law, comparing to businesses with an intention of growth. This means the average values are different, 4.16 and 4.30. As a result, **H4 hypothesis has been accepted.**

### 6.9. Summary of the estimated results

Presentation and Analysis of data outcomes of this empirical research includes responses of participants of SBs owners / managers to the questionnaire outlined earlier in this dissertation. The main goal was to investigate the barriers that hinder the growth of these businesses by taking into account two main growth indicators, such as growth of sales and growth of employment. To

perform this analysis are used some statistical techniques. Initially, descriptive statistics related to profile of the companies surveyed and then analyzing the average impact level of each particular factor to the growth. According to the perception of owners/managers (from 'strongly disagree to strongly agree) are withdrawn level of mean and standard deviation. Further, through factor analysis, are displayed the factor weight of all variables. The following hypothesis test was conducted through regression analysis and others statistical tests. The data resulted from the data analysis show that the data collected by the questionnaires reveal that the 5 factor groups have impact on the growth of small businesses.

From the descriptive statistics related to the profile of companies surveyed are drawn some assessments. Results from 200 businesses surveyed shown that 49 (24.5%) were manager of businesses and 151 respectively 75.5% owner, means that 3 of 4<sup>th</sup> of businesses surveyed are managed by owners. This is a characteristic of small businesses in Kosovo. In this cases are evidenced a lot of cases when the owners lack the proper level of education and knowledge to manage their businesses.

The data from the frequency distribution for level of education of participants, it can be seen that most of the participants 113 or 56.5% pursues a high school degree, 58 or 29% of the participants have a university degree, while only 29 or 14.5% have finished elementary school. This means that the level of education of owners / managers of businesses is not adequate in order to face with nowadays challenges of doing business.

The sample of the research included all regions of Kosovo. Most of the interviewed businesses were located in the capital city of Kosovo, in Pristina and its district with 38.5%, 17 % in Prizren and the rest of businesses are located in other cities, in Peja, Mitrovica, Ferizaj etc. Businesses located in the smaller cities or in rural areas besides other barriers faced with not proper location of doing business and high transport costs. While, on the other hand, businesses located in urban areas face more with the lack of work space.

The data above are surveyed on the companies from 5 years longevity and more. The sample of 200 surveyed companies according to the longevity of the businesses, have different frequency distribution, 39% of businesses are operating between 5-10 years, 32.5% 11-15 years, 26% 16-20, and between 21-25 years only 2.5% are operating longer than 20 years (Table 21).

These data are drawn to be compared the impact of barriers to businesses with different age of operation.

The number of employees that company's employee were: 39.5% of companies have 5-15 employees, 24.5% have 16-25 employees, 18.5% have 26-35 employees and 17.5% of companies have over 36 employees. Moreover, it can be seen that in this research are included companies which have more than 5 employees, respectively small businesses from 5 to 50. As seen in the table 22 the surveyed companies from the sample of 200 are dominant the companies from 5-15 employees and the only 6 companies surveyed, or 3% had 45 to 50 employees. This is the characteristic of businesses operating in Kosovo. Thus, majority of businesses registered are individual or with few number of employees.

Most of the businesses surveyed belong to the trade and service sector, 82.5 %, while only 17.5% are manufacturing companies. Such distribution is approximately the same in the list of registered businesses at Kosovo level. Trade sector is the dominant sector, following by service and the last one is production sector with only 17.5%. This shows that the economic structure is disproportional and it is not in the line of long term development of the country. Thus, the establishment of businesses was not preceded by a prepared strategic orientation by institutions but it was done in the chaotic way by the individuals. Moreover, it was observed that many SBs was founded without any prepared plan.

The descriptive data shoes that from the sample of 200 businesses surveyed there are businesses that have declared the growth of sales and some did not have the growth i.e. are declining. The average of growth in five years period is 19.67% (Table 27). If this will be divided in 5 that average increase rate per year is 3.93. While the minimum shows that the scale of decrease in percentage is -8.00 and the increase is 98%, even why the businesses with two extremes values are very few. Approximately the same data shows the table 28 terms of average growth of employment. In the period of five years the average growth of employment in percentage is 18.05% while the minimum of decrees of growth is -10 and maximum 90.00%. In this case the average growth per year is 3.61. This shows that the growth of businesses in a period of five years is not on the level needed to enable sustainable development of SBs. This stance exist due to the high presence of barriers and fragile environment of doing business.

In the following are drawn some assessments in the relation to the results of descriptive statistics for 5 groups of barriers. As of perception of owners/managers of SBs surveyed the 'institutional barriers' are very important factor that have effect on their business growth. The mean value of 'Access to finance' factor was 4.43 i.e. most of respondents agree or strongly agree that this barrier hinders their business to grow. Moreover, if are compared the data in descending order we see the importance of 'access to finance' is very essential factor that have high level of effect in business growth. The others other barriers of this group as 'Tax policy', 'Economic policy' are rated with very high impact as well and have significant effect on SBs growth. The results show that "lack of institutional support' for SBs is evident.

The high presence of negative phenomena in the economy comes as a result of the lack of rule of law and deficiencies of institutions to ensure a good environment of doing business. This set of barriers is the most dominant and mostly hampers the growth of small businesses. The mean value as assessed from respondents from 1 to 5, regarding the corruption in courts is 4.56, i.e. that majority of respondents have perception that exist very high level of corruption in courts. Also, regarding the perception for non-efficiency of justice system the mean value of 4.53 tells that this barrier is major obstacle of growth. In this group of barriers is characteristic that the mean value of all variables is 4 and over 4 (4.00 – 4.56) which shows that the presence of these barriers based on respondents' perception is high and the impact of these factors on business growth is too high. This should sound as 'strong message' to the institutions to undertake the general reforms in justice system.

As major obstacle listed in the group of market barriers as of perception of respondents is unfair competition in the market assessed with mean value of 4.39. This means that contraband and high level of informality in the internal market is evident. This is interrelated to rule of law as well. Next barrier considered important is the limited capacity of local market with mean of 3.79. Without market adjusted reforms is difficult to think on prosperity development of SBs. A proper trade policy supported by well-prepared strategy is necessary.

Despite the great progress in infrastructure development in Kosovo still are evident some of the barriers that influence growth of SBs. The data show that this group of barriers has the least impact on the growth of businesses compare to the others. The exception is the 'lack of

electricity' which even today is a serious obstacle that hinders the growth of small businesses. Respondents' assessment related to this factor is estimated by the average of 4.51, means that most of the entrepreneurs perceive as a major obstacle. Next barrier listed is insufficient space of work with average of 3.30 and others have assessed with lower effect. The extensive supply with electricity for SBs is necessary and considered as emergency need for SBs.

The results from the survey data demonstrate that 'human resources capacities' compare to other groups of determinants have very important role on growth and development of SBs in Kosovo but compare to the other groups of barriers are not such a big problem for their growth. On average, 'insufficient level of professional skills' is rated 3.95, 'lack of IT staff 3.90, lack of technical staff, 3.72, and others are rated with lower average with relatively low impact to growth. Some businesses complain regarding the difficulties to recruit the staff of several profiles, like ICT and programing and technical staff. This is related with deficiencies on education system and lack of support on trainings of staff by institutions.

### 6.9.1. Estimated result from factor analysis

From the results of the factorial analysis it has been observed that from all factor groups we have variable with great influence or with a large factorial weight, thus, variables that have a big impact on business growth. Understandably, some groups have more, but anyway, all groups have two or more factors with a large factorial weight and all variables of each group resulted to be with factor weight over than 0.5. In Table 52 (Annex 1) we have ranked the variables according to factor weight or importance starting from those with greater weight (from highest to lowest).

For example, Tax evasion is the first one with a rate of 0.873 from the group of barriers related to the lack of rule of law. The informal economy is very high, this is broadly recognized. The second is rated 'High transport cost form the group of barriers related to the market (MB). Lack of electricity the third one from the barriers related to infrastructure; lack of experience from barriers related to capacities of human resources. While, from the group of variables (barriers) related to lack of rule of law with highest factor weight is rated organized crime 0.746.

If we compare the results between groups we observed that average of factorial weight is different, even though the difference is not high. The average of variables related to ‘lack of institutional support’ (LOIS) is 0.779, variables related to ‘market barriers’ (MB) have average of factorial weight 0.764; lack of rule of law (LORL) 0.694 and the last ones are variables related to ‘human resources capacities’ rated with value 0.681 and barriers of infrastructure (BOI) 0.604.

Finally, it can be concluded that all barriers from all groups have impact on business growth, but if are seen individually each barrier, no matter to which group belong some have more impact some lesser.

### 6.9.2. Estimated results from hypotheses testing

Firstly, are tested the hypotheses separately in order to have a prediction to the relationship of variables and their implications to further research. We have tried to test the potential influence on growth including 30 variables that present barriers according to perceptions of the owners and managers. As we previously stated this 30 variables are composite into five group of factors calculating the average of each group separately. Groups are formed and appointed as: barriers related to institutions; barriers related to the rule of law; market-related barriers; infrastructure and barriers related to HRs capacities. After descriptive statistics and factor analyses it is performed methodological choice of hypotheses testing to provide estimated overview of data analysis. Hypotheses testing questions have been generalized on such way to fulfill the research objectives of this dissertation. Initially, all variables are included in the model through multiple regression, they are analysed separately, and some of them are qualified with potential contribution to the models and resulted ‘significant’ and some not.

Hypotheses are tested using separate variables, before running the models to all groups of variables, in order to have a data for estimation of analyses. Below are discussing in detail the outcomes for each raised hypothesis to see what the outcomes say, are they verified or not.

On testing the hypothesis *barriers impact negatively to the growth of sales* the data from regression coefficients of variables included in the model. Moreover, are seen the values in coefficients table (no. 38) displayed assessing the assumption of the impact to the growth of sales. The analyses confirmed that all groups of barriers influence negatively to the growth of

sales. Considering the values of overall relevant indexes were obtained enough data outcomes to test this hypothesis.

Testing the hypothesis “barriers *influence negatively to the growth of employment*” comparing the data of *b* coefficients in coefficients table (no. 43), are viewed three predictors (variables), have a negative relationship (LOIS, MB and LORL) because the values are negative and (BOI and IOHR) with very low positive values. At this point, can be seen the significant level for each variable. Accordingly, the IOHR is the only significant variable at the level 0,006. This doesn’t mean that other variables are not important to the model or other variables don’t have impact on dependent variable (GOE). However, looking general data outcomes including all variables in the model it is managed to obtain enough data to test this hypothesis. On testing the first two hypotheses from the results obtained are fully recognized that all variables included in analyses i.e. barriers have negative impact to growth of SBs in Kosovo, some less and some more. In extension of the examination are analyzed how the impact of barriers is if we compare with business longevity? Longer life businesses are facing with barriers less than those with shorter life operating. In this contest the hypothesis ‘*Business barriers differ according to business longevity*’ has been tested. One Way ANOVA analysis has been performed and the tests the basic assumption of the ANOVA. The significance values were greater than 0.05, confirmed that the variances were homogenous. Except IOHR variable, all other variables were greater than 0.05 (Sig.: 0,921; 0,120; 0,227; 0,082). Since the basic assumption of the variance analysis was provided ensured that the results obtained from the variance analysis was acceptable.

Tukey test results show that there is a difference between business operating 5-10 years and business operating 16-20 years. According to this difference, business which longevity is 5-10 years are facing more problems with the lack of the rule of law than those one whose longevity is 16-20 years. At the market (MB) variable, there’s a difference between businesses which have intention to grow their businesses and those one that don’t have intention to grow. Therefore, it was found that business facing problem with market barriers are willing less to grow their business. The second significant difference was found among these two groups according to the lack of rule of law. Businesses with no growth intention are facing fewer problems with the lack of rule of law, comparing to businesses with intention of growth.

## CHAPTER 7

### 7. ENDINGS – DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

#### 7.1. Discussions and conclusions

Starting from the purpose of the research the efforts has been made to draw a clear picture, by analysing barriers to business growth in Kosovo, with a particular focus on SBs, and impacts in the business climate in Kosovo in the last few years. Therefore, the purpose was that on the basis of knowledge and quantitative data obtained, combined with empirical evidence, to identify the barriers that are hampering growth of small businesses in Kosovo and provide policy recommendations in terms of surviving and overpassing such barriers. Specifically, the study aim was to provide a clearer explanation on various issues that may impact on the development of small businesses such as institutional, rule of law, trade barriers, infrastructure, and labour related issues. 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 a wide range of factors that influence SB growth, and give a logical understanding of the problem. The complexity of research related to barriers, state that studies on business growth are difficult because of complexity of the issue and differences of environments (Davidson 2008); (Hashi, I. and Krasniqi, B. , 2011); (Doern R., 2009); (Gartner et al., 2004). Therefore, it is sensible to reduce the scope of a study to avoid losing quality of the study.

There are some implications extracted from this dissertation. Primarily, the new growth theory does not differentiate between the contribution of SB growth in developed countries on one side, and the contribution of growing firms in transition countries on the other. As we have seen from different related theoretical findings, including also the case of Kosovo, differences in terms of contributions of growing firms are essential. This is natural, because the economic structure and business environment differ from country to country. These conclusions reised some theoretical implications, because they involve quite a separate focus, which should definitely take into account the contextual factor of the business environment. Secondly, studies

examining the growth of firms, use a wide spectrum of methodologies and growth indicators, making it rather difficult to compare results. Therefore, clearly depicting any growth pattern is almost impossible. Furthermore, these studies have mainly focused on several countries in transition, while empirical information regarding the difficult environment are rather evident. Therefore, an expanded exploration into firm growth in general and in particular, in underdeveloped, regressing or transitional countries is still very necessary.

From the literature review, we found that different approaches exist in the various researches and different conclusions are drawn depending on the situation for which the study was conducted. Even though, are identified many common characteristics related to barriers in transition countries. However, this study has examined, among others, a particular manner to identify barriers and explain how barriers actually impact SBs in Kosovo.

Based on literature review and other materials used to accomplish this dissertation and data provided from the field research, many conclusions have been reached regarding barriers to SB growth in Kosovo. In respect of other contributors to this issue inside and outside of the country, using their knowledge and information extracted from empirical research, we managed to generate a series of remarks, suggestions, advices, and recommendations. The development of SBs is considered a strategic orientation in the country's future development, with a special role in transforming the doing business environment changing the business environment into a friendly environment without barriers, where institutions develop a concrete supportive policy.

The experience of many other countries confirms the important role of SBs in economic growth. Results from empirical research and data analysis show good enough evidence of the strong impact of various barriers to small business growth. This significant impact is proven by findings as perceived by businesses themselves. Results showed that the more barriers are present, the lower growth will be. In previous studies, there have been reservations about the link between perceived and real barriers hindering growth. However, it is not difficult to testify with this investigation, initially through interviews with business managers/owners, followed by a survey of empirical evidence conducted, and statistical analysis, clearly confirming that there is a reality, that the majority of barriers perceived are real barriers that hinder growth.

There are many barriers related to institutions and implications of policymakers who lead institutions, as frequently highlighted by owners/managers of businesses. Institutional barriers are crucial in hindering business growth. In the list of institutional barriers, factors related to tax policy are believed to be amongst the important barriers for surveyed businesses across the country, throughout the study period. In the context of institutional constraints and support, this study also reflects how businesses assess services provided by the government, municipalities, and other government agencies. The next important factor resulted to be administrative procedures in providing services for businesses. Results at the national level indicate that more than 50 percent of businesses perceive the services to be relatively weak, as they report autocracy and negligence. Findings show that most businesses interviewed state that they never received any invitation from their municipalities for involvement in developing business policies, suggesting that public debates were rarely or never organized by their municipalities.

Financial barriers, especially the high cost of funding and limited access to finance, seem to have improved, compared with other previous studies conducted in the country, or are less pronounced than other factors. Due to high interest rates, among the financial barriers, the high cost of funding is perceived to be the most challenging in the earliest periods of the last decade. This is due to lower interest rates from banks, even though they are still considered to be high.

Regarding the barriers in terms of rule of law, one may conclude that they are quite evident. As we have seen from previous studies (Krasniqi, 2007; Krasniqi et al., 2008; Hoxha, 2009; Riinvest I., 2013, 2017; World Bank, 2015, 2016, 2017; EU Commission, 2014) factors related to rule of law have been predominant and generally on the top list of barriers. In this study, we have expanded on this opinion, and as we have seen from research data, perceptions of owners/managers, lack of rule of law is seriously damaging the environment of doing business. Omnipresence of informality and other negative phenomena has damaged the business climate in Kosovo. Our conclusions, both from theoretical findings and from empirical research results, indicate that there is a high degree of informality. Businesses surveyed stated that among these barriers that mostly damaged their businesses was informal economy, tax evasion, corruption in government institutions, policy interventions, and organized crime. Hence, in line with expectations of research, the results from this study confirm the negative correlation between barriers in rule of law and the level of sales and employment. Therefore, barriers related to the

rule of law are recorded as barriers that mostly hinder SB growth in Kosovo. Among legal barriers, the inefficient judicial system seems to be the largest challenge for businesses. Law enforcement and fair competition will remain key challenges in establishing entrepreneurship development and a friendly business environment in Kosovo.

Lack of rule of law also influence negatively to market related activities, including informality, unfair competition, or other related issues to the market in general. From the findings, we learned that a part of the businesses have had their sales decline, and those that have grown only report minor development in the last five year period. Lack of raw material, customs fees, limited capacities of local markets, are seen as the most serious barriers that hinder SB growth. This attests to the low level of participation of local industry in international markets, and consequently high dependence on the local market. Corruption is a barrier that damages small businesses, as it negatively affects operating costs and also distorts healthy market competition. Businesses face corruption in their contacts with public officials on various issues, such as customs clearance, construction permits, taxes and labour inspectorate. Businesses may be obliged to share a part of their earnings to continue their work. These bribes can be considered as "informal taxes" adding up on businesses, and consequently a larger burden that hinders their development. A business environment characterized by high informality prevents new legalised and innovative firms from growing up and creating new jobs in the market. Moreover, it sends disturbing signals to foreign investors, discouraging them from investing in Kosovo.

In the group of market barriers, 'limited capacity of local market', i.e. the small market (small demand), is considered to be the most serious barrier for the development of SBs. The reason for this assessment may be the small market and the small purchasing power of consumers. Another reason might be the fact that the range of local products and services is quite narrow. Increasing imports can also be another reason. According to the SAK, the trade balance last year marked a deficit of 2.5 billion euros (SAK, 2017). Several international firms have already begun their operations in Kosovo. They need friendly environment of doing business; institutions should strive more to understand the importance and the impact of foreign capital in overall country development. According to Janssen F., (2002b), dynamism and complexity of the environment are related to the degree of the disorders and uncertainty in the market. In the case of Kosovo, managers and owners often feel insecure about tackling barriers to business

competition, in particular by products coming from abroad. Imported products from abroad compete with domestic products.

Unfavorable environment caused quite burden for businesses, some of active businesses in Kosovo in recent years experienced a decline in sales, or those which declare growth have a rather moderate average of growth, around 3.5% in sales and employment growth. Moreover, according to data from the survey conducted, barriers related to the market are found to be enough present, amongst other obstacles, such as ‘access to foreign markets’, customs fees, limited capacities of local markets. This proves the low level of participation of the local industry in international markets, and consequently a great dependence on the local market

Lack of electricity remains a key obstacle among infrastructure barriers. At the same time, power shortages, insufficient space of work and an unstable location of businesses diminish chances for small business development and growth. Firms located in suburbs of cities and firms in rural areas are less likely to grow because their counterparts in urban areas operate with better business infrastructure and have better access to financing and higher power supply.

Concerning the barriers related to human resources capacities, they appears to only have a moderate impact, compared to other influential barriers as reported by surveyed businesses. In general, the private sector in Kosovo, including its small businesses, is assessed to have large and difficult constraints in benefitting from good management and efficiency, and improvement in this field is considered a key development factor for Kosovo (Riinvest, 2014). Staff with proper education renders possible the use of strategies in gaining competitive advantage, and application of organizational culture and values; performance of regulatory and legal frameworks, all preconditions for growth. This group of barriers is, one way or another, connected to institutions, but there are barriers which are found inside businesses, and businesses need to further improve in terms of their own behavior in overall competitive environment. Some of the obstacles related to organizational weaknesses, rather than qualified managers and staff. Human resources are not prepared to survive in today’s challenges of doing business in Kosovo. Lack of vision, creativity and innovation among young people impede businesses in their way of adaptation to new situations. Regarding HR related barriers, a vast majority of participants, regardless of region, expressed their concerns about the level of education and skills of workers. The result obtained

shows how much labour market meets the needs of SBs for workers. One such finding is in line with other studies conducted on the labour market, thereby indicating that the labour market does not meet the needs of small business.

It was found that barriers inside businesses, or considering as internal barriers appointed “lack of capacities of human resources” resulted to be among the least serious barriers, after infrastructure barriers, as reported by surveyed businesses. Although this perception exists among business owners/managers, the importance of these factors remains undisputed. This has been found by other researchers as well. As perceived by businesses, ‘insufficient level of professional skills’ is rated quite high, considered a concern for small businesses to grow, followed in this regard by ‘lack of IT staff’ and ‘lack of technical staff’. Other barriers in this group are not considered to have any serious impact by the surveyed businesses. Such a result does not imply that other workers’ skills in Kosovo are superior, but it may show that some small businesses are still at a phase when only basic skills are required. Moreover, ‘lack of motivation’ and ‘lack of management skills’ are positioned lower in the effect scale, and this is not due to these factors being unimportant, but others are more evident. Moreover, the impact of these factors is found by owners / managers to be important, because of the incremental role of information technology in the development of their businesses. The same conclusion with regard to these factors is found in other studies (Krasniqi, Mustafa, 2016, for example), where entrepreneurs rank employee knowledge and managerial abilities as the lowest barriers for their operation and growth. However, like in many transition countries, in Kosovo, firms often require additional training for staff to supplement the poor level of knowledge developed in educational institutions. It is worth noting that no matter how harsh the barriers are, they all are expected to become less problematic in the future years.

An additional contribution is the analysis of the role that entrepreneurs have on the growth process, and their behaviour in a context of growth goals they boast in an overall firm growth process. We have found that despite the conditions in the environmental background of doing business in Kosovo, intentions to grow in owners/managers are a good indicator of growth, and as can be seen from analyses, it follows that different barriers have different influences on their intentions to grow. In this regard, barriers related to the market have no impact in inhibiting growth intentions of owners/managers. Moreover, our findings point out the importance of

intentions in explaining barriers related to HR skills, and their impact on growth. Statistical results show that 70% (Table 26) of the entrepreneurs surveyed have an intention to grow, which is considerably higher than results reported in highly developed countries. To some extent, this high motivation to grow could be attributed to young entrepreneurs, who challenge themselves in an effort to enhance their career in business, and avoid acts that may damage the environment for entrepreneurial activities. Nevertheless, the intention to grow has been found to be a strong determinant of firm growth as confirmed by the statistical results. One conclusion from such findings is that intentions to grow in transitional contexts, such as Kosovo, are more evident than in some other countries. These intentions to grow bear a considerable positive influence on SB growth, since the majority of surveyed owners/managers reported positively.

The growth of businesses in the period 2012-2016 is reported by respondents on the basis of average growth of sales and employment. Most businesses, or almost 80%, declare to have had moderate growth, and a small percentage report some decline or stagnation. In the survey results, the growth was small, and measured in 5 years, it was 18-19%. A notable feature of the overall ranking of barriers is that infrastructure barriers, apart from 'the lack of electricity', as per statistical data, we have found to have a lower effect on growth than other groups of barriers. Based on the perception of managers/owners, it is a fact that there has been some improvements in recent years, due to the government's investment in this sector. Barriers related to infrastructure are generally perceived as smaller obstacles for surveyed SBs. Beyond the 'lack of electricity' barrier, which is ranked high with its large effect, other barriers such as 'transport costs' and 'lack of roads' and others, are listed low in the list compared to other barriers in other groups. 'Lack of electricity' remains the barrier considered to be a major obstacle to SB growth.

Considering that this study is an extension of previous studies, but the difference may be seen in the own way addressed this topic, we may say that others were conducted in different times, and in rather restrictive circumstances. Also, considering the nature of the subject, which is a process that evolves from time to time, updated information was more than necessary. Intermittent studies are a different paradigm, while we have made an effort to emphasize the necessity of researching as a process in continuity. Progress made in Kosovo, gradual transformation from the pre-development to the developmental stage, will also bring about changes in the approach to the topic. So, despite a considerable progress achieved Kosovo must

strongly fight to reach the main objectives and standards that ensure a comfortable environment of doing business, in order to create the conditions for business growth.

### 7.2. Recommendations

The summary of all findings confirmed that the lack of adequate business environment due to barriers is evident. These barriers are associated with lack 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 SB growth in Kosovo.

Among many requirements and needs of small businesses, difficulties of access to finance are reported. This comes as a result of too many requirements from the banks, and short terms of return, and overall conditions for loans. One of the factors concerns SBs is the relatively high interest rates charged by commercial banks, which can be reduced by increasing the counselling services on credit benefits and from credit consequences. Furthermore, creating other alternatives in the form of a Guarantee Funds for Small Businesses would facilitate the takeover of loans from banks, and should help much in development and growth of these businesses. This could at least support SBs with prospects, especially those which may generate new jobs and operate sustainably in the market. The statistical results highlight some of the issues that policymakers should address to ease SBs' access to finance. Relevant authorities should contribute to facilitating and setting the licensing criteria for new financial institutions, to increase competition in the financial market, in that way contributing to the reduction of interest rates. In the framework of institutional support policies, it is necessary to create a long-term credit system with more favourable conditions for manufacturing and service SBs, especially for exporting businesses. The current credit scheme is "elusive" and disadvantageous for most small businesses, especially for manufacturing and exporting businesses. Solutions should be sought in enlarging credit supply, through increased long-term savings, international financial support and a better channelling of remittances from the diaspora. Creating a specific credit line for SBs with export performance would be a viable solution in the case of Kosovo.

The Government of Kosovo 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 small businesses. Also, it should protect those domestic firms that compete with importing firms, and benefit from state subsidies. There should be a strategy in the form of an inclusive framework, which takes into account the opinions of businesses, policymakers, and experts. In the meantime, the institutional bodies of Kosovo and in particular the institutions responsible for economic affairs, should develop promotion investment schemes that financially support certain small business activities that plan to increase their businesses. Also, they should provide incentivising subsidies, depending on growth and progress noted (e.g. increase in the number of employees, an increase in own investments).

All administrative barriers affecting SB 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. Municipalities in Kosovo should hire experts, and frequently offer training to business staff members, to provide them with professional advice according to their needs. Training on the use of Information Technology are indispensable. Also, municipal officers working with businesses need to be diligently appraised, to ensure an appropriate professional performance of their duties, thereby ensuring sustainable professional support to small businesses. Therefore, local authorities should be more inclusive in drafting policies for businesses. Municipal meetings may be a way to involve businesses in drafting policies for them. Establishing SB support offices, engaging experts who evaluate the Kosovo market, identify potential high growth sectors and develop incentive support schemes for them, are good actions. In this way, municipalities will be more active in supporting healthy businesses and growth paths.

Improved 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 favourable business climate. A unified data management system that would be used to improve efficiency, transparency, and accountability of judicial system, particularly in commercial courts, should be established. The system would be used to track and monitor cases and disputes related to property and other relevant data. Improving capacities of the prosecutorial system in combatting informal economy and negative phenomena in business is also necessary. In this case, all action must be fair, balanced and completely independent from political influences. The government should strive more to develop

a more effective and efficient tax inspectorate. It should also ensure that this body will function in a transparent and accountable manner. In this way, biased treatment of businesses would be avoided, which otherwise fuels unfair competition and informality in general. The Kosovo government needs to adopt and implement serious anti-corruption policies. Also, it needs to ensure, by law, independence of the judicial system from political meddling, but also accountability of the people in institutions. These policies would reduce fiscal evasion by increasing voluntary cooperation and performance enforcement mechanisms. The government should work to reduce the overall risk of the business environment by improving courts, reducing barriers and improving general services for SBs. It should reduce the tax burden, not necessarily reduce tax rates, but reduce additional costs associated with tax payments such as cost reporting, bureaucratic costs, and so on. Some of these expenses create room for corrupt behaviour of officials.

In this regard, first of all, the commitment to encourage businesses to enter into the formal system should be increased. By introducing regulatory adjustment procedures for businesses, a greater number of SBs would be encouraged to enter the formal economy. This should also offer better opportunities for access to credit and financing resources and in solving commercial problems, while on the other hand contributing to the overall development of the market economy and the creation of sustainable jobs in the sector of SBs. More than ever, it is an imperative of time for the Kosovo Government to take steps in building a sound strategy for small business support. This would require a wide range of reforms to improve the business environment, first and foremost a reform on the justice system, and then in all other areas where small business development is affected.

Regarding the market barriers, ‘limited capacity of local market’, ‘unfair competition’ resulted in being more prominent compared to some other factors associated to “rules of game” in the market. Institutions should guarantee full enforcement of rules of free market economy for all domestic and foreign firms which want to operate in Kosovo. Therefore, it is more than ever necessary for responsive government institutions to create a long term strategy for development, including a strategy for SBs, which in the near future could feed back the investment, and gradually become a generator of overall development in the country. A continued process of establishing trade relations with countries in the region, based on mutual interests and reciprocity

and through participation in EU organized activities, but also negotiating free trade agreements, are necessary actions. Through bilateral cooperation and also through EU bodies, must insist to remove existing barriers to the free movement of people and goods. Kosovo institutions should work more on SB support, to increase the quality of products/services according to international standards. Standard harmonization would facilitate cooperation in the flow of goods and services between businesses in Kosovo and other countries, thereby also helping to increase the exports. In order to overcome the current situation and to focus more on the promotion of manufacturing and exporting businesses, it is critical to undertake these measures in economic policy changes in the country, but also to improve the position of small businesses.

The government as a matter of urgency must speed up procedures in constructing new electricity plants, and harnessing other possible alternatives, to complement the capacities of electricity supply. Successful businesses, especially those of particular interest, those that generate new jobs and ensure sustainable growth, should be helped further, such as guaranteeing regular supply of electricity, reducing prices for electricity, reducing taxes, reducing the fuel price for transportation, etc. Also at the same time, it needs to stabilize business parks with all the relevant infrastructure, finding alternatives for additional funds, apply for funds with well-designed projects with international agencies, which have given significant contributions in this regards.

In the context of improving the human resource capacities of particular importance may be the development of well-qualified human resources that can accommodate core dynamic competences, so that businesses can effectively respond to any sudden change or problem in the market, or in different competitive environments. In addition, firms cannot respond to timely changes without having qualified human resources, and this would also include development of high-profile managerial staff, with their vision, team management and business mission (short and long term strategic objectives, flexible alternatives and strategies to environmental change, etc.). Managers/owners should adopt suggested techniques for addressing the value of strategic flexibility in staff. In this way, they are encouraged to overcome the obstacles encountered and stimulated to expand their businesses, and to build awareness that growth of businesses is of great importance to both their own business and of the overall country's development. They should therefore "give rise" to strategic, experienced and tested leadership, dynamically build

basic staff competences, focus on developing human capital, effectively utilize new technologies, engage in valuable strategies, and develop a new organizational structure and culture. These techniques or steps are practical ways to ensure growth of their businesses.

The current vocational education and training system is not in line with the labour market needs. Therefore, the education system must be reformed on that way that graduated students are able to face the needs of the labor market. Educational institutions should harmonize their study programmes with the new labour market, to reduce the need for additional emergency training, immediately after employment. According to Boyle (2007), there have been multiple calls for educators at all levels to recognize the challenges and opportunities in today's economy. There are also necessary changes required to educational programs, in a way of ensuring students develop contemporary skills and abilities, including 'know-how' and skills in problem-solving; innovation and creativity; self-direction and initiative; flexibility and adaptability; critical thinking and communication and collaboration skills. Continued support, including training workshops for owners/managers, in terms of motivating employees, providing additional knowledge in properly working with staff, would help a lot in smoother daily work operations.

To support demands of businesses for staff training, better coordination between institutions supporting SBs is required. In this mainstream, close cooperation between line ministries (MTI, MF and MEST), Business Agencies, business centres, innovation centres and other local offices must be ensured in order to exchange updated information on benefits SBs may enjoy.<sup>7</sup> There is a need for proper institutional coordination of government-run education institutions, for the business owners/managers and their staff to be well prepared to perform business tasks. Additionally, the system needs to leave aside the old phenomena of tradition consolidated from the past, and to understand the new models of doing business, based on professional education and technology. The possibility of misconception is high in formerly planned economies, in which a lack of business education or the presence of traditional phenomena may lead to narrow understandings of key concepts of doing business (Michailova, S. and Liuhto, K., 1999). In this regard, Kosovo government agencies should promote close

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<sup>7</sup> MTI - Ministry of Trade and Industry  
MF - Ministry of Finance  
MEST - Ministry of Education, Science and Technology

cooperation and support SBs in addressing their needs in staff development. As a result, universities operating in Kosovo and the Ministry of Education, Science and Technology should initiate a process of curriculum amendments, to adapt them better to labor market requirements. Universities and vocational schools should ensure that their graduates have the skills required by the labor market. Such skills would improve employability of graduates.

### 7.4. Limitations of the research

At the end, we consider that this study has a few limitations. We know that this dissertation will not cover the full scope of complexity of the phenomenon of barriers to SB growth, knowing that there will be other factors that might further influence the growth of the firm. The lack of longitudinal data, which are frequently mentioned in some studies as one of the main drawbacks of firm growth studies, may be mentioned for one. Different approaches and various methods used in several studies have generated some confusion and difficulties to ensure continuity of studies of this field. In fact, as it is claimed by Davidsson, P. et al., (2006) growth is a phenomenon that may come at any time and move from time to time. Therefore, the research should continue building upon different approaches. The approach in this dissertation was somehow generalized and included quite a few factors and variables for investigation, and in this regard, the approach to this investigation towards one sort or one group of factors aims to raise the quality. This dissertation has not explored the gender dimension of the small business sector, which might be considered as a further barrier with impact on growth. It is widely known that there is high disproportion in Kosovo, meaning SBs owners are mostly male, with around 88%, and only 12% are female.

Normally, we are aware of some limitations of this study, but at the same time, we consider that this will open many pathways for future researchers. Meanwhile, the comprehensive approach of this study produces much information of direct practical use to SBs and their barriers, for them to survive and succeed in very constraining environments, such as Kosovo and beyond. However, we are aware that there is wide room for further investigation of this important topic. We are also aware that the use of a relatively high number of variables to measure various obstacles was based more on perceptions of owners/managers, rather than on any objective measure. For example, we did not ask institutions about institutional barriers.

Additionally, perceived institutional barriers were extracted from actual entrepreneurs. Still, the focus of this study has been on actual entrepreneurs; even the phenomenon of growth is subject to evolution and may change over the time.

Since the focus of the study was on perceived barriers as reported by owners/managers, this excluded hidden barriers, and in particular internal barriers that were related to the interviewees themselves. A tantalizing account of a fierce disclosure of external barriers, and simultaneous concealment of internal ones, was evident during the interviewing and surveying process. This may indirectly affect the quality of information. However, since the methodological goal was set on the subjective experience of the participants themselves, we do not consider this to be any serious restriction.

Clear explanations about barriers in three sectors with different activities render distinction much more improbable, and all differences require particular treatment. To determine the boundaries of the research, where the limits of our investigation are, multidisciplinary implications of the research topic was a particular difficulty. The main focus of research was on the barriers of doing business and their impact on business growth, in different types of the businesses. Many authors have stressed the fact that multiplications of an issue to many areas, including social, economic and political, contribute to the presence of various limitations.

Since the data were collected at a given timeline (January - June 2017) it was not possible to identify the timely evolution of these barriers and their effects on business growth. Therefore, the temporal comparison was with the last five years, since there were no major differences year to year. However, this limitation diminished as we often compared with other findings from other research, thereby generating a chronological reflection.

Beyond problems that were recognized, there were some foreseen issues that appeared during research. Most of the problems are institutional. Some other barriers are not related to institutions or government. Very often, business owners/managers hesitate to give the information in the details. This required appropriate mastering skills to draw what was realistically needed. Another group of barriers included those obstacles associated with the individual and society. In this case, entrepreneurs lacking managerial skills might not provide the most reliable information, in that way causing the researcher to investigate further. There are

problems regarding the classification of barriers which appear as general barriers, but that influence in different situations. There are also some minor problems that appeared during the data collection: providing qualitative information either by personal perception, insufficient time, and availability and so on. This requires double the effort in collecting information, even from managers or other actors in the same business. Another phenomenon is the cultural approach to the firm development, in the context of individual and the society, and the perception of the concept of business development, based on a specific tradition. In such situations, it was necessary to apply an integrative approach, and only then use a high level of mastery to determine a proper explanation.

In addition, there are some of the problems which were detected: Some small businesses feel uncertain because of negative phenomena like corruption, non-fair competition, interventions of policy makers in business, etc., and because of that, they hesitate to share the information, fearing the reach of institutions. Another subject of barriers research is the comparison of degree of impact on growth of businesses, as well as identifying those problems that are more pronounced and have a higher impact on growth.

The approach of the researcher, in including as many variables as possible in the examination of small firm growth, to reflect the multi-dimensional nature of growth of small firms, appeared to face with some challenges in this type of model. For example, variables in different groups are not independent, and it is not always possible to obtain the necessary data at the detailed level required. This can potentially limit the ability of the researcher to examine small firm growth. But, in this study, we took into consideration only the role of predictors as an independent variable versus the dependent variable.

### 7.5. Advice for future research

Despite some limitations indicated above, we think that this study opens several questions that necessitate further discussion in future research. The results suggest that the investigation attention should be directed toward understanding more specifically how the institutional environment influences SBs growth. Although barriers to growth are presented generally similarly in different countries in transition, we consider that some distinct features characterize each country.

A natural extension of this research is to continue the investigation for e.g., the factors correlated to other phenomena that impact growth, like the strategy of the firm and its relationship with environmental conditions and other organizational factors, by the inside of the company. An in depth approach to the phenomenon, applying a large spectrum of data, will yield more objective results. The research sample included only 200 small businesses, and the period of study was five years, considering to be moderate in reaching good results. The more data and the longer period of study will be, the results of the study will be more fruitful. Inclusion of a longer period of the study for future, as advised by Davidsson et al., (2006) may enable research to yield more reliable results. Therefore, a longitudinal period including might bring more reliable results.

Future studies are recommended to focus on Human Resources of the firm, in a wider spectrum, and particularly on psychological and educational background and other individual features, as factors that might have a significant impact on the behavior of owners/managers, but also their will to avoid the negative phenomena in doing business. This dissertation study is heterogeneous and too wide, and it surely will not include all problematic issues, but we consider it to offer a good baseline and unique material for expansion of study for future scholars, and other interested people.

One of the alternatives could be more focus on barriers based on business types, because as we have seen from statistical analysis, the implication of barriers varies with the types of businesses. Manufacturing and trade businesses have stated themselves to be more affected by barriers. The focus of this research was investigation of barriers to growth, only for formal businesses, and not informal businesses, and therefore, inclusion of the informal sector could be an alternative to other scholars. Inclusion of other indicators, or more indicators of growth, can only optimize quality and shall yield more accomplished information regarding the growth of SBs. For example, annual turnover, increment of assets, profit and so on, will be enough room for investigation of future researchers. This can be done also in particular case studies, where the matter of study will be a firm which successfully managed barriers and lead to the growth in due time. The model of growth and challenges of firms might be a good practice to follow by others. On the other side, the exploration of firms which failed to survive and grow due to the barriers

would be beneficial for the others; this would be a list of lessons learned for others to avoid similar mistakes.

The “positive effect of barriers” has been mentioned by some authors, as an area that new researchers might be focusing on, a segment of firm growth, in the context of extra efforts of owners/managers they make to survive and grow their businesses. This was not treated comprehensively in this dissertation, and may be a good area for new researchers to approach more of this phenomenon.

Future research should take a more process-based approach to the topic, treating existing barriers, perceived barriers in particular, not as static or discrete events, but instead as ongoing challenges that affect growth, related decisions and actions taken by owner/managers, and to which owners/managers must respond.

In closing, considering the multidimensional character of the topic, existing research on this issue, we can freely say that all leaves too wide an area to be covered. We have yet to examine the potential complex and subtle ways in which behaviour may be influenced by perceptions of importance of barriers. Further on, this dissertation has diligently tried to adapt to the circumstances of the business environment that characterize Kosovo, hoping for it to serve or to be a good model, even for the other countries with similar specifics. We hope for this dissertation to have provided some suggestions, to encourage others to move forward in researching this area.

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ANNEXES

1. Tables and figures

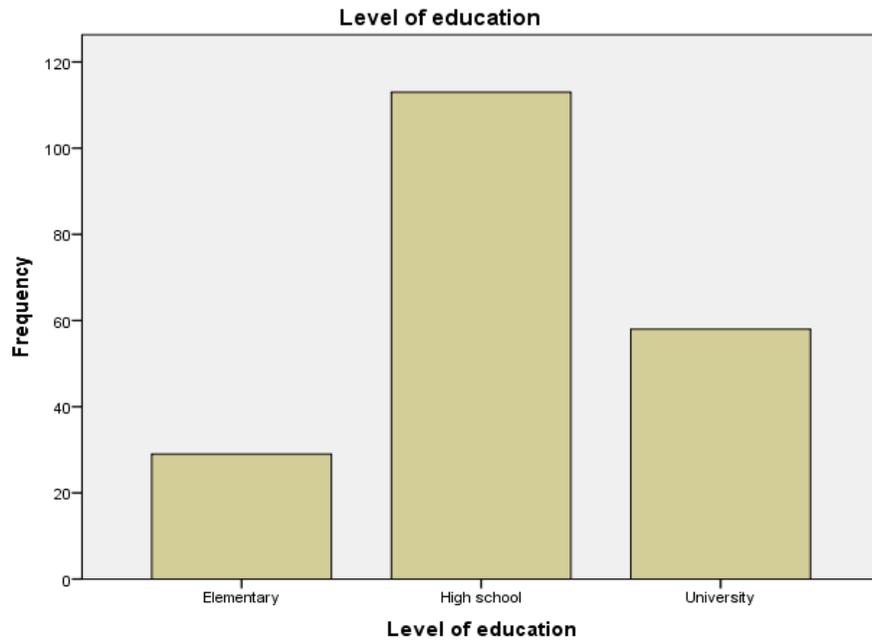


Figure 15: Frequency Distribution of participant's education level



Figure 16: Regional Frequency distribution of surveys

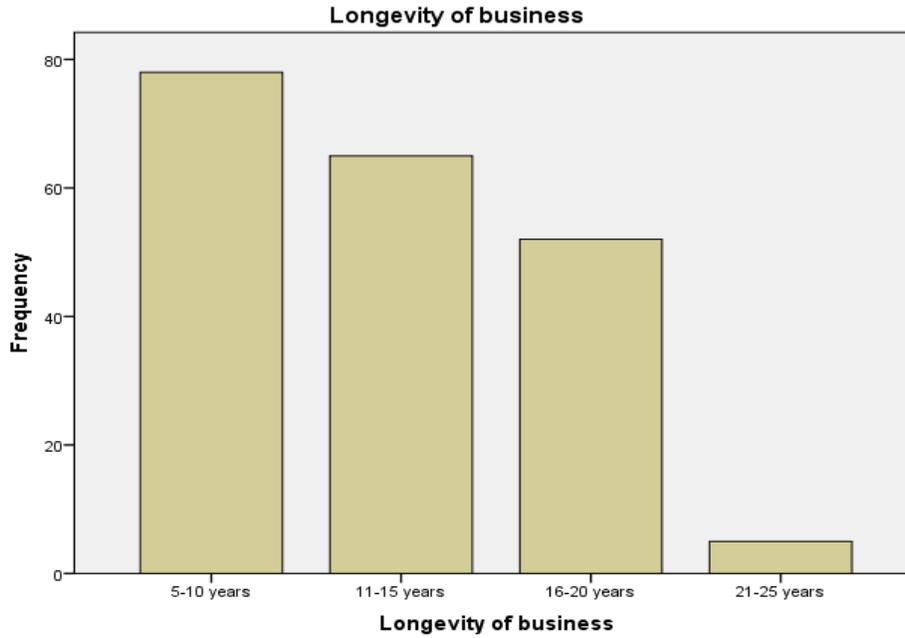


Figure 17: Longevity of surveyed businesses

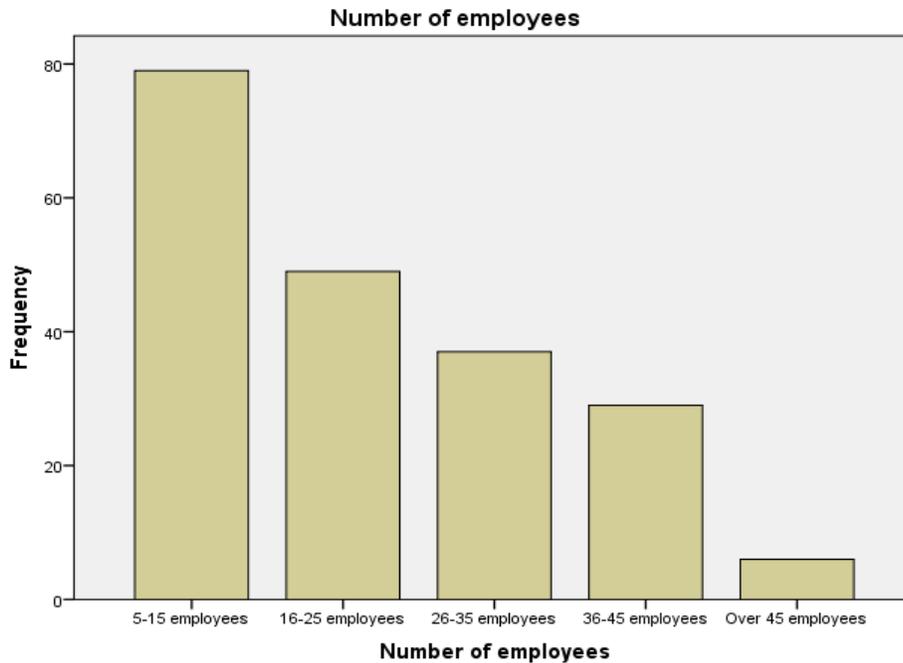


Figure 18: Number of employees of companies surveyed

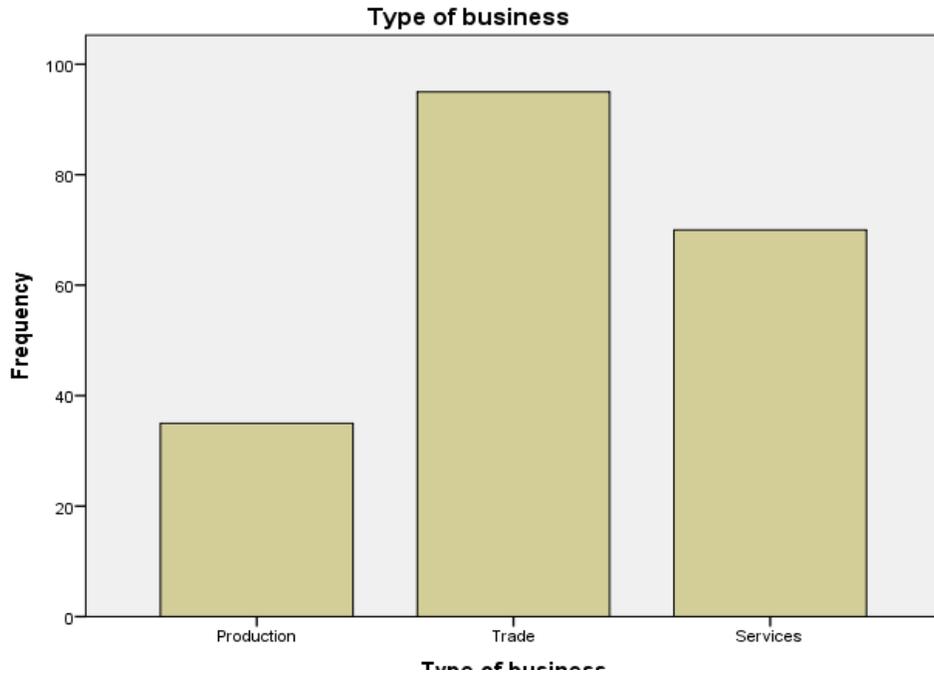


Figure 19: Distribution of types of business surveyed



Figure 20: Opinions of owners / managers regarding the presence of barriers

## BARRIERS TO THE GROWTH OF SMALL BUSINESSES IN KOSOVO

*Table 52: Descriptive statistics according to the perception of owners/managers related to the impact of barriers to the growth of SBs*

<b>Descriptive Statistics</b>					
<b>Lack of institutional support</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Administrative procedures	200	1	5	2.715	1.36863
Access to finance	200	2	5	4.43	0.75362
Current tax policy	200	1	5	4.06	1.13704
Economic policy	200	1	5	3.09	1.46377
Valid N (listwise)	200				
<b>Lack of rule of law</b>					
Organized crime	200	2	5	4.5	0.79572
Corruption in courts	200	2	5	4.56	0.66226
Corruption in government institutions	200	1	5	3.495	1.5851
Political influence	200	2	5	4.25	0.88964
Informal economy	200	1	5	4	1.20718
Tax evasion	200	1	5	4.35	0.79414
Inefficiency of justice system	200	1	5	4.535	0.86168
Valid N (listwise)	200				
<b>Market barriers</b>					
Unfair competition in the market	200	2	5	4.395	0.93453
High transport costs	200	1	5	3.625	1.58649
Limited capacity of the local market	200	1	5	3.795	1.41172
Lack of raw materials in country	200	1	5	3.11	1.65274
Customs fees	200	1	5	3.685	1.44437
Access to foreign markets	200	1	5	3.63	1.47103
Valid N (listwise)	200				
<b>Barriers of infrastructure</b>					
Lack of electricity	200	3	5	4.515	0.60132
Lack of internet	200	1	5	1.955	0.95789
Insufficient space of work	200	1	5	3.3	1.45277
Lack of roads	200	1	5	1.585	0.93119
Lack of water	200	1	5	1.755	0.98989
Location of business	200	1	5	2.395	1.36318
Valid N (listwise)	200				
<b>Lack of human resources capacities</b>					
Lack of motivation	200	1	5	3.57	1.2701
Lack of experience	200	1	5	2.67	1.43576
Lack of IT staff	200	1	5	3.905	1.04472
Insufficient level of professional skills	200	1	5	3.955	1.12664
Lack of technical staff	200	1	5	3.72	1.04261

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Lack of management staff	200	1	5	2.93	1.35435
Lack of staff for accounting and finance	200	1	5	2.11	0.8785
Valid N (listwise)	200				

*Table 53: Factorial weight of barriers impact (from largest to smallest) according to the perception of owners/managers to the growth of SBs*

<b>Number of variables</b>	<b>Variables</b>	<b>Factorial weight</b>
1	Tax evasion	0.873
2	High transport costs	0.857
3	Lack of electricity	0.844
4	Limited capacity of the local market	0.834
5	Lack of experience	0.830
6	Customs fees on imports of raw materials	0.817
7	Lack of IT staff	0.809
8	Economic policy	0.807
9	Access to finance for SB	0.788
10	Lack of motivation	0.783
11	Insufficient level of professional skills of staff	0.777
12	Administrative procedures	0.762
13	Current tax policy	0.759
14	Organized crime	0.746
15	Lack of management staff	0.744
16	Lack of raw materials in country	0.729
17	Lack of technical staff	0.727
18	Informal economy	0.712
19	Insufficient space of work	0.691
20	Politics interruption	0.690
21	Lack of internet	0.681
22	Corruption in government institutions	0.677
23	Access to foreign markets is difficult	0.676
24	Unfair competition in the market	0.670
25	Corruption in courts	0.620
26	Location of your business	0.597
27	Inefficiency of justice system	0.538
28	Lack of staff for accounting and finance	0.537

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29	Lack of water	0.472
30	Lack of roads	0.416

*Table 54: Descriptive statistics of the barriers according to businesses longevity*

<b>Descriptives</b>									
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
<b>LOIS</b>	5-10 years	78	3.4524	.37083	.04199	3.3688	3.5360	2.43	4.14
	11-15 years	65	3.5341	.34744	.04309	3.4480	3.6202	2.71	4.29
	16-20 years	52	3.4560	.37321	.05176	3.3521	3.5599	2.43	4.14
	21-25 years	5	3.3714	.45848	.20504	2.8022	3.9407	2.86	4.00
	Total	200	3.4779	.36558	.02585	3.4269	3.5288	2.43	4.29
<b>MB</b>	5-10 years	78	3.2724	.60963	.06903	3.1350	3.4099	1.75	4.25
	11-15 years	65	3.2096	.69143	.08576	3.0383	3.3809	1.88	4.25
	16-20 years	52	3.3918	.54178	.07513	3.2410	3.5427	1.75	4.25
	21-25 years	5	3.1250	.27951	.12500	2.7779	3.4721	2.75	3.50
	Total	200	3.2794	.61633	.04358	3.1934	3.3653	1.75	4.25
<b>BOI</b>	5-10 years	78	2.7179	.53003	.06001	2.5984	2.8375	1.57	3.71
	11-15 years	65	2.6308	.54333	.06739	2.4961	2.7654	1.57	3.71
	16-20 years	52	2.7280	.44932	.06231	2.6029	2.8531	1.86	4.14
	21-25 years	5	2.9714	.56605	.25314	2.2686	3.6743	2.43	3.71
	Total	200	2.6986	.51534	.03644	2.6267	2.7704	1.57	4.14
<b>LORL</b>	5-10 years	78	4.3558	.40042	.04534	4.2655	4.4461	3.38	5.00
	11-15 years	65	4.2788	.48902	.06066	4.1577	4.4000	3.25	5.00
	16-20 years	52	4.1274	.52597	.07294	3.9810	4.2738	3.00	4.88
	21-25 years	5	3.9250	.18957	.08478	3.6896	4.1604	3.75	4.13
	Total	200	4.2606	.47085	.03329	4.1950	4.3263	3.00	5.00
<b>IOHR</b>	5-10 years	78	3.2399	.50990	.05774	3.1250	3.3549	2.14	4.14
	11-15 years	65	3.2505	.59870	.07426	3.1022	3.3989	2.14	4.14
	16-20 years	52	3.3379	.48344	.06704	3.2033	3.4725	2.29	4.14
	21-25 years	5	3.1143	.27479	.12289	2.7731	3.4555	2.71	3.43

**BARRIERS TO THE GROWTH OF SMALL BUSINESSES IN KOSOVO**

Total	200	3.2657	.52874	.03739	3.1920	3.3394	2.14	4.14
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*Table 55: Descriptive statistics of the barriers according to business types*

Descriptives									
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
LOIS	Production	35	.5375	.04522	.00764	.5219	.5530	.41	.63
	Trade	95	.5363	.04680	.00480	.5267	.5458	.39	.62
	Services	70	.5430	.04832	.00578	.5315	.5545	.41	.62
	Total	200	.5388	.04694	.00332	.5323	.5454	.39	.63
MB	Production	35	.5168	.07454	.01260	.4912	.5424	.30	.63
	Trade	95	.5128	.08855	.00908	.4947	.5308	.27	.63
	Services	70	.4944	.10071	.01204	.4703	.5184	.24	.63
	Total	200	.5070	.09088	.00643	.4944	.5197	.24	.63
BOI	Production	35	.4321	.08154	.01378	.4041	.4601	.27	.57
	Trade	95	.4353	.07730	.00793	.4196	.4511	.20	.57
	Services	70	.4019	.09219	.01102	.3800	.4239	.20	.62
	Total	200	.4231	.08455	.00598	.4113	.4349	.20	.62
LORL	Production	35	.6184	.05863	.00991	.5983	.6386	.48	.70
	Trade	95	.6273	.04820	.00495	.6175	.6371	.49	.70
	Services	70	.6301	.04662	.00557	.6190	.6412	.51	.70
	Total	200	.6267	.04954	.00350	.6198	.6336	.48	.70
IOHR	Production	35	.5125	.06118	.01034	.4914	.5335	.41	.62
	Trade	95	.5182	.07359	.00755	.5032	.5332	.33	.62
	Services	70	.4921	.07489	.00895	.4743	.5100	.33	.62
	Total	200	.5081	.07269	.00514	.4979	.5182	.33	.62

## 2. QUESTIONNAIRE

### QUESTIONNAIRE

Greetings! In the framework of Ph.D. study, kindly we ask you to spend some minutes to complete this questionnaire. The questionnaire does not require your identification. All the data you give will be used only for the purposes of dissertation study and for scientific papers. Your effort to this matter is so much appreciated.

Thank you in advance!

Shaip GASHI

#### *Section 1.*

#### **1. Your position in company:**

1. Owner
2. Manager
3. Other

#### **2. Education level:**

1. Primary
2. High
3. University

#### **3. Longevity of business in years / the year when you established your business:**

#### **4. Number of employees of your company:**

**5. Type of business:**

1. Production
2. Trade
3. Services

**6. Location of your business (city):**

*Section 2.*

**7. Barriers of doing business in Kosovo are present, what do you think?**

1. Yes
2. No

**8. Do you have intention to growth your business?**

1. Yes
2. No

**9. Do the barriers hinder your growth plans and objectives?**

1. Yes
2. No

**10. Presence of barriers influence the managers to cancel growth objectives?**

1. Yes
2. No

**11. Has your business increased in the last 5 years?**

1. Yes
2. No

*Section 3.*

## BARRIERS TO THE GROWTH OF SMALL BUSINESSES IN KOSOVO

Each question represents a barrier that hinders your business to develop and grow. Please, give your opinion that the barriers listed below hinder your business on the following questions by selecting one of the 5 rating scales, in what level you agree that listed barriers are obstacle for your business:

1. Strongly disagree
2. Disagree
3. Neither agree nor disagree
4. Agree
5. Strongly agree

<b>Lack of institutional support</b>						
12	Administrative procedures	1	2	3	4	5
13	Access to finance	1	2	3	4	5
14	Current tax policy	1	2	3	4	5
15	Level of taxes is satisfied to growth your business	1	2	3	4	5
16	Economic policy	1	2	3	4	5
17	Licensing procedures	1	2	3	4	5
<b>Lack of Rule of Law</b>						
18	Organized crime	1	2	3	4	5
19	Corruption in Courts	1	2	3	4	5
20	Corruption in government institutions	1	2	3	4	5
21	Politics interruption	1	2	3	4	5
22	The informal economy	1	2	3	4	5
23	Tax evasion	1	2	3	4	5
24	Inefficiency of justice system	1	2	3	4	5
<b>Market barriers</b>						
25	Unfair competition in the market	1	2	3	4	5
26	High transport costs	1	2	3	4	5
27	Limited capacity of the local market	1	2	3	4	5
28	Lack of raw materials in country	1	2	3	4	5
29	Customs fees on imports of raw materials	1	2	3	4	5
30	Access to foreign markets	1	2	3	4	5

## BARRIERS TO THE GROWTH OF SMALL BUSINESSES IN KOSOVO

31	Low demand for your services, products, is an obstacle for your business	1	2	3	4	5
32	The quality of transport services is a barrier to your business	1	2	3	4	5
	<b>Lack of infrastructure</b>					
33	Lack of electricity	1	2	3	4	5
34	Lack of internet	1	2	3	4	5
35	Insufficient space of work	1	2	3	4	5
36	Lack of roads	1	2	3	4	5
37	Lack of water	1	2	3	4	5
38	The location of your business	1	2	3	4	5
	<b>Incapacity of Human resources</b>					
39	Lack of motivation	1	2	3	4	5
40	Lack of experience in management	1	2	3	4	5
41	Lack of IT staff	1	2	3	4	5
42	Insufficient level of professional skills	1	2	3	4	5
43	A lack of technical staff	1	2	3	4	5
44	Lack of management staff	1	2	3	4	5
45	Lack of staff for accounting and finance	1	2	3	4	5

### *Section 4.*

**Please, calculate and write the in the box below the growth of sales and employment in a period of last five year (2012 – 2016):**

46. Growth of sales in percentage:

47. Growth of employment in percentage: