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**The role of Non-Formal Education  
on employee performance in Small  
and Medium Enterprises (SMEs) in  
Kosovo**

Doctoral thesis

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## **Acknowledgments**

My interest in the theme of this research stems from my long-standing experience in both the education and private sector, particularly in the interface between the two. The time and effort invested in this thesis, helped me understand better the potential and respective challenges that stand in this interface, from both a conceptual and pragmatic perspective. As a transition country, the Kosovo context poses a set of additional barriers that constrain the potential of private sector development. Open and frank discussions with business owners on such challenges, their thinking, approaches and aspirations in relation to human resources helped me grasp better the actual situation in Kosovo and the present limitations to employing respective conceptual models, now effectively in use, worldwide.

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May God bless you all!

## **Statement of Authorship**

I hereby declare that the text in my dissertation with the title:

„The role of Non-Formal Education on employee performance in Small and Medium Enterprises (SMEs) in Kosovo”

is my own work.

Additional to that I confirm that the use of material from different others sources has been properly acknowledged in this thesis and credited to the authors.

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## List of Abbreviations

AE	Adult Education
ASK	Kosovo Statistical Agency
Cedefop	The European Centre for the Development of Vocational Training
ETF	European Training Foundation
EM	Employee Motivation
EQF	European Qualification Framework
EC	European Commission
EBSCO	Online Academic Library
ECVET	European Credit System for Vocational Education and Training
FE	Formal Education
Gallup	(GIA) Gallup International Association
GDP	Gross domestic product per capita
HR	Human Resource
HRD	Human Resource Development
HRM	Human Resource Management
HRMC	Human Resource Management Cycle
HCT	Human Capital Theory
HPWC	High Performance work systems
ILO	International Labor Organization
IE	Informal Education
KOSVET	Kosovo Vocational Education and Training
KCC	Kosovo Chamber of Commerce
LLL	Lifelong Learning
LM	Labour Market
LFS	Labor Force Survey
LLC	Limited liability Companies

MLSW	Ministry of Labour and Social Welfare
MEST	Ministry of Education, Science and Technology
NEET	Not in education, employment or training
NQA	National Qualification Authority
NFE	Non-Formal Education
NQF	National Qualification Framework
OECD	The Organisation for Economic Co-operation and Development
OS	Occupational Standard
RBV	Resource based view
ROI	Return of Investments
RPL	Recognition of prior Learning
SEECCEL	South east European centre for entrepreneurial Learning
SD	Statistical details
SDG	Sustainable Development Goals
SHRM	Strategic Human Resource Management
SME	Small and Medium Enterprises
UK	United Kingdom
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNECE	United Nations Economic Commission for Europe
VET	Vocational Education and Training
WB	World Bank

## **Abstract**

In today's world of fast-paced technology development, education and training is critical in ensuring the availability of adequately skilled workforce and in turn in advancing productivity. Indeed, the literature reviewed points to a solid conceptual framework, which builds on the premise that human resources are the most strategic asset of any organisation and need to be managed as a key element of the business development strategy.

In Kosovo, private sector is considered a key potential for the economic growth of the country. Yet, private sector development is facing a set of structural constraints that limit this potential. Among the most important ones is the quality of the formal education sector, generally recognized as poor and failing to produce the range of skills and quality thereof, required by the private sector. The lack of coordination between the two sectors in terms of skills required, leads to a general mismatch between the skills produced by the formal education sector and the skills and capacities required for private sector development. This situation poses the challenge for the private sector to identify other alternatives for identifying and building the set of skills required for their business development. Non-formal education is an important modality that could compensate the deficiency of skills and reduce to some extent the above-mentioned mismatch.

This study is conducted with the aim of understanding the role of non-formal education on employee' performance of Small and Medium Enterprises (SMEs) in Kosovo. This question is approached from the perspective of business owners and aims to understand the framework and rationale within which they approach human resource development in general, with an emphasis on using non-formal education as an alternative. In view of the above-mentioned mismatch between profiles produced by the education sector versus the ones required by the private sector, HR development through non-formal education ought to be a key priority of SMEs in Kosovo, in-built as a key element of their overall business development strategy.

This study concludes that while the importance of the potential role of non-formal education on enhancing the performance of employees is well recognised by SMEs in Kosovo, HR development is not approached systematically nor following a clear strategy as an integral part of the business development strategy.



## Chapter 1. Introduction

*“If you think education is expensive, try estimating the cost of ignorance!”*

Howard Gardner

Human resources are increasingly considered as strategic assets that define the competitive advantage of enterprises. In view of this, Small and Medium Enterprises (SMEs) need to address carefully this issue and ensure that human resource development is managed as an integral part of the business development strategy. Human Resource Development (HRD) in the private sector is shaped by a plethora of factors that relate primarily to selection and recruitment, namely the set of skills initially made available to the company; factors that relate to the quality of formal education sector resourcing the skills; factors that relate to the range and quality of non-formal education offer in the country, as well as factors related to internal company dynamics and the approach towards business development.

Among the multiplicity of models and frameworks around human resource management and development, the Strategic Human Resource Management (SHRM) model that has been introduced by Devanna, Fombrun and Tichy(1984) will be used as a backbone to the present study (Devanna, M.A., Fombrun,C.J&Tichy,N.M, 1984). Key to the contingency model of Devanna et al (1984) is **vertical integration**, which emphasizes the importance of aligning Human Resource Management (HRM) functions to the overall strategy of an organization and **horizontal integration**, which highlights the importance of interlinks between the different HRM functions. HR development is a key strategic function in the HRM cycle (Devanna et al, 1984).

Devanna et al (1984) in their contingency model emphasize as well the importance of context in the performance of organizations, notably of economic, political and cultural forces that shape strategic orientations and performance of organizations.

In Kosovo, the private sector is considered a key engine for economic growth. However, the whole private sector in Kosovo is nascent, with companies just new in the market, growing step by step, as they learn from experience rather than some long-standing tradition or sophisticated business acumen. Their business operations are not always led by clear business development strategies, validating the premise that the companies are mostly new and of

limited experience. Kosovo's SMEs operate amid a range of structural constraints that limit their access to new markets, their access to finance, their prospects for development, in what we could generally label as a not very conducive business development environment. In view of this challenging environment and the multiple constraints, it's easy to understand that companies' attention to human resources and their strategic management and development comes further down the list of imminent priorities, particularly as far as investments are concerned. Yet, strategic management of HR needs to be addressed with immediate priority in view of structural constraints with the formal education sector, which is generally recognized as poor and failing to produce the range of skills and quality thereof, required by the private sector. The lack of coordination between the two sectors in terms of skills required, leads to a general mismatch between the skills produced by the formal education sector and the skills and capacities required for private sector development. Against this backdrop, non-formal education comes naturally into play as an efficient and effective alternative to build the required skill set in the workforce and reduce to some extent the above-mentioned mismatch.

### **1.1. Problem Statement**

Small and Medium Enterprises (SMEs) in Kosovo are mostly new and of limited experience. They operate in a business environment that is not always conducive for development, amid a range of structural constraints. The most critical constraints in relation to human resources are the quality of formal and non-formal education that resources the skills required for their business development. In relation to the formal education sector, the challenge relates to the mismatch in terms of profiles and skill sets required by the private sector as well as to the quality of resulting practical skills transferrable to daily business operations. In relation to the non-formal education (NFE), though extensive efforts were invested in establishing processes and procedures for the regulation, recognition and certification of NFE modules, the range of options available in the market remains limited, as is the quality. Often, the modules on offer are similar among service-providers, addressing skills of a general nature, not necessarily useful for the development of specific skills required by the private sector.

The business operations of Kosovo enterprises are not always led by clear business development strategies. Similarly in the case of human resources, there is no clear human resource strategy which guides the selection, recruitment, management and development of this important asset for the enterprises.

Existing research in this problematics is extremely limited, though highly required both at a systemic level, to inform the direction and structuring of education and training offers in the formal and non-formal education sectors, as well as at an organizational level to inform the strategic management approaches of SMEs in relation to human resource management.

Existing research on NFE is conducted primarily from an education systems perspective, in terms of understanding the level of its development, its impact on addressing illiteracy rates in the country and reducing students' drop out rates. But there is no study approaching the role of NFE as an alternative towards improving staff and organizational performance of SMEs.

## **1.2. Objectives of the Study**

This study is conducted with the aim of understanding the role of non-formal education on improving staff and organizational performance of SMEs in Kosovo. This question is approached from the perspective of business owners and aims to understand the framework and rationale within which they approach human resource development in general, with an emphasis on using non-formal education as an alternative. It builds on a conceptual model which supports the premise that HR are the most strategic asset of any organization and need to be managed as a key element of the business development strategy. In this model, HR development is a key strategic function in the human resource management cycle. This premise is backed by abundant research, which explores the rationale for companies investing in HR development, non-formal education as a means to this end as well as the positive effect this has on improving staff and organizational performance. In view of a general mismatch between profiles produced by the education sector versus the ones required by the private sector, HR development through non-formal education ought to be a key priority of SMEs in Kosovo, in-built as a key element of their overall business development strategy.

Based on the above conceptual framework, this study raises a number of hypothesis for validation through observing a set of dependent and independent variables in a selected set of small and medium enterprises in Kosovo.

This study is led by the following specific objectives:

- To assess the role of non-formal education on improving staff and organisational performance of SMEs in Kosovo;
- To understand the perspective of business owners on non-formal education as an alternative human resource development modality;
- To understand the dynamics of strategic human resource management within SMEs in Kosovo;
- To assess the approach towards human resource development within SMEs, including whether that is done in alignment with business development strategies;
- To assess the performance and motivation incentives employed within SMEs and understand whether NFE is perceived as a motivational incentive from the perspective of employees;

- To formulate policy recommendations towards providing appropriate NFE that will satisfy the needs of the SMEs in Kosovo;

### **1.3. Research questions**

The study is led by the following research questions:

- i) What is the role of non-formal education on improving staff and organizational performance of SMEs?
- ii) To what extent do SMEs in Kosovo engage in non-formal education activities?
- iii) How do employers perceive the role of non-formal education as an alternative human resource development strategy?
- iv) Which strategic human resource management patterns prevail in Kosovo SMEs?
- v) Are existing practices of human resource management and development aligned with overall business development strategies?
- vi) Which performance and motivation incentive strategies are applied in Kosovo SMEs?
- vii) Is NFE perceived as a motivational incentive from the perspective of employees?

### **1.4. Variables in the research**

This research is based on the following selected independent and dependent variables.

#### **1.4.1 Independent Variables**

- Employee training and development
- Non-formal education as a more favourable alternative to formal education
- Employee development is undertaken in alignment with overall business development strategies
- Specific versus general trainings
- Level of employee' formal education
- Employee age
- SME sector of operations
- Ownership type of the companies
- Size of companies

### **1.4.2 Dependent Variables**

- Employee' knowledge and skills
- Levels of employee performance
- Employee motivation and commitment to improve performance

### **1.5. Hypothesis**

*Hypothesis 1:* Non-Formal Education has a positive role on employee performance of SMEs in Kosovo.

*Hypothesis 2:* Kosovo SMEs are aware of the importance of non-formal education in improving staff and organizational performance.

*Hypothesis 3:* Kosovo SMEs approach staff development and training systematically and in alignment to business development strategies.

*Hypothesis 4:* Non-Formal Education can serve as an incentive to improve the performance of employees.

### **1.6. Methodology**

This study has been approached through the scientific method. Zikmund, Babin, Carr and Griffin(2009) describe the scientific method as a set of prescribed procedures for establishing and connecting theoretical statements about events, for analysing empirical evidence and for predicting events yet unknown (Zikmund, Babin, Carr & Griffin, 2009). Based on this model, a thorough literature review was the basis for assessing relevant existing knowledge on how to approach human resource development within organisations, namely enterprises. Based on this review hypothesis were constructed and the respective research was designed in order to test, confirm or reject the hypothesis.

Once the research objectives were defined, the research was designed and the collection of primary data on a set of SMEs in Kosovo was initiated. The deriving data were analysed and informed the elaboration of conclusions and recommendations of this study. The research process is well outlined in the below scheme of (Zikmund et al , 2009), which outlines the various steps and sequencing in the research process.

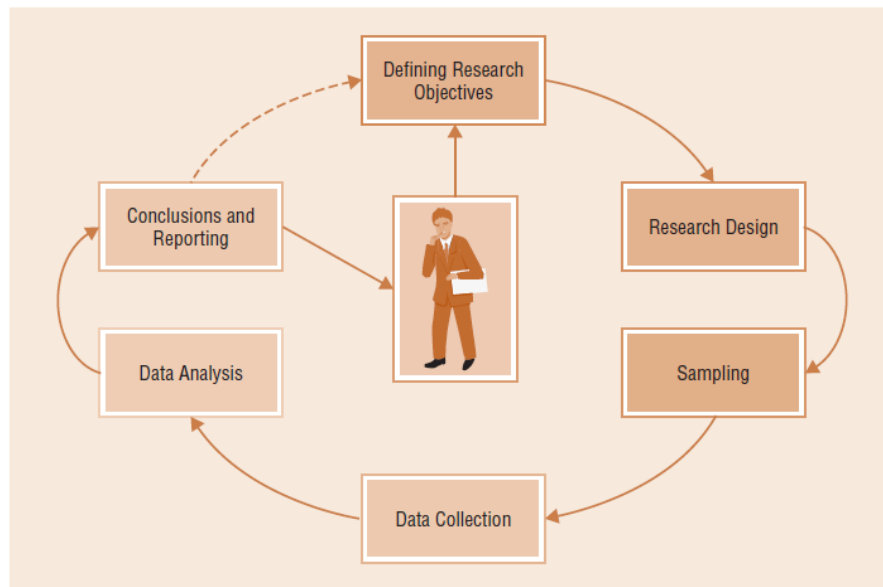


Figure 1. Stages of the Research Process (Zikmund et al, 2009)

The research combines qualitative and quantitative research techniques, triangulating the resulting data with theoretical concepts and evidence deriving from the literature review. The quantitative part of the research is based on a survey of a selected set of SMEs in Kosovo through administering an appropriate questionnaire. In addition, for gaining more insights into the challenges faced by SMEs in relation to HRMD, making use of key elements of the questionnaire to structure discussions, semi-structured interviews were organised with a share of business owners from the original sample. This allowed corroboration of survey findings and a better understanding of the internal and external environments which define the approach of SMEs towards HRMD. The acquired primary data from the research were analysed, cross-tabulated and evaluated leading to respective conclusions through deductive reasoning. Zikmund et al (2009) define deductive reasoning as the logical process of deriving a conclusion about a specific instance based on a known general premise or something known to be true (Zikmund et al , 2009).

### 1.7. Research Design

The research to inform this study was designed in order to provide the required primary data to enable the testing of hypothesis and derive respective conclusions which clarify the present role of NFE on improving staff and organisational performance of SMEs in Kosovo. As mentioned above, the research is designed combining qualitative and quantitative research

techniques, triangulating the resulting data with theoretical concepts and evidence deriving from the literature review. This section clarifies the processes and considerations that led this work.

### **1.7.1 Development and administration of the questionnaires**

The questionnaire was developed following a thorough review of respective literature, including the review and observation of similar studies conducted with a similar aim and utilising similar research techniques. It was designed using structured questions, which limits the number of allowable responses. The category of responses available for each question were elaborated meticulously, aiming to ensure that the range of feedback would help validate or reject initial hypothesis.

#### Structure of the questionnaire

The questionnaire has a total of 51 questions, which aim to acquire the needed information for this research. It is structured around the following clusters:

**Part 1** of the questionnaire focuses on collecting data of a general nature about the company, such as legal status, type of ownership, sectors operating in, experience in the business;

**Part 2** of the questionnaire focuses on the data needed to understand how the companies lead their business operations as well as how strategic are they in such endeavours;

**Part 3** of the questionnaire assesses thoroughly the approach of companies in relation to human resource development in general, rationale, strategies and practices they pursue with regards to HRD and non-formal education in particular;

**Part 4** of the questionnaire aims to understand the human resource management cycle in Kosovo SMEs, the way it operates and the extent to which investing in HRD helps boost motivation of employees on one hand and helps improve staff and organizational performance of SMEs on the other hand.

#### Pre-testing of the questionnaire

In order to ensure the appropriateness of the tools, understandability and easiness of administering the questionnaire, the initial draft of the questionnaire was pre-tested. This pre-testing included a trial run with a group of 12 enterprises, as well as a consultation with experts of social science research and statistical analysis. These consultations helped refine the tool,



by sharpening questions for more clarity and extending the range of alternative response options, thus adjusting and finalising the questionnaire.

#### Administration of the questionnaire

The questionnaire was self-administered to a large extent, with questionnaires being submitted to business owners of selected SMEs participating in a survey, which were returned to the researcher completed.

#### Population and survey sample

In view of the aims of this study, it was important that the research targets companies that are actively pursuing their business. Alternative databases were considered, but in view of the fact that there are many companies registered, but hardly operational, it was decided to use the companies which are active members of business representative associations, such as the Kosovo Chamber of Commerce (KCC). KCC, as a legal representative of business interests in Kosovo counts over 17'000 members, however only a subset of this, around 1'500 companies are active members. This KCC database of active business members was used as the population sample for the research. While this presents a certain selectivity bias, as it excludes KCC 'inactive' members, it ensures a more faithful presentation of the tendency of Kosovo SMEs to engage in NFE towards improving staff and organizational performance. From the above population sample, a total of 150 companies were randomly selected as the survey sample. The generated list of companies includes businesses active in the production, construction, services and trade, with a geographic presence in all the 7 regional clusters of Kosovo: Pristina, Mitrovica, Peja, Prizren, Ferizaj, Gjilan and Gjakova.

Out of the total survey sample with 150 companies, the questionnaires were successfully administered with 141 companies, while the others weren't responsive to participate in the study.

#### Data processing

All the data collected through the questionnaires were processed with the support of the SPSS software. As a first step, the respective database, matching the questionnaire entries was established in the software. Once, all data collected were stored in the database, started the process of processing and analysing the data, aiming to turn the data into information. Through

an econometric model, based primarily on multiple linear regression analysis, we have tested the hypothesis of this research. The various statistical analysis conducted in the frame of hypothesis testing help us understand whether the relation between dependent and independent variables is statistically significant. The cross-tabulation and correlation of data help us get more insight into the subject of this research and validate the results of the survey, ensuring its quality and reliability. A thorough descriptive and statistical analysis of the results derived is included in Chapter 5 of this thesis.

### **1.7.2 Interviews**

An important element of this research were interviews with a significant share of owners of the businesses included in the survey sample. As a qualitative research technique, interviews were considered a useful tool to allow the researcher to gain more insights into the challenges faced by SMEs in relation to human resource management & development as well as to corroborate the findings of the survey, while allowing to dig in and further probe some more complex dimensions. A total of 40 in depth interviews were organised with business owners, using semi-structured interview guides. As the interviews were structured along the thematic clusters of the questionnaire used for the quantitative data of this research, the findings of the interviews will not be reported in a specific section of the report. Instead, they've been extremely helpful and important in analysing the data provided by the questionnaires and in understanding the present thinking, approaches and aspirations of Kosovo SMEs in relation to human resource management & development, with a particular emphasis on non-formal education.

### **1.8. Limitations**

This study has several limitations. Initially, this study is limited on the employers' perspective on the role of NFE to improve staff and organisational performance of SMEs in Kosovo. It is based on respective statements of the employers and didn't go further into verifying information or documentation. Assessing the role of NFE in improving performance from the perspective of employees goes way beyond the resources and ambition of this study and would have required a set of different research tools and methodologies.

The availability of data on training has allowed researchers to analyze directly the link between on-the-job training and the pattern of wages (e.g., (Lillard, L&Tan, H, 1986); (Barron, J., Black, D & Loewenstein, M, 1989); (Brown, 1989); (Hozer, 1990); (Mincer, 1991); (Lynch, 1992) ; (Bartel, A ,& Sichermann, N., 1994) ). With the exception of the work by Barron, Black, and Loewenstein and Holzer, all of these papers used data on training that were reported by individual employees. There are a number of problems with self- reported training information. For example, individuals may have difficulty recalling all training events that occurred during the past year, especially the duration of such events.

As noted above, previous research on NFE and its role on improving staff performance in Kosovo SMEs is non-existent. Being the first study on this topic in Kosovo, it lacks a comparative basis for validating assumptions.

This study is limited to understanding the role of NFE on improving staff and organisational performance in SMEs in Kosovo. Going further into assessing the impact NFE has had on the performance of SMEs requires sets of data and analysis of business performance indicators that are either inexistent – given the still nascent stage of private sector development – or would be difficult to get ahold of.

This study is limited to understanding the role of NFE on improving staff and organisational performance at a general level. It didn't go further into assessing specific offers of the NFE sector versus specific demands of the private sector for skill sets of the workforce. Hence it fails to provide an overview on the nature and scope of the mismatch between skills provided by the education system and the ones required for further private sector development.

## **Chapter 2. Literature review**

### **2.1. Human Capital Theory**

*'The most valuable of all capital is that invested in human beings'*

*Alfred Marshall, 'Principles of Economics'*

Human capital is defined as "productive wealth embodied in labor, skills and knowledge" (OECD, 2001) and it refers to any stock of knowledge or the innate/ acquired characteristics a person has that contributes to his or her economic productivity (Garibaldi, 2006). In essence, Human Capital Theory (HCT) suggests that education increases the productivity and earnings of individuals; therefore, education is an investment. In fact, this investment is not only crucial for individuals but it is also the key to the economic growth of a country. As Alfred Marshall (1920) put it, "The most valuable of all capital is that invested in human beings" (Reisman, 1986). The term Human Capital has a long history, though it was formally introduced, along with an analytical framework by Gary Becker in the 1950s (Tan E. , 2014). In its seminal work in 1964, 'Investment in Human Capital: a Theoretical Analysis', Becker postulates that education and training are the most important investments in human capital (Becker G. , 1964). Moreover, he emphasizes the fact that learning and training also occur outside of schools, especially on jobs. He notes that on-the-job training is an important source of the very large increase in earnings as workers gain greater experience at work. For further substantiating, Becker cites estimates by Jacob Mincer, which suggest that the total investment in on-the-job training may be almost as large as the investment in education.

In justification of the rationale for investing in human capital, Becker mentions the outstanding economic records of Japan, Taiwan and other Asian economies, as an illustration of the importance of human capital to growth. Though these countries lacked natural resources and while facing discrimination from the West, these so-called Asian tigers grew rapidly by relying on a well-trained, educated, hard-working and conscientious labor force. In a world of rapidly developing technology, education and training is crucial in advancing productivity (Becker G. , 1964). Tan (2014) in an effort to provide a clear understanding of HCT and its roots, notes that HCT derives from the neoclassical school of thought in economics (Tan E. , 2014). Therefore, he suggests that in order to understand HCT, one needs to grasp the

neoclassical economic model and its basic assumptions about human behaviours. In this model, individuals are assumed to seek to maximise their own economic interests. In line with this model, HCT postulates that individuals invest in education and training in the hope of getting a higher income in the future. (Marginson, as cited in Tan 1984) goes on to describe the line of assumptions in HCT as follows: the individual acquires knowledge and skills through education and training, that is, human capital (Tan E. , 2014). This knowledge and skills will increase his or her productivity in the workplace. This increased productivity will bring a higher salary to the individual since the wage of a person, in the ideal labor market, is determined by the person's productivity. In light of this set of assumptions, the logic of HCT becomes clear that education and training increase human capital and this leads to a higher productivity rate, which in turn brings a higher wage for the individual.

In a review of the notion and definitions of HCT by leading economics scholars, Nafukho, Hairston & Brooks (2010), conclude that the main outcome from investment in people is the change that is manifested at the *individual* level in the form of improved performance, and at the *organisational* level in the form of improved productivity and profitability or at *societal* level in the form of returns that benefit the entire society (Nafukho, F; Hairston,& Brooks, K, 2010). Blundell, Dearden, Meghir&Sianese (1999) mention three main components of 'human capital'- *early ability* (whether acquired or innate); *qualifications* and *knowledge* acquired through formal education; and *skills, competencies* and *expertise* acquired through on the job trainings. According to them, the concept of human capital arose from a recognition that an individual's or a firm's decision to invest in human capital (i.e. undertake or finance more education or training) is similar to decisions about other types of investments undertaken by individuals or firms (Blundell, R., Dearden, L., Meghir ,C., &Sianesi, B, 1999).

Many economists view the skills of the labour force (human capital) as the engine of growth, or at the very least, a major contributor to economic performance. Although the most common indicators of human capital measure the amount of formal schooling, on-the-job training may be at least as important in determining productivity. Most lines of business require specific skills, which cannot be provided by general-purpose education. Similarly, new technologies and organisations require continuous learning, best accomplished by workplace training. It is therefore not surprising that policy makers are often interested in issues of worker training

(Acemoglu, D and Pischke, S, 1999). Acemoglu and Pischke (1999) cite examples of training of less skilled workers as a major policy initiative of the first Clinton administration as well as the fact that the Labour government in Britain has similarly made training and skills a key policy issue. Many countries directly or indirectly subsidize company training (Acemoglu, D and Pischke, S, 1999).

Current thinking on training, however, is shaped by the seminal work of Gary Becker. One needs to note a crucial distinction between general and specific training that Becker (1964) drew. General skills are defined as those, which are also useful with other employers. In contrast, specific skills increase the productivity of the worker only in his current job. In a competitive labour market where workers receive their marginal product, firms could never recoup their investments in general skills, so they will never pay for general training. However, Becker noted, workers themselves will have the right incentives to improve their general skills because in competitive markets, they are the sole beneficiaries of the improvements in their productivity. Moreover, according to Becker, workers can undertake such investments quite easily by accepting a lower wage than their productivity during the period of training. Becker also argued that training in specific skills was quite different because workers would not benefit from higher productivity when they changed jobs. Firms therefore could recoup their investments in specific skills and would be willing to share some of the costs of specific training investments. An important conclusion of this work is that there need not be any market failure in training. As long as workers can pay for training, either out of their pockets or by taking lower wages, the right amount of investment would be undertaken. So insufficient investment in skills could only arise because workers are severely credit constrained (Becker G. , 1964).

While Becker indicates that firms should never pay for investments in general training, and the investments we observe in practice are either skill-specific or that the workers are effectively paying for these investments by taking a wage lower than their productivity, Acemoglu and Pischke (1999) criticise these assumptions, by citing a body of evidence that questions their validity. The first premise is that most skills may be industry specific and therefore may be considered general. As an example, they mention that the know-how to use a printing machine is of limited use outside the printing industry. Nevertheless, these skills

are ‘general’ because typically there are many firms in the same industry using similar technologies, making such skills transferrable. Acemoglu and Pischke (1999) cite a number of other authors who have emphasised reasons for firm-sponsored general training (Acemoglu, D and Pischke, S, 1999). Bishop (1996), as cited in Acemoglu and Pischke (1999) pointed out that although skills may be general, each worker has a particular mix of skills and this mix may be more suited to the current employer than to other employers. This would encourage employers to invest in the skills mix that they require, which is specific, although each skill component is general. In addition, Stevens, as cited in Acemoglu and Pischke (1999) develops a similar argument by pointing out that in practice skills are neither completely general nor purely specific. This mixture, she argues, makes the outside market for workers non-competitive (Acemoglu, D and Pischke, S, 1999). As these studies show, firms do invest in the general skills of their employees, and that the credit problems faced by workers cannot by themselves account for firm-sponsored training. Acemoglu and Pischke (1999) conclude that labour market imperfections, that is deviations from the perfectly competitive market assumed by Becker, must be part of the story. Their work opens the way for a discussion of the importance of labour market institutions, their impact on the structure of wages, and how they influence human capital investments. Acemoglu and Pischke (1999) show that non-competitive labour markets often compress the structure of wages, and this encourages firms to invest in general training (Acemoglu, D and Pischke, S, 1999).

Using data from the British Household Panel Survey (BHPS) for the period 1998-2000, Booth and Bryan (2005) validate the premise of Acemoglu and Pischke (1999) that due to the imperfections of the labour market some of the predictions of the human capital model are overturned (Booth, A.L., & Bryan, M.L., 2005). Thus, they find out that its recipients view most training as general and that training is rewarded more in the current firm than in outside firms. This provides a sufficient rationale for firms to provide general trainings to their employees. Furthermore, Booth and Bryan (2005) conclude that accredited employer-financed training is more strongly associated with higher wages at both current and future employers than is nonaccredited training, and that only accredited training is transferable between employers (Booth, A.L., & Bryan, M.L., 2005).

Veum (1999) tests the predictions of the traditional human capital model relating to starting wages, wage growth and the specificity of training. His results indicate that training received with the current employer is positively related to wage growth, as predicted by the human capital model. In addition, he concludes that training that is financed by employers has a general component and is portable across employers (Veum, 1999).

Despite the critics and questioned validity on the HCT postulated by Becker(1964), it is worth emphasising that the contribution of Becker on the importance of human capital as such, and human capital investment for improving, skills, performance and productivity has been historical. Looking closely at how the thinking of employers on the relevance of training the workforce has shifted, we look next at the origin and development of the concept of Strategic Human Resource Management.

## **2.2. Strategic Human Resource Management (SHRM)**

According to Truss, Mankin & Kelliher(2012) ‘Human Resource Management’ as a concept originated in the US and first appeared in the 1960s, when it was used interchangeably with the term ‘personnel management’, primarily in the context of industrial relations (Truss, C; Mankin, D and Kelliher, C, 2012). As of then, developments around the theoretical and practical use of the model gave rise to a more elaborate framework, the Strategic Human Resource Management (SHRM) model. In order to understand what the model represents, it is worth noting the differences it entails from the standard of Human Resource Management (HRM). To this end, Truss and Gratton (Catherine,Truss & Lynd,Grathon, 1994) note that SHRM should be considered as the overarching concept that links the management and deployment of individuals within the organization to the business as a whole and its environment. In comparison, HRM could be viewed as an organizing activity that takes place within the institution under this umbrella. In this understanding, the notion of SHRM implies that the management of people is critical for organizational success.

Wright, Dunford, Scoot& Snell (2001) indicate that though Walker’s (1978) call for a link between strategic planning and human resource planning signified the conception of the field of SHRM, yet its birth came in the early 1980s with Devanna, Fombrum and Tichy’s (1984)



article devoted to extensively exploring the link between business strategy and HR. ( (Wright, Dunford, Scoot & Snell, 2001)

For a better understanding of the historical development and elaboration of the model, it is worth exploring two important perspectives on SHRM that have been proposed by researchers:

- The ***universalist*** approach, which is based on the idea that there is ‘one best way’ of managing people applicable to all organisations.
- The ***contingency*** approach, which argues that the best way of managing people is likely to vary according to organizational circumstances.

Delery and Doty, as cited in Truss et al (2012) qualify *universalist approaches to SHRM* as the ones based on the assumption that there is ‘one best way’ of managing people in order to enhance organizational performance and that is the task of the researcher to identify what this is and the task of the HR professional to implement it (Truss et al, 2012).

Pfeffer (1995) is recognized for providing the most well-known universalistic perspective. Based on a review of what successful companies do with regard to HRM practices, Pfeffer concluded that certain practices should be more universally effective than others, including employment security, selectivity in recruiting, high wages, incentive pay, employee ownership, information sharing, participation and empowerment, self-managed teams, training and skill development, cross-utilization and cross-training, symbolic equalitarianism, wage compression, and finally promotion from within (Pfeffer J. , 1995). Marler (2012) finds Pfeffer’s elaboration as a good description of the universalistic approach, though finds the model based more on interpretation than solid empirical evidence. (Marler, 2012).

Pfeffer(2005) further developed this work and in 2005, he identifies 13 interrelated best practices around employee management, which he argues are positively associated with competitive success (Pfeffer J. , 2005). Though the best-practice view of SHRM is very persuasive and appealing to practitioners, Truss et al (2012) point to a considerable amount of criticism that is addressed to this approach. Most of the criticism is based on the challenges of prioritizing and implementing the ‘best-practice’ measures, concluding that best-practice approaches have rather remained aspirational, instead of representing the realities of people management (Truss et al, 2012).

In contrast to universalist approaches, contingency or best-fit approaches are premised on the notion that the way in which people are managed in organisations will vary according to circumstances. *Contingency approaches to SHRM* suggest that the best approach to managing people will vary according to organizational circumstances, most particularly, corporate strategy.

It is often argued that HRM is contingent upon the strategic direction of the organization (Devanna et al, 1984) and the underlying assumption is that the stronger the degree of alignment between strategy and HR strategy, the higher the level of organizational performance will be (Delery, J. & Doty, H, 1996). Researchers within the contingency perspective have argued that there are two forms of fit, or alignment that are relevant: vertical fit, or the linkage between HRM and corporate strategy, and horizontal fit, or the interlinkages between the various elements of the HR strategy.

In what many consider the earliest SHRM paper, Tichy, Fombrun, and Devanna (1982) made the case for the role of the HR department in driving organizational performance. Lengnick et al (2009) elaborate on the main assumptions of their model, as follows: i) that human resource activities have a major influence on individual performance and therefore productivity and organizational performance; ii) that the cycle of human resource activities is interdependent; and iii) that effective strategic management requires effective human resource management (Lengnick et al , 2009).

Among the multiplicity of models and frameworks around SHRM, it is particularly the Strategic Human Resource Management Model that has been introduced by Devanna et al. in 1984 that will be used as a backbone to the present study (Devanna et al, 1984).

Key to the contingency model of Devanna et al. (1984) is ***vertical integration***, which emphasizes the importance of aligning HRM functions to the overall strategy of an organization and ***horizontal integration***, which highlights the importance of interlinks between the different HRM functions, as indicated in the figure below. Horizontal integration envisages sequential links between different HR functions, such as selection, performance, appraisal and links strategically the appraisal process, with rewards in case of outstanding performance and with development in case actions are to be undertaken. Devanna et al. (1984) in their contingency model emphasize as well the importance of context in the performance

of organizations, notably of economic, political and cultural forces that shape strategic orientations and performance of organizations (Devanna et al, 1984).

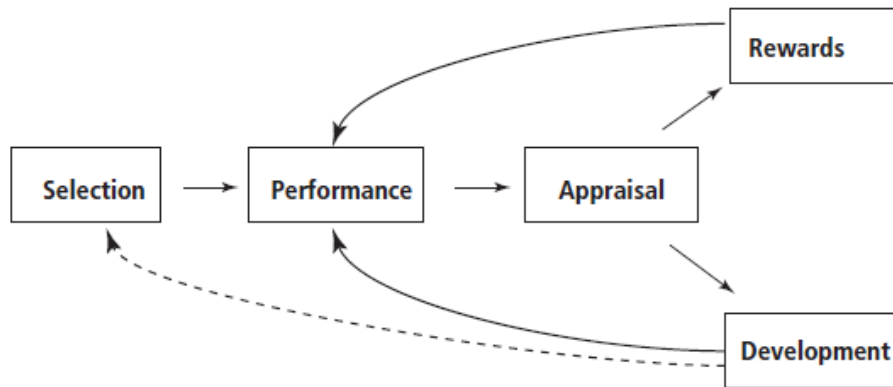


Figure 2. Strategic Human Resources Management model: horizontal integration( (Hendry, C., & Pettigrew, A., 1990)

Truss et al (2012) observe that the rising global demand for talent has meant that the need to attract, recruit, retain and manage talented employees remains a core focus in HRM (Truss et al, 2012).

Key to the contingency perspective of SHRM is the importance of organizational environments in the selection and adoption of HRM strategies. Jackson and Schuler (1995) made a significant contribution to the SHRM literature by identifying the important components of organizational environments. Organization environments were divided into internal and external categories (Jackson, S&Schuler, R, 1995). Important components of internal organizational environments include: technology, structure, size, life cycle stages, and business strategy. Important components of the external organizational environment include: legal, social, and political environment; labor market conditions, including unionization; industry characteristics; and national culture. Their framework provides researchers with a comprehensive perspective on important contextual factors affecting HR systems in organizations. In their review of internal and external contextual elements defining organisation's HRM approaches, Jackson and Schuler (1995) using the premises of institutional theory differentiate among two perspectives brought forward by DiMaggio & Powell (1983): a) institutionalised activities are resistant to change and b) organisations in institutionalised environments are pressured to become similar. In relation to HRM, they note

that HRM activities may be adopted by an organisation simply because other organisations have done so (DiMaggio, P.J., & Powell, W, 1983).

Wright and Snell (1998) asserted that strategy should fit with three generic conceptual variables: HRM practices, employee skills, and employee behaviors. They defined flexibility as the extent to which the firm's human resources possess skills and behavioral repertoires that can give a firm options for pursuing strategic alternatives in the firm's competitive environment, as well as the extent to which the necessary HRM practices can be identified, developed, and implemented quickly to maximize the flexibilities inherent in those human resources (Wright, P & Snell, S, 2013).

The value of contingency approaches to SHRM has been questioned but in some cases, also validated by researchers. Skaggs and Youndt (2004), as cited in Legnick et al (2009) who used a sample of 234 service organizations, found strong empirical support to indicate that strategic positioning (i.e., customer co-production, customer contact, and service customization) is in fact related to human capital and that the proper fit (i.e., the contingency perspective) among these variables affects firm performance. Their results suggest that when human capital is fit to the organisation's strategic positioning, positive organisation performance results (Lengnick et al , 2009). Furthermore, Youndt, Snell, Dean, and Lepak (1996) compared the universalistic with contingency perspectives of SHRM in a study conducted using a sample of 97 plants in a manufacturing setting. Results supported the contingency approach (Youndt, Snell, Dean & Lepak, 1996). They found that an HR system focused on human capital enhancement in organizations pursuing a quality enhancement strategy related to multiple dimensions of operational performance. The researchers argued that a universalistic and contingency perspective are not necessarily mutually exclusive, an assertion that others (e.g., Boxall & Purcell, 2008) have also made. In other words, universal "best practices" provide a solid foundation of SHRM activities, but to achieve a higher level of performance, contingent factors should be considered.

Amongst studies showing the contribution of HR systems to organisational performance, Lengnick et al (2009) present further the work of Lado and Wilson (1994), which building upon both open systems theory and the resource-based view of the firm to show how HR systems can contribute either to sustained competitive advantage (by facilitating the

development and utilization of organizational competencies) or to competitive vulnerability (by contributing to the destruction of organizational competencies and/or preventing the utilization of those competencies (Lengnick et al , 2009). This article represents one of the earliest applications of the resource-based view of the firm—a theory developed in the strategic management literature—to the SHRM field of study. Needless to say, the resource-based view of the firm has become the dominant theoretical paradigm in most recent SHRM literature. The resource-based view paradigm will be looked closely in the following chapter.

Using a sample of 200 of the largest companies representing all major industries in Singapore, Khatri &Ng (2000) examined the links between strategy and HR practices, and HR practices and firm performance. Results showed that overall strategy affects HR practices, HR practices have a direct effect on organizational performance, and business strategy moderates the relationship between HR practices and organizational performance (Khatri, N&Ng, A, 2000).

Using data from the Berkeley Competitive Semiconductor Manufacturing Program, Hatch and Dyer (2004), as cited in Lengnick et al (2009), found that investments in human capital had a significant impact on learning and firm performance. They found that three factors (human capital selection, development through training, and deployment) significantly improved learning by doing, which in turn improved performance. However, they also found that acquiring human capital with prior industry experience from external sources significantly reduced learning performance. Moreover, firms with high turnover performed poorly in comparison to their rivals due to time-compression diseconomies and failure to protect firm-specific human capital from imitation (Lengnick et al , 2009).

Using a sample of 1000 firms, Huselid (1995), as cited in Lengnick et al (2009) examined the relationship between high performance work systems (HPWSs) and firm performance. High performance work systems were defined as those including comprehensive employee recruitment and selection procedures, incentive compensation and performance management systems, and extensive employee involvement and training. Huselid found that the relationship between HPWSs and corporate financial performance was mediated by turnover and productivity. HPWSs reduce turnover and increase productivity, thus having a positive effect on corporate financial performance (Lengnick et al , 2009).

Tsui, Pearce, Porter, and Tripoli (1997), as cited in Lengnick et al (2009) were among the first to develop the idea that individual organizations may have multiple HR systems, and that these HR systems may yield different outcomes. The researchers identified four different types of employee– organization relationships. In a *quasi-spot contract*, the employer offers short-term, purely economic inducements in exchange for well-specified contributions from the employee. The *mutual investment* relationship involves some degree of open-ended and long-term investment in each other by both the employer and the employee. In the *underinvestment relationship*, the employee is expected to undertake broad and open-ended obligations while the employer reciprocates with short-term and specified rewards. In the *overinvestment relationship*, the employee is expected to perform well-specified job-focused activities, but the employer offers open-ended and broad-ranging rewards. Drawing on a sample of 976 employees in 85 different jobs across 10 companies, the researchers found that employees in both the overinvestment and mutual investment approaches had higher performance on core tasks, higher citizenship behavior, and higher affective commitment than employees in quasi-spot and underinvestment approaches (Lengnick et al , 2009).

Application of the resource-based view of the firm from the strategy literature to human resources and the HR function became a dominant paradigm in the SHRM literature during the 1990s. The concept of competitive advantage was translated into the HR realm via the construct of human resource advantage. Additionally, knowledge (public vs. private) was introduced as a source of competitive advantage that organizations can use SHRM to exploit. SHRM research was expanded to encompass the human capital characteristics (technical vs. strategic) of HR departments as well as the impact of HR executives in entrepreneurial, fast-growing firms.

### **2.3. Resource-based and institutional perspectives on SHRM**

For many years, the field of SHRM was criticized for being atheoretical (Wright et al, 2001). In particular, it was argued, the literature was dominated by a mixture of empirical studies that could not demonstrate causality and prescriptions for practice that were not founded in evidence (Guest D. , 2011). A common complaint was the absence of any theoretical foundation to support the suggestion that SHRM can impact significantly on organisational performance. The closest to a theoretical basis for SHRM is the Resource-Based View (RBV).

According to Truss et al (2012), the origins of RBV have been attributed to the economist Edith Penrose. In her book published in 1959, *The Theory of the Growth of the Firm*, Penrose made the point that existing theories could not adequately explain the way in which firms grow over time (Truss et al, 2012).

Barney (1995) notes that considering the firm in terms of its internal resources, rather than purely its products or its relationship with the external environment, shifts the focus of strategic decision making to the question of how firms can best capitalise on and develop their resource base in order to secure long-term survival and advantage (Barney J. , 1995).

Internal firm resources lie at the heart of the RBV. They have been defined as:

*“All assets, capabilities, organisational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness”* (Barney J. , 1991).

Resources fall into three categories:

- **Physical capital resources:** including plant and machinery, land, location, access to raw materials.
- **Human capital resources:** the knowledge, skills, and abilities of the workforce and their relationships.
- **Organisational capital resources:** such as organisational systems and processes, planning and structures.

However, an important point to note is that proponents of the RBV argue that resources are not evenly distributed amongst firms in the same industry, which is a key reason why resources can be so important in terms of sustained competitive advantage.

Only the resources that meet these four criteria can be classified as ‘resources’ from an RBV perspective:

1. **Valuable:** resources must be valuable in the sense that they help a firm exploit opportunities or neutralise threats in the environment; for example, resources that help a firm improve its efficiency or effectiveness.
2. **Rare:** resources must be hard to come by for other organisations.

3. **Imperfect imitability**: it must be difficult for other firms to copy the resources.
4. **Non-substitutable**: it must not be possible to replace the resource with a substitute of some kind to achieve a similar advantage.

Where resources meet all four of these conditions, then they can be a source of sustained competitive advantage, provided the organisation is able to exploit them (Barney J. , 1995). The resource-based view of the firm is based on the premise that firms can achieve sustained competitive advantage if they secure and effectively deploy resources that are not available to, or imitable by, their competitors.

It has been widely acknowledged that the RBV has become the dominant theoretical framework within the SHRM field .The basic argument is that HRM impacts on performance because a firm's HR meet the RBV criteria for a 'resource', and therefore the role of SHRM is to deploy those resources effectively in such a way that sustained competitive advantage accrues to the firm (Boxall, P.,&Purcell, P, 2008).

All firms need a certain level and quality of human capital in order to operate; those that recruit and effectively deploy people with a high calibre of skills and capabilities, it is argued, are more likely to secure sustained competitive advantage (Boxall, 1996) .

Wright et al (2001) suggest that it is individual's knowledge, skills and abilities, together with their behaviour, that constitute the potential source of advantage. They go on to show how HR meet the RBV criteria for resources:

- **Valuable**: research has shown that employees with high levels of skill are those that bring the most value to the firm.
- **Rare**: highly skilled people are rare; given that they are not evenly distributed throughout the workforce, it is argued that people with high levels of skill will not be available to all employers.
- **Inimitable**: firms differ in the way they manage people and therefore, even if similar skills are available across firms, there will be differences in terms of the way people deploy thee skills due to these different management practices.
- **Non-substitutable**: HR cannot realistically be substituted in any way (Wright et al, 2001).



Huselid (1995) has argued early on that at a general level HR practices could help create a source of competitive advantage, particularly if they are aligned with the firm's competitive strategy (Huselid, 1995). The RBV has significantly and independently influenced the fields of strategy and SHRM. More importantly, however, it has provided a theoretical bridge between these two fields. By turning attention toward the internal resources, capabilities and competencies of the firm such as knowledge, learning, and dynamic capabilities (Hoskinson, R., Hitt, M., Wan, W & Yiu, D, 1999), it has brought strategy researchers to inescapably face a number of issues with regard to the management of people (Barney, 1996).

The same premise has been put forward by Barney and Wright (1998), who also argued that the resource-based view of the firm could be applied to human resources and the HR function (Barney, J & Wright, P, 1998). They note that by using key components of the resource-based view (value, rareness, inimitability, non-substitutability, and organization), one could understand how HR could be used to create competitive advantage. The HR function can create value by either decreasing costs or increasing revenues and it can acquire human resources with rare characteristics that are difficult to imitate. And, with the right organizational systems to get the most from its employees, the combination of factors can lead to competitive advantage.

In times of plenty, firms easily justify expenditures on training, staffing, reward, and employee involvement systems, but when faced with financial difficulties, such HR systems fall prey to the earliest cutbacks (Wright et al, 2001) .

Growing acceptance of internal resources as sources of competitive advantage brought legitimacy to HR's assertion that people are strategically important to firm success.

HRM greatly influences an organization's human and organizational resources and so can be used to gain competitive advantage (Schuler, R & Macmillan, I, 1984). Presumably, the extent to which HRM can be used to gain competitive advantage, and the means of doing so, are partly determined by the environments in which organizations operate (Wright, M., McMahan, C & Williams, A, 1994) . For example, in some industries, technologies can substitute for human resources, whereas in others the human element is fundamental to the business. To illustrate, contrast labor-intensive and knowledge-intensive industries.

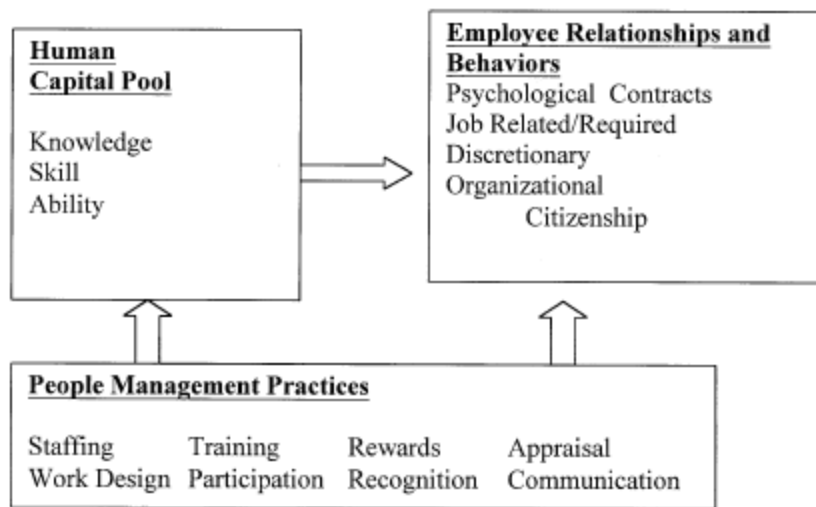


Figure 3. A model of the basic strategic HRM components (Wright, Dunford, Scoot & Snell, 2001)

Research on this topic points out to another important dimension in SHRM and that is employee behaviour. Distinct from skills of the human capital pool, employee behavior recognizes individuals as cognitive and emotional beings who possess free will. This free will enables them to make decisions regarding the behaviors in which they will engage. This is an important, if subtle, distinction. A basic premise of human capital theory is that firms do not own it; individuals do. Firms may have access to valuable human capital, but either through the poor design of work or the mismanagement of people, may not adequately deploy it to achieve strategic impact. The model presented above shows the various components of SHRM and the role played by favourable people management practices that foster a conducive employee behaviour (Wright et al, 2001).

Despite the important contributions of the RBV towards understanding the importance of HRM to firm performance, the theory as such has had a number of opponents. Citing Foss (1996) and Oliver (1997), Truss et al (Truss et al, 2012) bring forward the premise that the RBV does not take sufficient account of the external environment, which will have a significant impact on all aspects of a firm's functioning.

An alternative perspective has grown from the work of researchers which have explored how new institutionalist theory can be combined with the RBV to create a more nuanced framework for understanding SHRM. This perspective is based on the argument that organisations within one type of setting will tend towards similar solutions to managerial

dilemmas due to pressures exerted from the environment, creating a situation where organisations in the same industry tend to become increasingly similar over time. The most know work around this institutionalist perspective on HRM is provided by DiMaggio and Powell (1983), whose influential paper identified three mechanisms by which organisations are pushed towards similarity. Truss et al (2012) elaborate further DiMaggio and Powell (1983) mechanisms as follows:

- *Coercive*: the effect of institutions such as governments, trade unions, works councils and employment legislative framework tends to drive organisations to adopt comparable policies and practices for managing people within one national setting;
- *Mimetic*: organisations tend to copy the strategies and practices of competitors as one way of dealing with uncertainty;
- *Normative*: these mechanisms are associated with professional and group norms arising in relation to certain professions. (DiMaggio,P.J.,&Powell,W.W, 1983).

#### **2.4. Human Resource Strategy**

Given the importance of human resources in the development of a business strategy, it is important to understand what is the content of a Human Resource (HR) strategy and how do organisations go about developing such approaches.

Truss et al (2012) refer to a definition of HR strategy brought about by Gratton and Truss (2003), which define strategy as follows: ‘a strategy, with its underpinning policies and processes, that an organisation develops and implements for managing its people to optimal effect’. They point out that it is important to understand three dimensions in this relation: *HR Strategy Content*, which concerns the actual strategies that the organisation adopts; *HR Strategy Process*, which refers to the process by which the HR strategy is developed and *HR Strategy Implementation*, which means the way in which the strategy is enacted in practice in the organisation, which will influence employees’ actual experience (Truss et al, 2012).

As cited in Truss et al (2012), Lepak and Snell (1999) point out that particularly in large, complex organisations, HR strategies are very likely to be varied, with different approaches adopted for different employee groups. This is referred to as the ‘*HR architecture*’, meaning

that an organisation's HR strategy may well contain different sub-strategies within an overarching framework (Truss et al, 2012).

Wright and Snell (1998) identify consistency or horizontal fit and flexibility as two important dimensions of HR strategies in organisations. They suggest that the role of the HRM system is to promote fit with the demands of the competitive environment, together with the simultaneous flexibility so that the organisation, and the HR system, can adapt quickly to change (Wright,P&Snell, A, 1998).

As cited in Truss et al (2012), Lepak and Snell(1999) identify four potential employment models, building on two strategic elements: the strategic value of their human capital and the uniqueness of their human capital (Truss et al, 2012).

- **Commitment-based HR:** mostly used for employees considered valuable to contribute to the firm's strategic objectives. The focus is on employees' skills and competencies, with an emphasis on longer-term training and development;
- **Productivity-based HR:** this identifies human capital with strategic value but limited uniqueness. Such employees are likely to make a significant contribution, but without unique skills;
- **Compliance-based HR:** where employees are neither of high strategic value nor unique; therefore are candidates for outsourcing;
- **Collaborative-based HR:** firms rely on alliances or partnerships for human capital that is unique but of insufficient strategic value to employ internally.

Mooney (2001) offers an additional model for selecting an HR strategy depending on the industry within which the organisation is operating. The two leading criteria suggested concern the strategic importance of people in the development of products and services offered and the profitability in the industry. As presented in Mooney's model below, four approaches emerge: i) Vocation model; ii) Lean model; iii) Professional model and iv) Social model (Mooney, 2001).

Strategic importance of people in product/ service offered	High	<b>Vocation model</b> <ul style="list-style-type: none"> <li>•Maximize involvement</li> <li>•Appeal to vocational needs of individuals</li> <li>•Acknowledge restrictions on pay etc</li> <li>•Examples: craft trades, nursing</li> </ul>	<b>Professional model</b> <ul style="list-style-type: none"> <li>•Develop high competence/commitment</li> <li>•Focus on development</li> <li>•Position as 'employer of choice'</li> <li>•Examples: R&amp;D scientists, software engineers</li> </ul>
	Low	<b>Lean model</b> <ul style="list-style-type: none"> <li>•Restrict headcount, low cost-income ratio</li> <li>•Tight controls</li> <li>•Low empowerment</li> <li>•Examples: fast food, machinists</li> </ul>	<b>Social model</b> <ul style="list-style-type: none"> <li>•Reward/retain best staff</li> <li>•Focus on continuity of labour supply</li> <li>•Social rewards</li> <li>•Example: banking</li> </ul>
		Low	High

Figure 4. Mooney's HR strategy choice matrix (Mooney, 2001)

As to the process of developing an HR strategy, Wright et al (2004) outline the basic process involved in best-practice approaches to developing an HR strategy (Wright,I, Reich, P., Westoby,M, Ackerly,D.,Baruch,Z. Bongers, F..Villar,R, 2004). The following steps are envisaged:

1. Scan the firm's external environment.
2. Identify the strategic business issues that need to be addressed.
3. Pinpoint people issues critical to the success of the business.
4. Develop a strategy to address the relevant issues, including connecting relevant metrics to the strategy.
5. Communicate the strategy.

While the above section notes processes, principles and dimensions of elaborate strategies to manage HR, Truss et al (2012) note that in many settings strategies can be 'emergent', therefore not clearly articulated, but rather develop over time through multiple incremental changes that can perhaps only be understood as a strategy with the benefit of hindsight (Truss et al, 2012). To a large extent, this is the case with companies and organisations in developing countries, certainly in Kosovo. Though research conducted by Tyson and Witcher (1994) suggest that reliance on HR strategies 'emerging' may be damaging to organisational effectiveness (Tyson,S&Witcher.M, 1994).

A key consideration of HR professionals when developing HR strategies according to Truss et al (2012) is to ensure that they have developed a clear understanding of the basis upon which they compete in the market.

Certainly any strategy is as good as its implementation. Research in Pakistan conducted by Khilji and Wang (2006), as cited in Truss et al (2012) found out that those organisations where the gap between intended and implemented HR strategies was the smallest were also the most highly performing (Truss et al, 2012).

## 2.5. Human Resource Cycle

Devanna et al (1984) in their influential paper on SHRM, identify a model for a human resource cycle, which identifies the most important stages of an employee's time in an organisation and the way they are interconnected (Devanna et al, 1984). The so-called Michigan model requires that human resource strategies have a tight fit to the overall strategies of the business. The model identifies four common HR processes performed in every organisation:

- i. Selection
- ii. Appraisal
- iii. Rewards
- iv. Development

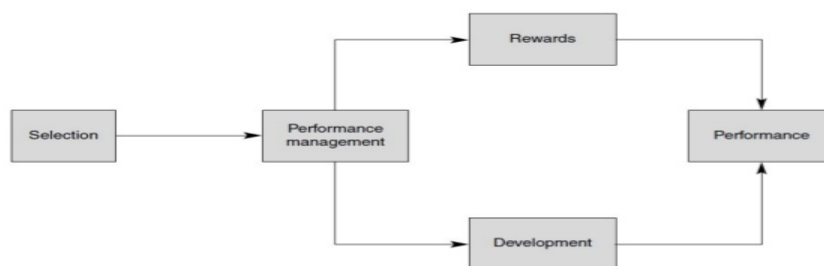


Figure 5. The Michigan school model of HR (Tirimba, 2015)

As the above graph shows, performance is key to all the other HR management components: *selecting* people who are best able to perform the jobs defined by the structure, *appraising* their performance to facilitate the equitable distribution of rewards, *motivating* employees by linking rewards to high levels of performance and *developing* employees to enhance their

current performance at work as well as to prepare them to perform in positions they may hold in the future.

In the below section we are going to explore at a greater extent the various HR functions and inherent approaches.

### **2.5.1 Resourcing**

Resourcing is a key element of the strategic role of HR in any organisation. Armstrong(2008) defines it as follows: ‘Employee resourcing strategy is concerned with ensuring that the organisation obtains and retains the people it needs and employs them efficiently’. Recruitment and selection are two concepts entailed in resourcing (Armstrong M. , 2008).

**Recruitment** is certainly a very important HR function, as it is critical to achieving the organisational goals, in line with the SHRM model of Devanna et al(1984) which emphasizes vertical and horizontal alignment (Devanna et al, 1984). There are formal and informal strategies how recruitment is conducted. Labour market conditions influence to a large extent the choice of recruitment strategies. The literature recognizes **loose labour markets**, in which a large number of job-seekers compete for a limited number of positions and **tight labour markets**, where a limited number of job-seekers is available for a large number of positions. In developing countries, given extents of unemployment, the labour markets are loose, however, a universal challenge concerns identifying candidates with the right skills and competence. In the context of Kosovo, for instance, there is a mismatch between the range of skills and competence produced by the education system and the requirements of the labour market, and more specifically of the private sector. For more effective results, the job description and person specification shall be meticulously prepared, ensuring clarity on the side of the employer about the range of skills and competence required for the tasks at hand. On that basis, respective channels shall be selected to communicate the positions to the labour market, ensuring the most effective strategies are employed, leading to best results.

**Selection**, on the other hand is concerned with the decision-making, ensuring that the candidate employed has the profile, qualifications and experience required as per the job description. Some form of examining, followed by an interview is mostly the norm.

Once the process of recruitment and selection have been finalised, HR managers shall think

about *retention* of employees, particularly of the ones whose skills are considered unique and are important to reaching organisational goals. The environment needs to be conducive, as turnover as a phenomenon, when its too frequent, might damage extensively the organisation's progress and waste its resources. In this sense, good and effective induction programmes – which introduce new employees to the organisation and its processes – are important to ensure the employees feel comfortable in the organisation's environment and are willing to continue with it. As mentioned in the course guide of the Centre for Financial and Management Studies (CeFiMS), another useful method of induction is mentoring. *Mentoring* is defined as the process of using particular individuals, usually more senior and established members of staff, who provide advice and guidance to help develop the careers of new members of the organisation. Price (2007) assures that handing staff induction incorrectly may waste effective recruitment and selection (Price, 2007).

### **2.5.2 Performance**

Performance is generally assessed in relation to the goals and objectives of the organisation, namely an individuals contribution to reaching the organisation's set goals. Depending from the nature of work of the organisation, indicators such as profitability/return on investment, productivity or quality observed through customer feedback is utilised. The individual performance objectives shall be set jointly between the employer and the employee, for effective results. Dundon and Wilkinson (2008) observe that 'employee participation' appears to provide a stimulus to employees to have a greater input over how work is done and also breaks down bureaucratic boundaries (Dundon, T & Wilkinson, 2008).

Performance evaluation is practically an appraisal mechanism that is put in place to increase commitment towards achieving the set objectives, often contains some element of training and development as a supportive measure. Performance management is considered multi-faceted in its purposes. As Pynes (2009) explains: 'When used in the context of SHRM, performance evaluation should provide feedback to employees, facilitate personnel decisions, and provide information essential for planning and research. Feedback about the effectiveness of other HRM functions can also be obtained through the evaluation process' (Pynes, 2009).



Pynes (2009) identifies three general approaches employed in performance appraisal:

- *Absolute methods* target single individuals without referring directly to other employees. Such appraisals are often used for developmental purposes.
- *Comparative methods* are used to assess levels of performance across employees, example is a specific unit.
- *Goal setting* evaluates whether the employee attained predetermined goals (Pynes, 2009).

The last methodology seems to be the most strategic as it could relate to the organisations' overall goals and hence is aligned with the SHRM model suggested by Devanna et al(1984). Organisations develop performance evaluation mechanisms in line with their needs. As Pynes indicates, performance evaluation can rely on objective data or subjective measures, or a combination of both.

Another alternative could be the use of competencies for performance review. However, as Marchington and Wilkinson (2012) note 'where competencies which are critical to good job performance are identified, it should be relatively simple to assess an individual's position in relation to each competency; in practice it is more difficult' (Marchington and Wilkinson, 2012).

In line with the above-mentioned Michigan School Model of Human Resources Cycle, a performance appraisal could alternatively lead to rewards, in case of good achievement of objectives or the identification of development and training measures in order to improve performance. The two concepts will be explored below.

### **2.5.3 Rewards**

Reward is certainly one of the strategic HR functions. Though Devanna et al. (1984), as cited in Armstrong and Murlis (2004) remind that organisations are limited to thinking of reward in a limited way as comprising pay, promotion and benefits (Armstrong, M& Murlis, H, 2004).

Yet, pay is certainly a key element of any employment relationship. It affects the welfare dimension of employees and therefore is considered of critical importance. Decisions around payment have traditionally been based on incremental increases pursuant annual performance

appraisals. Individuals were primarily paid for the position they hold, rather than for their performance.

More innovative payment mechanisms have been devised in the meanwhile, such as performance-related pay (PRP). Armstrong and Murlis (2004) use it to refer to ‘any form of financial reward that is added to the base rate or paid as a cash bonus and is related to performance, competence, contribution, skill or service’. They note that pay is still ‘regarded by many people as the prime, even the only, method of motivating people’ (Armstrong, M& Murlis, H, 2004).

The Center for Financial and Management Studies (CeFiMS), in the course guide for the module Human Resource Management and Development, explains that PRP works as an extension of appraisal, with practically the determination of pay following from the setting of objectives. So, in PRP settings, objectives are set for the individual member of staff and performance against them is linked to pay. The following figure, shows how this operates.

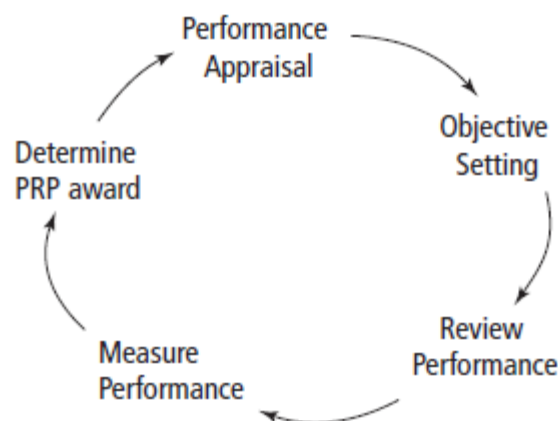


Figure 6. The Performance-Related Payment process (CeFiMS, 2018)

According to this model, performance of an individual is checked against the objectives set, during a formal annual setting, with the determination of the PRP award accordingly. Fresh objectives are set for the following year, thus starting over the cycle again.

The range of rewards is certainly wider than pay. Depending from the sector or area of business operation, rewards entail also subsidised meals, clothing allowances, pension schemes, health insurance schemes, company cars, etc. More intangible benefits concern the quality of the work environment, safety at work, team spirit, but most importantly recognition.

Employees feel motivated when their contribution is recognized by their superiors. Training and career development pathways act as further motivator to improve performance.

#### **2.5.4 Development**

According to Herling (2000) the purpose of human resource development (HRD) is the development of human expertise (Herling, 2000). Further to that, Crouse, Doyle and Young (2011) note that human expertise is developed through learning, therefore learning processes are critical to achieving and sustaining competitive advantage in an increasingly globalized context (Crouse, P. Doyle, W& Young, j, 2011). As to the aims of HRD, it is worth citing Armstrong (2008), who considers that HRD is concerned with producing a coherent and comprehensive framework for developing people through the creation of a learning culture and the formulation of organisational and individual learning strategies (Armstrong M. , 2008). All the above definitions of HRD point to the element of individual and organisational learning, change and evolvement in order to improve performance.

Considering the focus of the present study, it is worth considering closely the concept of professional development. Gibb and Megginson (2001) as cited in Stewart and Beaver(2004) define professional development as ‘developing human potential to assist organisations and individuals to achieve their objectives’ (Stewart,J, & Beaver, G, 2004). On the other hand, Armstrong (2001) lists the main aims of professional development, as follows (Armstrong M. , 2001):

- Ensure that managers understand what is expected of them, agree objectives with them against which their performance will be measured and agree the level of competence required in their roles;
- Identify managers with potential, encouraging them to prepare and implement personal development plans and ensuring that they receive the required development, training and experience to equip them for more demanding responsibilities within their locations and elsewhere in the organisation
- Provide for management succession, creating a system to keep this under review.

Mentoring is another form of professional development. Mooney and Moles (2011) recognizes this as a useful method of development, with individuals benefitting from someone

already established within the organisation and who knows its 'inner secrets' (Moone, G., & Moles, J., 2011).

Pettinger (2002) recognizes on-the-job training as another modality of professional development, quite successfully oriented on the practical skills of employees. It is believed to be quite effective as it's based on the daily processes at the workplace, conducted under the guidance of experienced managers (Pettinger, 2002). For it to be effective, an open relation and cooperation needs to be established between the instructor and trainee. From a pedagogic and didactic perspective, research recommends that instructors shall have some training on didactic aspects. German-speaking countries, in particular Germany has an excellent system in place regarding on-the-job trainings and the certification of instructors. Thus, in Germany enterprises are not considered eligible to host interns if their instructors are not licensed, which are in charge to organise and oversee the internship, and finally conclude with a professional assessment of the practical skills gained by the intern at the completion of the internship. This provides a guarantee for both the education system and the enterprise that candidates have reached a certain level of practical skills and are ready to enter the labour market.

As mentioned in the SHRM of Devanna et al (1984), training and development is an HR function of strategic importance, related to an individual's performance. Besides individual learning, the literature has increasingly emphasised the importance of organisational learning (Devanna et al, 1984). As Olsen and Peters (1996) explain, organisational learning implies 'the development of structures and procedures that improve the problem-solving capacity of an organisation and make it better prepared for the future' (Olsen, J & Peters, G, 1996).

## **2.6. The effects of SHRM practices on performance**

Many studies have now been conducted around the world using increasingly sophisticated statistical techniques that have lent weight to the argument that, when carried out effectively, SHRM interventions can improve firm financial performance, raise levels of individual productivity, and even lead to positive societal-level outcomes ( (Arthur J. , 1994); (Macduffie, 1995); (Patterson,M, West,M, Lawthom, R and Nickell, S, 1997), (Becker,B & Huselid, M, 1998); (Collins, C & Smith, K, 2006) .

Huselid (1995) goes so far as to quantify the precise impact that adopting SHR practices can have:

*“The magnitude of the returns for investments in high performance work practices is substantial. A 1% standard deviation increase in such practices is associated with a 7.05% decrease in labour turnover and, on a per employee basis 27,044 USD more in sales and 18,641 USD and 3,814 USD more in market value and profits respectivel “. (Huselid, 1995)*

High-performance work practices refers to a bundle of HR practices that is expected to yield positive performance outcomes at the individual and organisational levels. For example, Guthrie et al (2009) examined the impact of high performance work practices on individual level behavioural outcomes such as absenteeism and turnover, and on productivity and labour costs, finding that high performance work practices reduced turnover and absenteeism and raised levels of productivity (Guthrie, J., Coddington,C., & Wigfield, A, 2009).

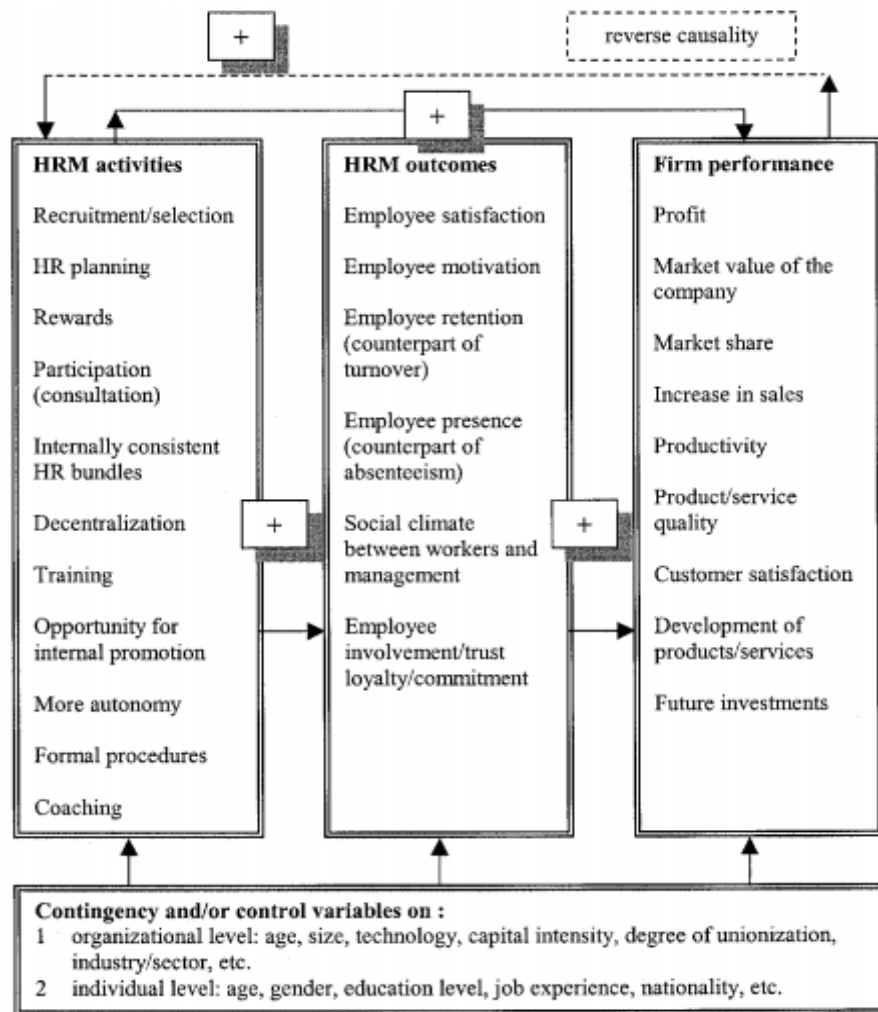


Figure 7. HRM activities in relation to HRM outcomes and firm performance (Paauwe, J., & Richardson, R, 1997)

The above figure shows how distinct HR activities lead to HR outcomes, which in turn have an impact on firm performance.

Guest (1997) indicates that a number of studies available demonstrate a positive association between human resource management (HRM) and performance, which provide encouragement to those who have always advocated the case for a distinctive approach to the management of human resources (Guest D. , 1997). In cases of an external fit, namely when HRM is aligned to the corporate strategy, studies show that organisations that link HRM practices to strategy, report higher financial performance outcomes ( Huselid, 1995). The most widely tested and supported type of fit is the internal fit, which approaches HRM as a set of ideal practices to be applied in any organisation. Huselid (1995), but also many other

studies cited by him, show that across industries or within a specific sector, the more of the high-performance HRM practices that are used, the better the performance as indicated by productivity, labour turnover or financial indicators.

Surveying 590 for profit and non-profit firms, Delaney and Huselid (1996) found positive associations between HRM practices, such as training and staffing selectivity, and perceptual firm performance. Apparently, U.S. companies have been urged to adopt a variety of performance-enhancing or progressive HRM practices to improve their competitiveness in the global marketplace (Delaney, J & Huselid, M, 1996).

Pfeffer (1994) notes that the following practices: employee participation and empowerment and job redesign, team- based production systems, extensive employee training, and performance- contingent incentive compensation, are widely believed to improve the performance of organizations (Pfeffer J. , 1994).

Various HRM approaches can be followed towards enhancing employee skills. Alternatives include focusing on improving the quality of the individuals hired, or on raising the skills and abilities of current employees, or on both. Sophisticated selection procedures can be employed to select the employees with the best potential. Becker & Huselid (1992) show that selectivity in staffing is positively related to firm performance the second alternative implies that organizations address the quality of current employees by providing comprehensive training and development programmes (Becker, B.E., & Huselid, M.A, 1992).

The beneficial organisational effect of investment in trainings are shown by many authors (Bartel A. , 1994); (Knobe, D., & Kalleber, A.I, 1994) ; (Russell, J.S, Terborg, J.R & Powers, M, 1985). However, these studies warn that organisational outcomes may be affected by motivation levels of employees towards performance. Indeed, HRM system designs shape employee motivation in many ways. A direct effect concerns reimbursement, namely merit pay or incentive compensation that rewards employees for achieving targets.

Ichniowski, Shaw and Prensushi (1997) identify seven different HRM policy areas: incentive compensation plans, extensive recruiting and selection, work teams, employment security, flexible job assignment, skills training, and labor-management communication (Ichniowski, C, Shaw, K & Prensushi, G, 1997). They indicate that firm' performance is affected only

marginally if changes to HRM practices are implemented in only one of the HRM areas mentioned above. Their theory is that a firm's work policies need to be analysed as part of a coherent incentive system, not in isolation. Ichniowski et al (1997) support the idea that groups or clusters of complementary HRM practices have large effects on productivity, while changes in individual work practices have little or no effect on productivity. As an example, they show how workers' performance is better affected by incentive pay plans, coupled with supporting innovative work practices-such as flexible job design, employee participation in problem-solving teams, training to provide workers with multiple skills, extensive screening and communication, and employment security-than it is under more traditional work practices (Ichniowski et al, 1997).

As much as the above research is encouraging, the premise of SHRM or high-performance work bundles affecting positively employee performance, critics are addressed to the so-called black box. This concept refers to the unknown process that occur between HR interventions on the one hand and performance outcomes, on the other.

### **2.7. The impact of training on performance**

Blundell et al (1999) consider the returns of training in three different levels: the individual, the firm and the economy. *At the level of the individual*, they note that education confers significant wage advantages to individuals (Blundell et al, 1999). Dearden 1998, as cited in Blundell et al(1999), refers to the results of a study, which shows that in UK the average annual return of undertaking an extra year of full-time education is 5.5 per cent for men and 9.3 per cent for women. The rates of return to education tend to be higher in low-income countries, while the largest returns are noted for investments in primary education. Private returns from employer-provided trainings have consistently been found to be significant. Thus, empirical studies show that individuals undertaking employer-provided or vocational training earn, on average, just above 5 per cent higher real earnings than individuals who have not undertaken such training. If the training also results in a middle or higher vocational qualification being obtained, then the returns are closer to 5–10 per cent.

Lillard and Tan (1992), as cited in Blundell et al (1999) assess the returns of training based on the source and type of training course (Blundell, R., Dearden, L., Meghir ,C., &Sianesi, B,



1999). They conclude that the greatest quantitative effect on increasing earnings comes from employer-provided training (16 per cent), followed by training from businesses and vocational schools (11 per cent) and training from regular schools (8 per cent). As to training type, managerial training shows the most significant impact (18 per cent), followed by professional and technical training (13 per cent) and semi-skilled training (9.5 per cent). Besides its significant impact on earnings, Blundell et al (1999) show that employer-provided training is also found to have the most long-lasting effect, 13 years against 8–10 years for training from other sources. In terms of type of training, they find the earnings effects of semi-skilled training persist over a longer period, 15 years as compared with 12 years for managerial trainings. In terms of training probability, it is shown that the probability is lower when unemployment is high, while the likelihood of receiving firm and informal on-the-job training is higher in industries experiencing rapid technological change (Blundell, R., Dearden, L., Meghir, C., & Sianesi, B, 1999).

At the level of the employer, Blundell et al (1999) show that returns are expected in terms of the firm becoming more productive, competitive and consequently more profitable in the future. A research by Garcia (2005) from a sample of Spanish firms shows that training policy, based on the HCT and RBV, has a significant impact on firm performance (Garcia M. , 2005). Employers are mostly eager to provide firm-specific trainings, that equips employees with specific knowledge and skills that have little or no value to the employee, once they leave the firm. *At the level of the economy*, the authors point out to spill over effects of investment in education and training to the economy as a whole in terms of a social return. An educated and literate population leads to increased participation in democratic institutions and social cohesion. An indirect contribution of education to macroeconomic growth can be inferred by the increasing evidence that research & development (R&D), the accumulation of physical infrastructure and the key role of HR in this respect is key to national economic growth.

Dostie (2013) carries out a review of various studies that assess the returns of training on investment (Dostie B. , 2013). In general, it is shown that firms invest considerable resources in training, with Heckman, Lochner, and Taber (1998) estimating that over half of lifetime human capital is obtained through postschool investment, including training within firms (Heckman, J., Lochner, L., & Taber, C, 1998). Distinguishing between firm-sponsored

classroom and on-the-job training, Dostie concludes that a large fraction of on-the-job training is not productivity enhancing and that firm-sponsored classroom training is more effective.

The scientific evidence on the impact of training is mixed, at best. Thus, Dearden et al (2006) find a significant positive effect of training on productivity (Dearden, L., Reed, H., & Van Reenen, J., 2006). While, Zwick (2006) finds that increasing the proportion of employees receiving training by 1 percent augments productivity by 0.76 per cent; formal external courses, in particular, have the largest positive impact on productivity, while training on the job has a negative productivity impact (Zwick T. , 2006). This conclusion is interesting in light of the observations of Pischke (2007), which suggests that the amount of informal training is about four to five times greater than the amount of formal training (Pischke, 2007).

Dostie (2013) brings in also the perspective of two widely-cited studies, Bartel (1994) and Black and Lynch (2001), which find no impact of training on productivity or only a deferred impact (Dostie B. , 2013).

In general, studies support the human capital model's prediction that a worker's wage is positively related to past investments in his training. Thus, Frazis and Loewenstein (2005) find out that 60 hours of formal training increases wages by 3-4 percent (Frazis, H., & Loewenstein, M.A, 2005). On the other hand, Bartel (1995), using company data, finds that one day of training increases wages by 2%, which in her data is equivalent to a rate of return of 60% (Bartel A. , 1995).

Leuven and Oosterbeek (2008) conclude that returns to private-sector training are significantly higher than the returns to education: 10% return to a year of full-time education, compared to at least 3% for a week of private-sector training (Leuven, E., & Oosterbeek, H, 2008).

Bartel (1995) confirms that investment in training increases worker productivity. In this study, even after eliminating selection bias in assignment to training programs, training is found to have a positive and significant effect on both wage growth and the change in job performance scores, thereby confirming the robustness of the relationship between training and productivity. (Bartel A. , 1995)

More recently, the availability of data on training has allowed researchers to analyze directly the link between on-the-job training and the pattern of wages (e.g., (Lillard, L & Tan, H, 1986);

(Barron, J., Black, D & Loewenstein, M, 1989); (Brown, 1989); (Hozer, 1990); (Mincer, 1991); (Lynch, 1992) ; (Bartel, A ,& Sichermann, N., 1994) ). With the exception of the work by Barron, Black, and Loewenstein and Holzer, all of these papers used data on training that were reported by individual employees. There are a number of problems with self- reported training information. For example, individuals may have difficulty recalling all training events that occurred during the past year, especially the duration of such events.

In a recent study of matched employer and employee responses, Barron, Berger, and Black (1997) show that employees and employers differ in their reports of the amounts of both formal and informal training, with workers reporting less training (Barron,J., Berger, M & Black, D, 1997).

Jones (2001) provides evidence of the correlation of education with productivity in a developing country context. Focusing on manufacturing companies in Ghana, Jones concludes that workers are as productive as the levels of formal education they have. Moreover, the data indicate that the private returns to education 7.1% are the same as the rise in productivity 7.0% associated with one additional year of average education (Jones, 2001).

Van de Wiele (2010) emphasizes the importance of continuous education and training of workers and employees, noting this is no longer an option but a must for most firms. The research finds out that Belgian firms spent 1.06% of total wage costs on training, and confirms the positive relation between current training participation and future firm performance. If training costs are measured as training expenses in relation to total wages, results show that spending an additional 1% of wage costs on training increases future value added by 3.25% for manufacturing or 5.02% for non-manufacturing firms (Wiele, 2010).

Research from Thomas Zwick (2006) indicates that formal external courses have the largest positive impact on productivity. He notices a smaller positive impact of formal internal courses and quality circles, whereas self-induced learning, participation at seminars and talks and job rotation are found not to enhance productivity, while training on the job is found to have a negative productivity impact (Zwick T. , 2006).

At an earlier period, the conclusions of Koning (1993) contradict the above findings. Firm-sponsored continuing vocational training is perceived to be one of the most important

measures to gain and keep productivity. Moreover, training is also considered as a 'sorting device' that enables employers to determine which employee should be promoted. In general, research suggests that training is an excellent response in contexts where there is a shortage of skilled workers on the labour market and firms are required to hire inadequately qualified staff (Koning, 1993).

Lynch and Black (1998) note that in general research shows a positive, albeit frequently insignificant impact of training on productivity. Surveying establishments in Germany, they note that about one-third of them do not invest in continuing vocational training at all. However, this is not the case with large establishments. The latter are more inclined to train, because they frequently have an own training department and the fixed costs of training can be spread over a larger number of employees (Lynch, L.M,& Black, S, 1998).

The above is confirmed by Zwick (2004), who concludes that the establishments with a higher qualification level of employees tend to train more, as the return from training higher qualified employees is more effective on productivity. Often the motivation of establishments to train their workforce relates to the aim of regaining competitiveness in the market and address productivity gaps (Zwick T. , 2004).

In one large firm, a study of Bartel (1995) shows a positive effect of firm-provided training on wage profiles of workers and job performance scores (Bartel A. , 1995). The findings of Dearden, Reed Van Reenen (2006) are encouraging: they find that raising the proportion of workers in an industry who receive training by one percentage point increases value added per worker in the industry by 0.6% and average wages by 0.3%. Using firm level data sets of more than 170 firms active in Belgium 1997-2006, the authors show that training boosts marginal productivity of an employee more than it increases its wage. Respectively, the productivity premium for a trained employee was on average around 23 %, while the wage premium was only 12% (Dearden, L., Reed, H., &Van Reenen, J, 2006).

Koning (1993) analyses at length the association between education and economic growth, particularly in the context of Netherlands. His assumption is that failure in training and vocational education affects directly the performance of the Dutch economy. An interesting point he raises in his research concerns causality: does company training cause the company to improve performance or inversely does a better performing company foster expenditure on

training. According to Koning(1993), company performance is a determining factor for the company's training efforts. He concludes that profitable companies will be more inclined than others to invest of their employees, simply because they can better afford it. The companies' investment in training is often based on rather vague notions about expected returns. Sometimes, training is undertaken simply because it is considered trendy. The primary motive for most companies to train their staff seems to be improving productivity, although it is also increasingly undertaken in order to train newly hired workers who lack basic education (Koning, 1993).

On the other hand, Addison and Belfield (2004) assess the impact of employer-provided trainings along three main dimensions: incidence, intensity and duration (Addison, J.T.,&Belfield,C.R, 2004). In this work an important dimension of organizational culture is emphasized, and that is unionism. Booth, Francesconi and Zoega (2003), as cited in Addison and Belfield (2004) show that union-covered workers are significantly more likely to receive training (between 5 and 9 percentage points) and to receive longer training (between 3 and 4 days) than their non-covered counterpart (Addison, J.T.,&Belfield,C.R, 2004).

A highly important analysis is provided on the topic by Anne Bartel (2000), who delves on understanding the return on investments from companies in the US context (Bartel A. , 2000). The element triggering this research relates to the fact that in 1997, American businesses budgeted \$58.6 billion for formal training, and yet, there was no generally agreed consensus on the rate of return that employers earn. Understanding of the rate of return on investments (ROI) in employee training is important not only for guiding human capital investment decisions in companies, but as well to inform government policymakers who may be interested in allocating government resources to subsidize private investment.

In the below figure, Bartel (2000) presents the results of econometric analyses of large samples of firms, based on thorough research from various authors. Using various indicators and performance measures, the studies show positive effects and returns of investment in employee training (Bartel A. , 2000).

Author	Dataset	Response rate	Sample size	Performance measure	Findings
1. Bishop	EOPP (1982)	75%	2594 businesses	Productivity rating	ROI on 100 hours of new hire training ranged from 11% to 38%
2. Bartel	Columbia HR Survey (1986)	6.5%	155 manufacturing businesses	Value-added per worker	Implementation of formal training raised productivity by 6% per year
3. Holzer et al.	Survey sent to Michigan firms applying for state training grants	32%	157 firms	Scrap rate	Doubling of worker training reduced scrap rate by 7%, using fixed-effects model; this is worth \$15,000
4. Black and Lynch	EQW National Employers Survey (1994)	72%	617 manuf. establishments	Net sales	Percentage of formal training that occurs off the job has significant effect in cross section but no effect on the establishment-specific residual
5. Tan and Batra	World Bank Survey	Random sample	300-56,000 per country	Value-added	Predicted training has positive effect on value-added; effects range from 2.8% to 71% per year
6. Huselid	1992 survey of human resource practices	28%	968 firms	Tobin's q and gross rate of return on capital	High-performance practices had significant effect in cross section that disappeared in fixed-effects model

Figure 8. Econometric analyses of large samples of firms (Bartel A. , 2000)

The studies reviewed by Bartel (2000), as presented in the following figure, indicate that the effect of an hour of company training on productivity growth is about five times as large as its effect on wage growth, meaning that employers reap almost all the returns to company training (Bartel A. , 2000). One consideration relates to the skills depreciation rate. Assuming that skills depreciate 5 % per year, the estimated rates of return range from 7 to 50 percent.

Author/company	Employee group	Type of training	Performance measure	ROI	Comments
1. Bartel/Large Manuf. Co.	Professional employees	Mgmt., commun., and technical skills	Wage growth and performance ratings	49.7% <sup>a</sup>	Controls for selection bias and uses fixed-effects model
2. Krueger & Rouse Manuf. Co.	Lower-skilled	Reading, writing, and math	Wage growth and performance awards	7% <sup>a</sup>	Uses fixed-effects model
3. Krueger & Rouse Service Co.	Lower-skilled	Reading, writing, and math	Wage growth and performance awards	Zero	Uses fixed-effects model
4. Ichniowski et al. Steel finishing lines	Production workers	High-performance work practices	Uptime of line	N.A.	Switching to high-performance work systems raised monthly profits by \$27,900, using fixed-effects model

<sup>a</sup>Based on assumption that skills depreciate at the rate of 5% per year.

Figure 9. Econometric case studies (Bartel A. , 2000)

## Chapter 3 Non-Formal Education (NFE)

### 3.1. Non-Formal Education

*The Assembly recognises that formal educational systems alone cannot respond to the challenges of modern society and therefore welcomes its reinforcement by non-formal educational practices.*

*The Assembly recommends that governments and appropriate authorities of member states recognise non-formal education as a de facto partner in the lifelong process and make it accessible for all.*

Rogers (2005) makes the point that this is not the statement of some international agency dealing with so-called 'Third World countries' but of the Parliamentary Assembly of the European Council; while the date is not the 1970s or 1980s but December 1999 (Rogers A. , 2005) .

The above quote from Rogers (2005) shows that it was only at the end of the 20<sup>th</sup> century that the importance of non-formal education has been officially recognised as indispensable towards economic development. Yet, as a form of learning, NFE was initiated much earlier than that. Rogers notes that the 'great debate' on NFE started with the seminal book '*The World Educational Crisis: a systems approach*' of Philip Coombs in 1968 (Coombs, 1968). In this work, Coombs included a chapter entitled ' Non-Formal Education: to catch up, keep up and get ahead'. This publication initiated a massive outburst of interest in NFE and this approach dominated most educational discussions in the 1970s and early 1980s.

However, before proceeding further into understanding better the scope and importance of non-formal education it is important to recognize and differentiate the different types of learning activities and the ways they complement each other.

Scholars such as Dib (Dib, 1987), Rogers (Rogers A. , 2005) and Ahmed (Ahmed, 2014) recognize three main categories of adult learning activities:



- i. Formal Education;
- ii. Informal Education, and
- iii. Non-Formal Education.

The below definitions of Coombs and Ahmed are widely accepted and provide the norm.

### **Formal Education**

Formal education is, of course, the highly institutionalized, chronologically graded and hierarchically structured education systems' spanning lower primary school and the upper reaches of the university (Coombs, Ph & Ahmed, M, 1974).

### **Informal education**

Informal education is the lifelong process by which every person acquires and accumulates knowledge, skills, attitudes and insights from daily experiences and exposure to the environment-at home, at work, at play; from the example and attitudes of family and friends; from travel, reading newspapers and books; or by listening to the radio or viewing films or television.

Generally, informal education is unorganized and often unsystematic; yet it accounts for the great bulk of any person's total lifetime learning, including that of even a highly "schooled" person. (Coombs, Ph & Ahmed, M, 1974).

### **Non-formal education**

Non-formal education is any organized, systematic, educational activity carried on outside the framework of the formal system to provide selected types of learning to particular subgroups in the population, adults as well as children.

Whether operating separately or as an important feature of some broader activity, NFE is intended to serve identified learning clienteles and learning objectives. (Coombs, Ph & Ahmed, M, 1974).



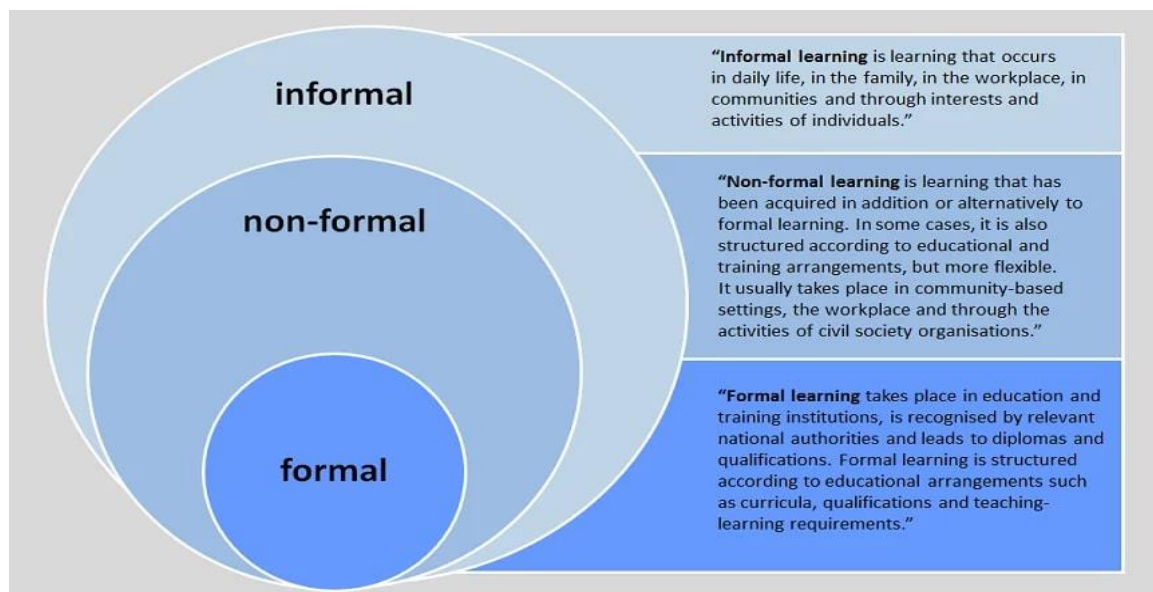


Figure 10. The connection of formal, non-formal and informal education (Ednupdatons, 2017)

The above scheme juxtaposes definitions of the three categories of learning activities and helps understand differences in scope and approaches of the three categories. While the above section is important to clarify the different approaches and forms of organised learning activities, the focus of this paper is non-formal education and therefore, the focus hereafter will be on the understanding, emergence, scope and rationale of NFE as a learning activity.

Hamadache(1991) notes that though the concerns which gave rise to non formal education had been in existence long time ago, it was in the 1960s, and particularly in the 1970s, that more attention was focused on non-formal education (Hamadache, 1991).

In analysing the scope and meaning of NFE today, Rogers (2005) notes that, for most educational planners today, the term means alternative and more flexible forms of schools, the increasing kinds of programmes that the state and other bodies create in their search for an expanded provision of educational/learning opportunities. In absence of another term, the language of NFE persists being used as representing this flexibility element in so much of education today (Rogers A. , 2005).

### **3.2. Definition of the NFE concept**

There have been multiple definitions of the term NFE introduced in the last decades that led to confusion and finally different understandings of the concept. As a result, every country seems to interpret NFE in its own way (Thakur, 2007). The following section will review some of the most important definitions, in order to understand the different perspectives and approaches that have been associated with NFE.

Yasunanga (2014) considers that NFE is characterised by a high degree of flexibility and openness to change and innovation in its organisation, pedagogy and delivery modes; nonformal education caters to diverse and context-specific learning needs of children, young people and adults worldwide (Yasunanga, 2014).

Kaufmann (2005), as cited in Glabicka (2015) identifies NFE as institutionalised learning activities and structural programs. Inherent to NFE according to Kaufmann are: workshops and seminars in the workplace; courses in the free time after work; trainings organized by the employer with the instructor; private lessons and courses with a teacher; guided on-the-job training; open and distance education (Glabicka, 2015).

Adams (1982) considers that the term NFE came into view in an attempt to group an array of programs under one comprehensive label, e.g., out-of-school youth education, adult education, post-secondary education, nutrition and health education, basic education, infant and pre-school education, vocational education (Adams V. E., 1982).

Russel et al (1974) define NFE as any intentional and systematic educational enterprise (usually outside of traditional schooling), in which content, media, time units, admission criteria, staff, facilities and other system components are selected and/or adapted for particular students, populations or situations in order to maximize attainment of the learning mission and minimize maintenance' constraints of the system" (Kleis, Russel et al, 1974).

A commonly used definition of non-formal learning comes from Chisholm(2005). Non-formal learning is purposive but voluntary learning that takes place in a diverse range of environments and situations for which teaching/training and learning is not necessarily their sole or main activity. The activities and courses are planned, but are seldom structured by conventional rhythms or curriculum subjects. They usually address specific target groups, but rarely

document or assess learning outcomes or achievements in conventionally visible ways. (Chisholm, 2005)

Edwards, Gallacher and Whitaker (2006) consider that NFE is viewed as an intermediate category, located mainly in the workplace or community and voluntary settings; it is typically both structured by a trainer, coach or mentor and intentional on the part of the learner; but it is not usually certified (Edwards, R., Gallacher, J., & Whitaker, S, 2006).

Important international education institutions came up with their own interpretations of the concept. Thus, the United Nations Educational, Scientific and Cultural Organisation (UNESCO) recognized NFE as any organized and sustained educational activities that do not correspond to the understanding of formal education. NFE could take place both within and outside educational institutions and cater to persons of all ages. Depending on country contexts, it may cover educational programmes to impart adult literacy, basic education for out-of-school children, life-skills, work-skills, and general culture. Non-formal education programmes do not necessarily follow the 'ladder' system, and may have differing duration (Unesco., 1997).

The European Commission (EC), on the other hand, considers that non-formal education is any educational action that takes place outside of the formal education system. Non-formal education is an integral part of a lifelong learning concept that ensures that young people and adults acquire and maintain the skills, abilities and dispositions needed to adapt to a continuously changing environment. It takes place alongside the mainstream systems of education and training and does not typically lead to formalised certificates. Non-formal learning may be provided in the workplace and through the activities of civil society organisations and groups (such as in youth organisations, trades unions and political parties). It can also be provided through organisations or services that have been set up to complement formal systems (such as arts, music and sports classes or private tutoring to prepare for examinations). (EC, A Memorandum on Lifelong Learning, 2000) (EC, , 2011).

Some researchers criticized the negative descriptor 'non' in NFE, considering it inadequate (Garrido, 1992). Russel et al (1974) go as far as taking the example of referring to a car by saying it is a nonhorse, non-airplane, non-boat, etc. (Kleis, Russel et al, 1974).

The above definitions of the concept emphasise specific features and perspectives around NFE. The most commonly used keywords are flexible, out of school settings, voluntary, intentional, targeted and rarely documented\certified. While there is shared understanding on these features of the concept, the understanding, expectations and acceptance of recognition and certification of NFE has evolved lately. An increasing number of NFE programs now lead to certification. This depends foremost on the educational policies of developed countries, who have put in place systems and procedures of recognising certificates related to NFE programs.

There is shared agreement that NFE grew because of the failure of the established formal education system to fulfill the roles prescribed. Khawaja and Brennan (1990), as cited in Kedrayte (2012), argue that the multiplicity of notions related to NFE is associated to the fact that NFE has turned into an international movement, which manifests itself in different ways, in different nations because of cultural and historical factors (Kedrayte, 2012).

### **3.3. Rationale for the emerging NFE**

For many scholars, NFE emerged as one of the leading educational concepts at a time when pressures around the effectiveness of the formal education system started being felt. Rogers (2005) notes that NFE grew at a time when the demand for educational reform was very substantial. Considering that education cannot be isolated from its social context, and as society changes, so education will change. NFE is a concept that is applied to education and learning in both Western and developing societies. This is why, when non-formal education came to be adopted by many as the answer, it took different forms (Rogers A. , 2005). Combs 1968, as cited in Rogers (2005) makes the point that NFE was seen by many as the saviour of formal education (Rogers A. , 2005).

It is particularly this crisis in formal education that seems gave rise to NFE, as confirmed over and again by researchers. Particularly in the developing world, Bohla notes that it was clear that the formal education could not do it alone. It seemed to have failed both logistically and functionally. Bohla notes that there was a clear mismatch between what was learnt in school and what was required outside in the world of work (Bohla, 1983).

Simkins (1977), as cited in Kedrayte (2012) points out that whenever a formal system failed, NFE came into play as a cheaper alternative to provide individuals with skills required by the economic system (Kedrayte, 2012).

Billet (2001) emphasizes that the emergence of NFE brought about a change in mindset. Initially, the workplace was seen as a place to work, to produce goods or offer services. It was not the place to learn. Learning occurred before employment or as part of an apprenticeship or special training period. However, with time, the demands of work became more complex. No amount of initial training could prepare someone for a lifetime of work. jobs change, new technologies emerge, new opportunities are created. As keeping up with the demands of economy requires learning, and relearning, NFE emerged as an umbrella concept for various forms of learning, respectively (Billet, 2001). Paduraru (2013) likewise singles out obtaining new skills and expertise for employment among the many benefits of NFE. NFE is considered highly instrumental for the purpose of modernising the workforce (Paduraru M. , 2013).

Robins and Judge(2013) consider that NFE has been the main engine for improving skills and competence required for employability or for better performance in present postions, as they consider that even the most competent employees need to undergo education, training and professional development in order to remain competent through time (Robins, S and Judge. T, 2013).

Specific cases of countries confirm the above assumptions. Thus, in Hungary, the formal education and training system does not seem to be in a position to evenly and sufficiently produce the knowledge, skills and competences required by the labour market as mentioned by Werquin (2010). In turn, the need for an offer of NFE becomes indispensable (Werquin P. , 2010). Likewise, the formal education system in Canada seems to fail to produce cross-functional skills, such as the ability to work in a team, communication and management in sectors that include health, construction and energy. Such cases show that the emergence of NFE was indispensable and of utmost importance for a holistic approach to producing the required skill set for the economy. This is particularly the case for developed countries, in which the emergence and evolvment of NFE is particularly geared towards building the necessary skills, increasing employability and responding to the technology changes. Thus, data from the developed countries of the European Union show that about 37% of adults have

participated in activities of NFE (Unesco, 2016). Japan and Germany right after the World War II are cases worth mentioning. Thus, it is considered that the role of vocational education was critical in the re-establishment of the country as one of the most powerful economies in Europe. Ireland is yet another example of moving steadily towards its economic development by developing vocational education, with a particular attention on developing NFE as a good opportunity to respond flexibly to needs and short-term emerging priorities. The understanding of the concept is shifting in this direction also in developing countries, though historically it was rather employed as a measure of improving literacy and offering second chances to drop-outs from the formal education system.

Reflecting on the attributes of NFE, Adams (1982) notes that NFE in most cases are broad in scope and cover a greater number and diversity of educational programs aimed at a wider variety of basic educational objectives and clientele (Adams E. , 1982).

### **3.4. Objectives of NFE**

NFE is designed to contribute to human capital development by facilitating access to education to all citizens. In contrast to informal learning, NFE is organized and has its learning objectives. (Kyndt, E; Dochy, F and Nujs, Hanne, 2009). Dagar (2017) notes that NFE programmes are always conceptualised to achieve short-term and special educational goals and objectives. For example, any illiteracy programme is geared towards the achievement of that objective only (Dagar, 2017).

Hoppers considers that objectives of a country NFE tend to be partly associated with national economic development, notably combatting unemployment and building national human resource capacity to help improve a country competitiveness in the global market. Social development goals, such as improving the quality of life and removing structural bottlenecks towards reducing inherited inequities affecting the life chances of women, marginalized youth and children in remote rural communities are some of the other dimensions that shape NFE (Hoopers, 2006).

The objectives and role of education in general and NFE in particular, are increasingly shaped by the global commitments and internationally agreed goals, such as the Sustainable Development Goals (SDGs), Education for Sustainable Development (ESD), or Education for

all (EFA) agendas. This trend suggests that non-formal and informal education are of growing importance (UNESCO, 2012).

The renewed interest in lifelong learning is partly due to the interest by industry which considers lifelong learning as the appropriate skill formation strategy for the ‘new economy’.

Carron and Hill (1991) suggest that the traditional belief that NFE education is mainly playing a compensatory role for the poor, who have been deprived from school education does not seem to be confirmed by empirical data at country level. They find out that the so-called white collar workers – those with more formal education – are more likely to participate in adult education than those with minimal schooling, or blue collar jobs. (Carron,G&Hill,R, 1991). Kedrayate (2012) considers that NFE offers a second opportunity for professional development to the ones that have missed the opportunity for formal education, thus presenting an opportunity for catching up a return. As George Bernhard Shaw has put it: ‘Life isn’t about finding yourself. Life is about creating yourself’. Creating yourself is much about increasing the employability and obtaining skills and knowledge that are in need (Kedrayte, 2012).

In comparison with formal education, NFE is rather perceived as creating knowledge, skills and attitude, rather than swallowing ready-made facts and opinions, without any evaluation. Besides the advances brought forward, NFE still has a lower standing compared to academic education. This is believed to be due to the lack of validation of NFE from formal education as well as the lack of recognition of NFE in the wider society (employers, universities etc) (OBESSU, 2017). Maclean and Wilson (2009) point to the fact that the emergence of NFE is also reinforcing a shift in the mindset that education is not conducted only in and through education institutions but also in other locations, with an emphasis on learning in the workplace, as one of the best and quickest modalities of obtaining skills and enhancing knowhow (Maclean, R and Wilson, D, 2009).

As cited in Latchem (2018), Olcot (2013) confirms the above, observing that though many people grant a higher status to formal education over non-formal education, it does not mean that the importance or impact of non-formal education, in many contexts, is any less valuable than formal university instruction (Latchem, 2018).



Torginton (2016) points to the fact that the quick developments in technology make many existing professions obsolete. This requires the holders of such qualifications to move forwards, by building skills and competences in a new qualification, matching the required skills for their new roles to be assigned. He suggests that it is important to put in place some mechanisms through which the state representatives, various organisations and enterprises get together to identify modalities through which the employees are educated, trained and developed, responding quickly and effectively to the need for new qualifications as well as avoiding little crisis in the provision of services or production processes (Torginton, 2016).

UNESCO recognizes that a defining characteristic of non-formal education is that it is an addition, alternative and/or a complement to formal education within the process of the lifelong learning of individuals. It is often provided to guarantee the right of access to education for all (UNESCO., 2012).

The main characteristics of NFE according to Hoppers (Hoopers, 2006) are the following:

- concentration on the poor,
- a learning by doing approach
- high levels of structural flexibility and
- a constant pre-occupation to adapt the learning activities to the changing needs of the users.

These characteristics are similar to the ones posed by (Fordham, 1993), as follows:

- Relevance to the needs of disadvantaged groups.
- Concern with specific categories of persons.
- A focus on clearly defined purposes.
- Flexibility in organization and methods.

Both perspectives presented above emphasise the flexible character of NFE. This is confirmed yet by another scholar, Dixon (2015) who finds out that the main advantage of NFE is its flexibility and ability to adapt to individual people's current needs and the continual changes in society: it is often much more based on skills and also has attitude-based learning objectives (Dixon, 2015). The curricula for NFE could be developed based on the preferences of



candidates for a specific feature of the profession (UNECE, 2013) as well as it could be developed in close cooperation with businesses so that the resulting training matches the requirements of the local economy (Mohsin, 2000), but also anticipating future needs in line with the demands of the global economy (Mohsin, 2000).

The European Commission (EC) views as an asset of NFE the potential to integrate disadvantaged young people. As a way of learning it is considered voluntary and often self-organised nature, its flexible, offers possibilities of participation, the “right to make mistakes”, and is much closer to young people’s interests and aspirations. (European Commission, 2011)

In addition, Ahmed, as cited in Vermaak(1985), puts forward the following advantages of NFE:

- Efficient use of scarce resources;
- Expansion of educational services;
- Promotion of equity in educational opportunities;
- Enhancement of the relevance of education to the demands of socioeconomic development (Vermaak, 1985).

Creative, innovative and able to respond quickly to new and changing needs are the features of NFE signled out by Hamadache (Hamadache, 1991). While Niue (2014) notices that cost-effectiveness is a key feature of NFE, as with relatively low inputs, NFE can realise success (Niue, 2014). Among the many positive aspects of NFE, Schiersmann (2007) emphasizes the quick transfer of knowledge as well as very low cost for implementing such forms of employee’ professional development (Schiersmann, 2007). The latter is critical particularly in case of enterprises that are struggling financially and find it difficult to allocate specific budgets for such purposes.

Yet, there are more reluctant perspectives on the role of NFE. These suggest that this type of education shall be considered only as complementary to formal education towards the professional development of individuals, but not as the alternative option to formal education (Melnic, A and Botez, N and Bacovia, George, 2014).

Others go even further, suggesting that countries shall identify ways and develop educational and economic policies that foster the development of employee’ skills by combining various

educational programs, such as formal, non-formal and informal, as only by combining such programs we get a coherent and holistic approach in developing employee' skills (MISKO, 2008).

### **3.5. Life long learning (LLL)**

Lifelong learning covers 'formal, non-formal and informal patterns of learning throughout the life cycle of an individual. The importance of this concept was clearly articulated in the EU policy document, Making a European Area of Lifelong Learning a Reality (CEC 2001a), in which LLL refers to all learning activity undertaken throughout life (Dehmel, 2006).

Non-formal education (NFE) is an integral part of lifelong learning and adult education. It also provides the educationally underserved, including both youth and adults, with more flexible learning opportunities to acquire necessary knowledge, skills and competences.

Lifelong learning is likewise included in the agenda of the Lisbon agreement, aiming to convince companies to spend a share of total wage costs on training and education of workers and employees. According to de Wiele (2010), lifelong learning should improve workers' career development, increase flexibility and strengthen the competitive position of the firm. In this spirit, the Belgian government stimulates companies to train their workforce by providing dedicated grants (Wiele, 2010).

### **3.6. Recognition of Non-Formal Education**

Considering the evolvement of NFE in the past decades, and its important role in the social and economic development of countries, a process of initiating the recognition of NFE was set off in Lisbon, Portugal, in the year 2000, a process now referred to as the Lisbon Strategy. Nowadays, many countries are on a good way to develop and functionalise the mechanisms of promoting, recognition, validation and accreditation of non-formal education. Yang qualifies the recognition of NFE as a comprehensive process of identification, documentation, assessment and accreditation of the learning results in different settings (Yang, 2015).

Respective European institutions have developed guiding principles and frameworks to guide countries in their efforts of establishing recognition and validation systems of NFE. Important

such guidance was provided by the European Commission and European Center for the Development of Vocational Training (Cedefop) (European Commission, 2016).

Such a framework has been very helpful in assisting countries to set up a system which identifies skills gaps and come up with systems which validate NFE activities and the resulting qualifications deriving from it. (Cedefop, 2007). In line with systems of validating and recognising NFE efforts, the European Qualifications Framework was developed in 2005, as a framework for enabling a smoother transfer of credits and recognition of qualifications received by the individuals through any educational form, including non-formal and informal education. Another important purpose of the initiative was to provide a reference framework used to benchmark distinct national qualifications frameworks (European Commission, 2013).

The European Commission as well as the OECD have been promoting the importance of NFE and recommending recognition of NFE through many of its policies and publications (EC., 2010), mentioning it as one of the most effective strategies to enhance mobility of the workforce, led by the pursuit of respective skills and competence. The OECD clusters the multiple benefits of recognising NFE into economic, educational and social categories (OECD., 2009).

Werquin (2009) notes that the benefits of the process of recognising non-formal and informal education go beyond the act as such, and it constitutes a critical development towards building a culture and practice of developing and utilising human capital (Werquin P. , 2009).

Other benefits of recognising NFE go in the direction of improving the quality of education, enhancing access to another level of education as well and enabling access to the labour market. Given this effect of recognition, there is a need to promote an open exchange with stakeholders to promote NFE and the recognition of deriving qualifications, particularly as concerns business representatives, in view of the potential of NFE to provide adequately skilled professionals they require in their workforce. Though there is progress, mostly in developed countries, there is still some way to go in convincing businesses and employers in general that such an educational form holds the potential for great benefits in their future business development and better alignment to the requirements of the market.

At an individual level, NFE is considered a good opportunity to improve the skills and competence for a particular profession, with the deriving qualification serving as a bridging

element to another position. This is all the more important given the present requirements of labour markets for individuals to keep up with the skills and competences required to match the fast-paced economic and technology development (Gashi, N.A, Pugh, G and Adnett, N, 2008).

Besides the general benefits of recognising NFE-deriving skills and qualifications at an individual and economic dimension noted above, Singh emphasises some additional dimensions, such as technology transfer, general added value in the market, progress in the educational system and an overall improvement of the well-being (Singh, 2015).

Werquin (2010) notes that the recognition of NFE qualifications acts also as a psychologic boost for individuals, motivating them for further education (Werquin P. , 2010). Whereas, the absence of recognition drains their interest to continue to learn and is perceived to limit their possibilities (Gaylor, C; Schöpf, N & Severing, E, 2015).

The recognition of NFE bears a lot of potential, primarily as concerns the institutionalisation and embedding the processes in the system. However, this comes at a cost, which for many countries present a burden (Werquin P. , 2010). This increases the importance for the researchers to document the benefits of recognising NFE, providing thus policy-makers with the justification to invest in such processes.

In general, developed countries are at more advanced stages of recognising NFE. Thus, Finland through both its Ministries of Education and Labour has established a framework, including process and systems, even carrying the cost of the process of recognising NFE. In some cases, developed countries allocate some public funds for the process of recognition and validation of NFE qualifications, while in others, NFE is considered as a commercial activity, hence the recognition requirement is left at the discretion of candidates and service providers (CEDEFOP .. , 2016). Norway, on the other hand, provides thorough support to the recognition of non-formal and informal education, primarily considering it as an instrument of targeting vulnerable communities, motivating target groups, such as people with disabilities or job-seekers, to complete primary education. In order to assure quality, Norway requires the service providers to demonstrate some quality criteria, including recognition by the enterprises on the competences gained by their employees. There are various cost-sharing practices established when it comes to recognition, though in most cases it includes a partial or total

participation of enterprises on carrying the cost of recognising particular qualifications that are important for the development of specific sectors.

Considering the above, it is strongly recommended for countries to support processes of recognising NFE qualifications, as in absence of such support the process of recognising NFE qualifications may never be initiated.

## **Chapter 4 Kosovo Context and NFE**

### **4.1. Kosovo Context**

Kosovo is the youngest country in Europe—both based on its new statehood and the average age of its population—with all the accompanying opportunities and challenges. Kosovo unilaterally declared its independence from Serbia on February 17, 2008. It is recognized as an independent country by 114 out of 193 United Nations members and by 23 out of 28 European Union (EU) members. Kosovo is a potential candidate for EU membership; a process that was accelerated with the signing of the Stabilization Association Agreement in October 2015, in force since April 2016 (WB, 2012).

With a population of about 1.8 million, Kosovo is the youngest country in Europe, also in respect to its population, with an average age of 26 years and around 38% of the population younger than 20 (WB., 2017). This presents the country with a lot of opportunities, but also challenges.

#### **4.1.1. Social and economic context**

Although Kosovo's economic growth has outperformed its neighbors and been largely inclusive, it has not been sufficient to significantly reduce the high rates of unemployment, provide formal jobs, particularly for women and youth or reverse the trend of large-scale outmigration.

Kosovo's economic growth is expected to edge up to 4 percent in 2019, from 3.8 percent in 2018, making Kosovo one of the fastest growing economies in the Western Balkans, a growth driven by consumption and service exports. The growth model relies heavily on remittances to fuel domestic consumption but has recently shifted to more investment- and export-driven growth. Regional comparisons show that the Kosovo economy will be experiencing the quickest growth compared to countries in the region.

While short-term growth has been high by regional standards, the sustainability of this model in the long term is highly questionable (UNDP, Kosovo Human Development Plan 2016, 2016). The World Bank emphasizes that Kosovo's current growth and poverty reduction strategy needs to address the infrastructure bottlenecks, particularly in energy; create an environment more conducive to private sector development; equip its young population with

the skills demanded by employers; provide financial protection to citizens to achieve better health outcomes; and build up governance and rule of law to fully reap the benefits of EU integration, unleash productivity gains, and create quality jobs that foster inclusion. Gender gaps in access to economic opportunities remain one of the main challenges for Kosovo. Further actions are also needed to promote environmental sustainability, including the fulfillment of the EU's environmental acquis.

As a small economy that is heavily dependent on foreign inflows including remittances, the non-tradable sectors dominate output and employment in Kosovo. Services contributed to economic growth more than any other sector throughout the period, with a key role played by construction and real estate (15 percent of GDP), followed by wholesale and retail trade (12 percent of GDP). The contribution of manufacturing, including agro-processing activities, peaked in 2012 at a time when imports were declining, suggesting some degree of import substitution. Presently, agriculture remains relatively large, at 11% of GDP.

Migration has been the safety valve to release the labor market pressure. It is estimated that, since autumn 2014, tens of thousands of Kosovars have emigrated, mostly to EU member countries.

Despite the above-mentioned growth, consistently higher than the neighboring countries of the Western Balkans, the starting base for Kosovo was very low. GDP per capita grew from US\$1,088 in 2000 to US\$4,312 in 2018. Despite this tripling of income per capita over the past 18 years, Kosovo remains the third-poorest country in Europe in terms of GDP per capita (Worldbank, Kosovo Snapshot, 2019)

According to the SME Policy Index: Western Balkans and Turkey 2019 of the Organisation for Economic Cooperation and Development (OECD), foreign direct investment (FDI) remains limited in Kosovo, averaging 4.2% of GDP over 2013-17, originating mainly from the large Kosovo diaspora. The sectoral distribution of FDI remains dominated by non-productive sectors, namely real estate and construction, limiting significant spillover effects on the economy (OECD, 2019).

Small and Medium Enterprises (SMEs) play a very important role in the national economy. The defining criterion in the classification of enterprises is employment size, which is in line with the EU definition, as presented below.

	EU definition	Kosovo definition
<b>Micro</b>	< 10 employees, turnover or balance sheet total ≤ EUR 2 m	< 10 employees
<b>Small</b>	< 50 employees, turnover or balance sheet total ≤ EUR 10 m	< 50 employees
<b>Medium</b>	< 250, turnover ≤ EUR 50 m or balance sheet total ≤ EUR 43 m	< 250 employees

Table 1. Definition of micro, small and medium-sized enterprises in Kosovo

Based on the above definitions, Kosovo’s business sector is made up almost entirely of SMEs. There are around 38 000 registered enterprises operating in Kosovo, 93.1% of which are micro enterprises, 5.9% are small and 0.9% are medium sized. Only 0.1% of the total business population are classified as large enterprises. Recent OECD analysis reveal that SMEs contribute to 76.2% of total business sector employment and account for 81% of total value added of the business sector. However, at 13.2% the added value created by micro enterprises remains very low compared to other economies in the region. The biggest value creation (47.5%) comes from medium-sized enterprises, which represent less than 1% of the business population, which employ one-fifth of the total business sector employment. According to data provided by the Statistical Agency of Kosovo, the share of SMEs owned by women in Kosovo slightly decreased from 10.54% in 2013 to 10.24% in 2016.

SMEs operating in the distributive trade sector prevail in the Kosovo context with a total of 44.1%, while 12.5% operate in the manufacturing sector, 7% in the construction sector, just 2.8% in the agricultural sector, and 0.4% in the mining and quarrying sectors. The following figure shows the sectoral distribution of SMEs in Kosovo, featuring 2016 data.



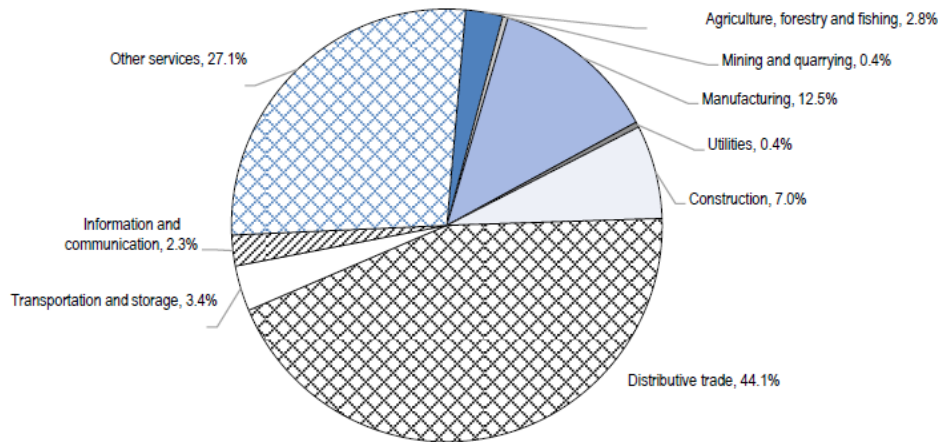


Figure 11. Sectoral distribution of SMEs in Kosovo (2016 (OECD, 2019))

The Kosovo Economic Reform Programme 2018-2020 features the following analysis of sectorial contributions to GDP growth, showing that the service-based sectors are projected to remain the largest contributor to economic growth, with industry and manufacturing expecting to pick-up pace over the medium-term. Similar to its historical trends, services are projected to continue their growth with an increasing trend, marking a 7.1% average real growth over the projection period. The government intends to undertake measures to spur manufacturing and incentivize agriculture and agro-business development, thus increasing the value added from both sectors in the medium-term.

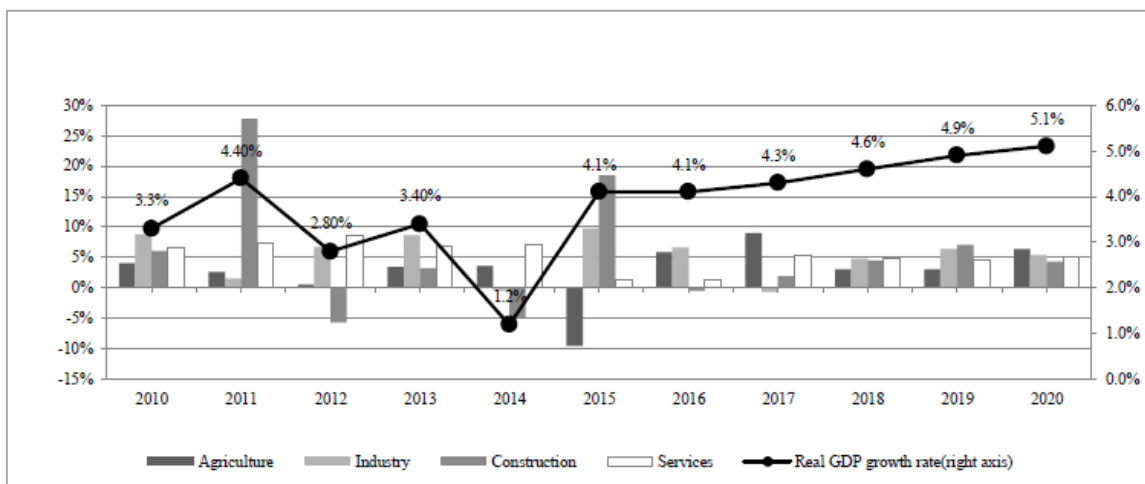


Chart 1. Sectorial contributions to GDP growth (MEF., 2017)

Around one-third of all registered enterprises are located in the district of Pristina. See the following table for a geographic distribution on enterprises in Kosovo.

District	Year	Enterprise size, by employment				Total	Share of total number of enterprises
		0-9	10-49	50-249	250+		
Gjakova	2013	3 275	136	10	0	3 421	10.02%
	2017	3 408	162	17	2	3 589	9.40%
Gjilan	2013	3 397	150	20	0	3 567	10.45%
	2017	3 580	233	20	0	3 833	10.04%
Mitrovica	2013	2 755	96	14	3	2 868	8.40%
	2017	3 069	146	23	2	3 240	8.49%
Peja	2013	2 863	130	29	1	3 023	8.86%
	2017	3 189	185	23	2	3 399	8.90%
Prizren	2013	5 310	232	27	5	5 574	16.33%
	2017	5 625	317	34	3	5 979	15.66%
Pristina	2013	10 845	789	166	38	11 838	34.68%
	2017	12 605	1 111	216	47	13 979	36.62%
Ferizaj	2013	3 683	142	20	1	3 846	11.27%
	2017	3 898	231	28	1	4 158	10.89%
Kosovo	2013	32 128	1 675	286	48	34 137	100.00%
	2017	35 374	2 385	361	57	38 177	100.00%

Table 2. Number of registered companies in Kosovo by enterprise size and district (OECD, 2019)

A more detailed analysis of the private business landscape in Kosovo conducted in the frame of the Kosovo SME Promotion Programme (KOSME) gives us the following information (KOSME, 2014).

	Enterprises		Persons employed	
	Number	Share	Number	Share
Manufacturing	4,825	10.5%	30,810	16.2%
Construction	3,289	7.1%	20,682	10.9%
Wholesale and retail trade	19,672	42.7%	61,790	32.6%
Transporting and storage	2,602	5.7%	10,513	5.5%
Accommodation & food service	3,499	7.6%	10,356	5.5%
Business services	4,716	10.2%	25,109	13.2%
Personal services	4,376	9.5%	12,558	6.6%
Other sectors <sup>4</sup>	3,053	6.6%	17,805	9.4%
<b>Total</b>	<b>46,032</b>	<b>100.0%</b>	<b>189,623</b>	<b>100.0%</b>

Table 3. Number of private sector enterprises and persons employed, by sector, in 2013 (KOSME, 2014)

Overall, *retail and wholesale trade* constitute by far the dominant sector, accounting for almost 43% of enterprises and 33% of employment. *Manufacturing* comes second with more than 16% of jobs and more than 10% of companies, while *business services* are of almost similar significance. *Construction* is also among the four sectors with an employment share

of more than 10%. Finally, *accommodation & food services* (hotels, restaurants and similar), the *transport* industry, and *personal services* each have a proportion of around 6% of persons employed in the private enterprise sector.

The chart below provides a more detailed analysis of the size of companies within sectors. It is striking to see the share of micro enterprises with 2-9 employees in accommodation and food services, standing for 66.8% of the sector’s jobs, as well as in the retailing and wholesale sector, representing 41.1% of total sector employment. Small enterprises employing 50-249 represent 26.9% of the construction jobs, whereas large companies with over 250 employees are noted in the transporting and storage sector, providing a total of 34.5% of the sector’s employment.

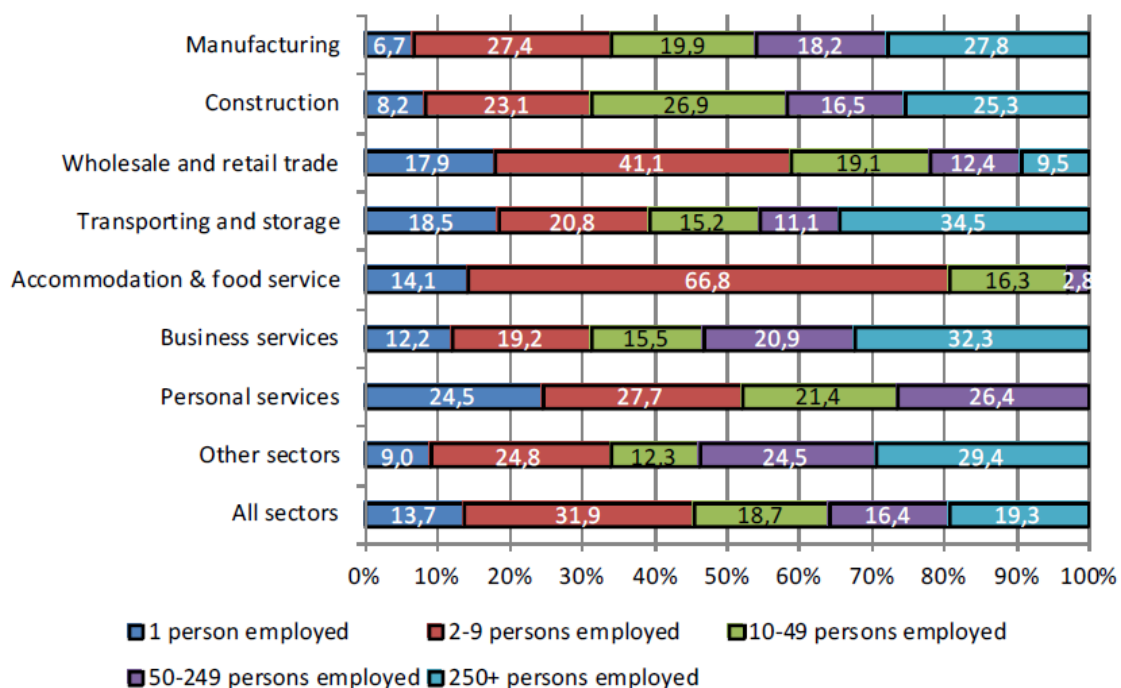


Chart 2. Percentage share of the different size categories in each sector’s total employment (KOSME, 2014)

Kosovo continues to remain one of the poorest countries in Europe, and a growing proportion of the population is at risk for social exclusion and long-term poverty. According to the Kosovo Agency of Statistics, 17.6 percent of the population was living below the national poverty line of EUR 1.82 a day in 2015, while 5.2 percent were living below the national extreme poverty line of EUR 1.30. (Worldbank, .., 2016)

Recent economic growth has not spurred robust job creation and a large share of the population is either inactive or unemployed. The high levels of unemployment among women (about 31.8 percent in 2016) and youth (over 52.4 percent in 2016), and low labor force participation (38.7 percent in 2016), especially among women (18.6 percent in 2016), are significant social concerns. Additionally, about 10.7 percent of the working age population was discouraged workers in 2014, with the term discouraged workers referring to workers who stopped looking for employment and became labor inactive due to lack of job opportunities, and who would otherwise participate in the labor market. (Worldbank, ., 2016).

In 2019, more than a third of young Kosovar workers were not in employment, education and training (NEET), the highest share among the Western Balkans economies and almost triple that of the average OECD economy (see Figure 12). Indeed, youth disenfranchisement is a key driver of fragility in Kosovo today. Poor integration into the labour market can be detrimental for young people as they risk losing their motivation and skills, and migrate abroad for better employment opportunities (OECD: Multi-dimensional review of the Western Balkans, Kosovo, 2020).

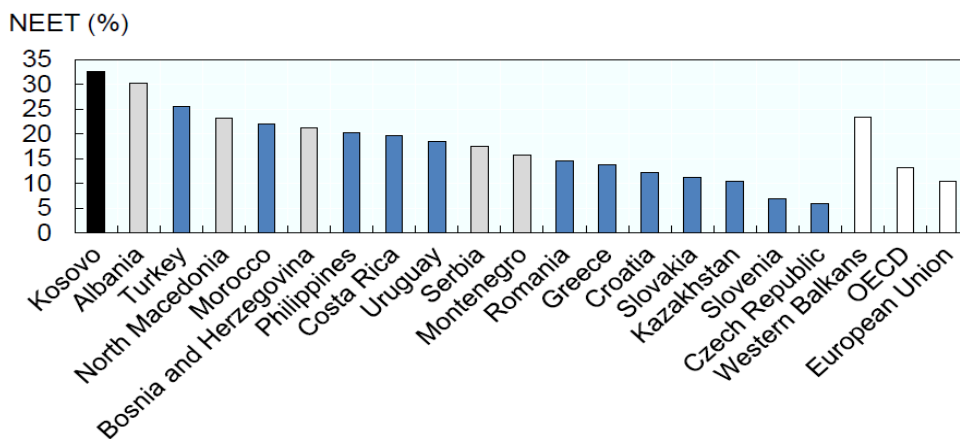


Figure 12. Youth (15-24) not in employment, education or training (NEET), 2019, OECD 2020

Unemployment is also higher among those with low education – the unemployment rate among men in the 15–64 age group with tertiary education was 14.7%, compared to 70% among those with no education and 34% among those with secondary education. Among women, differences in unemployment rates by educational attainment are narrower and, in fact, unemployment is highest among women with tertiary education, but this has to do with

much higher levels of economic activity among women with high education levels; women with low educational attainment are largely inactive (Cojocaru, 2017).

The below figure shows the extremely low participation of women in the labour force in Kosovo, which is extremely low compared to all the other country comparators. While labor force participation rates for men stand at 60%, the participation of women stands at a mere 20%, same as in Morocco.

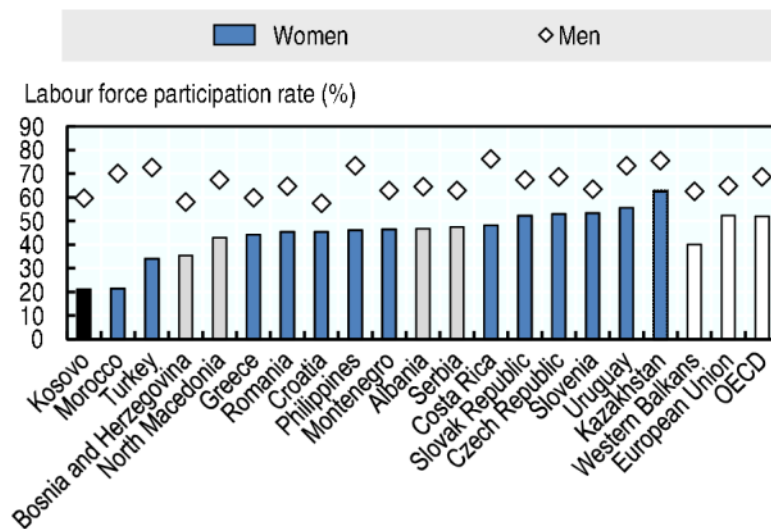


Figure 13. Labour force participation rate (% of total population ages 15+), 2019, OECD 2020

The below figure summarizes the most important features of the Kosovo population and their participation in the labour market.

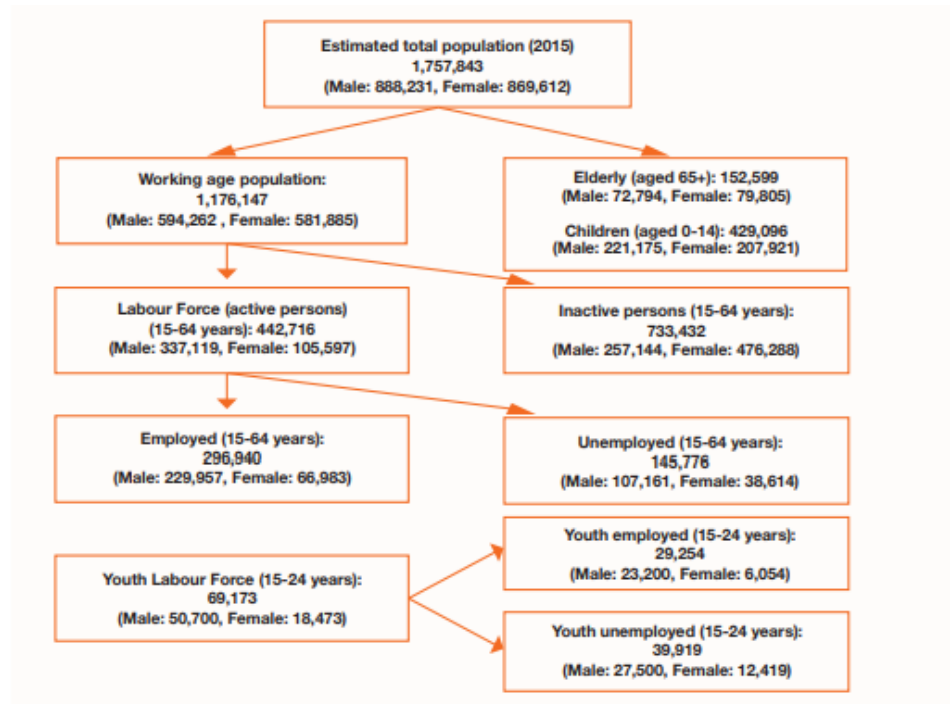


Figure 14. Labour Market classification of Kosovo's population 2015 (KAS, 2016)

#### 4.1.2 Employment promotion and labor market programs

Public investments in employment promotion and active labor market programs are limited and insufficient to meet Kosovo's labor market challenges. Despite these challenges, the government of Kosovo spent less than 0.1 percent of GDP on active labor market programs, compared with 0.6 percent on average in the OECD. (Worldbank, ., 2016) .

Such efforts are led by the Employment Centers run by the Ministry of Labour and Social Welfare (MLSW), which offer advisory services for employment as well as operate training centres which offer non-formal education, aimed to increase the employability of job-seekers. Job-seekers may access such advisory and training services free of charge, provided they are initially registered as job seekers in the system. Such trainings as well as job facilitation initiatives often conducted in cooperation with the donor community provide incentives for job seekers to register and maintain their registration with the centers. The training centers offer a multitude of trainings in various profiles. The job seekers are entitled to choose their training of preference and may even attend it at a neighboring municipality, shall that specific training not be available in the nearest training center. Given the low level of qualifications among job seekers as indicated above, it is concerning to find out that only 1% of the job

seekers received trainings by the training centers. It is not clear what the reasons behind this situation are, whether it is the unwillingness of job seekers to attend trainings, though provided free of charge, or rather the inability of the training centers to organise more training sessions and reach out to a larger share of the job seekers. On initiative of the MLSW, these training centers are now accredited and the training programmes and resulting qualifications are validated with the National Qualifications' Authority.

The registered unemployed statistics reported by the Ministry of Labour and Social Welfare (MLSW), differentiate to a great extent by the official numbers recognized as unemployed. Thus, MLSW reported 130.000 registered unemployed individuals, whereas in that year Kosovo counted over 300.000 job seekers (Kalludra, Sh 2017, Administrator of the database for Employment and Statistics, MLSW). This large difference doesn't relate with a sudden boom of new openings, but has rather to do with a change of methodology around the statistics as well as with the requirement for job-seekers to renew their registration every 6 months. Data over employment likewise doesn't seem to be accurate. MLSW reports of 11.500 new jobs opened on annual basis, while realistically about half of these numbers concern retirees, whose positions are not always filled again. The unreliability of data makes it challenging for policy-makers to do any meaningful analysis in order to define employment policies (WBG, 2017). Despite data issues, the above 'demand' figure is largely discrepant with the existing 'offer', considering there are over 20.000 new job seekers entering the labour market every year.

When analysing the features of the job seekers in Kosovo, it is concerning to note that over 60% of them have completed only the basic primary education, which results in large gaps in terms of skills even for technical jobs. Of the remaining 40%, around 80% are graduates from vocational schools. This picture confirms the reservations that SMEs in Kosovo have about the competences and qualities of graduates from technical schools in Kosovo. Else, it would be difficult to explain the discrepancy between on the one hand the high number of unemployed graduates from vocational schools and on the other hand the difficulty of enterprises to identify adequately skilled employees for technical positions.

However, there is a constant debate ongoing in Kosovo related to the mindset of people and their approach and commitment to work, when positions other than managerial or office are



concerned. Some business owners in Kosovo have even concluded that in Kosovo there is no unemployment, but rather people unwilling to work (Kosovaime, 2017).

#### 4.1.3 Education and Employment

With a young population, Kosovo can benefit from investing in skills. Educational attainment remains very low. Based on Labour Force Survey (LFS) data, the WB reports that more than 30 percent of males had no education beyond primary; among women 10.1 percent had no education in 2014, and around two third had no education beyond primary. While the educational profile of the population has been improving – the share of those with secondary and postsecondary education among the 20–29 cohort is considerably higher than for the population in the 40+ age group – achievement based on objective indicators remains low.

Data from the European Training Foundation (ETF) shown in the below table confirm generally low levels of educational attainment in Kosovo, particularly among women.

	Total	Males	Females
Not completed education	6.2	3	9.4
Primary education	10.4	7	13.8
Lower secondary	39.8	34.1	45.6
Upper secondary	34.2	44.1	24.4
Post-secondary vocational	2.5	3.4	1.7
Degree bachelor	6	7.3	4.7
Postgraduate degree/master	0.7	1	0.4
Postgraduate degree/PhD	0.1	0.2	0
Total	100	100	100

Table 4. Population aged 15+ by educational attainment and gender, %, 2011 (ETF., 2014)

Public spending on education grew steadily over the past decade, and is catching up with other SEE6 countries, but because of its youthful demographic structure, Kosovo spends only 13 percent of per capita income per student in primary and secondary education— considerably less than upper-middle income countries (16.2 and 17.8 percent, respectively primary and secondary education), or average EU15+3 countries (19.5 and 22.0 percent) (WB., 2017).

Surprisingly, the ratio of students in higher education per capita is quite high in Kosovo. A total of 130'000 students resulted enrolled in academic programs of higher education, in both public and private universitites during the academic year 2015/2016. This high output



nonetheless is characterised generally with poor skills and competences that are generally not aligned with the requirements of the labour market.

The 2015 PISA exercise (the first in Kosovo), confirmed as well by the 2018 PISA exercise, revealed that more than two thirds of 15 year olds lack basic proficiency in sciences, and over three quarters are below basic proficiency in reading and mathematics. As observed in the comparison below, educational outcomes in Kosovo are extremely low given the country's level of development. According to OECD (2020), such poor educational outcomes reflect low quality of primary and lower secondary education due to a combination of challenges: lack of local capacities, including for quality assurance, and a mismatch between the requirements of the new competency-based curriculum and teaching skills (OECD .. , 2020).

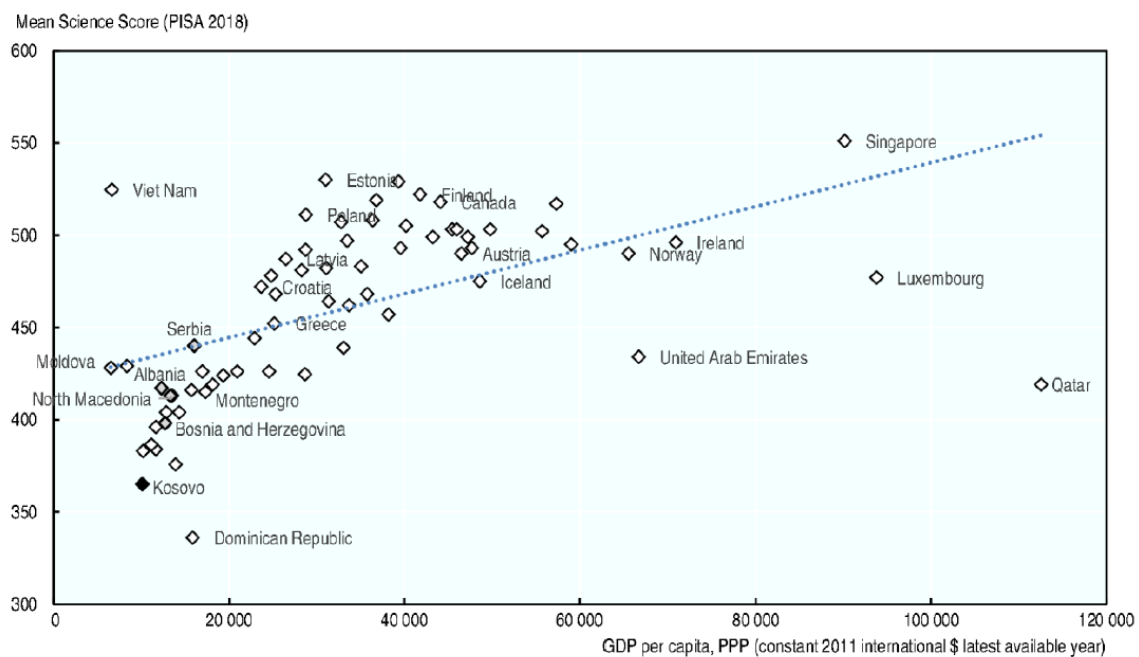


Figure 15. Educational outcomes in Kosovo compared to level of development (OECD .. , 2020)

The Kosovar poor tend to be less educated and have less secure attachment to the labor market. As of 2011, more than one-third of people age 15 or older who did not complete primary education were poor, with the poverty rate falling for each successive level of education completed, reaching only 12 percent among individuals with university degrees. Employment status, type of employment, and returns to employment are heavily influenced by a person's educational level, as those with higher levels of education are typically more likely to find employment and to have access to higher paying jobs. Salaried workers are less likely to live

in poverty than farmers, per diem workers and those without paid employment such as pensioners and housewives. The highest poverty rates are generally found among the unemployed and per diem workers. Subsistence farmers, housekeepers, and those who are retired or disabled also show above-average rates of poverty.

Lack of skilled professionals and a mismatch of skills with labor demands, are among the main constraints to attracting investment. Improving education and training will help workers find employment and give firms access to skills they seek. It will boost labor productivity and help Kosovo move into modern economic sectors. If this is not done, the risk is that Kosovo's young population could be a lost generation.

Employment growth is definitely constrained by the adequacy of the human capital base. An inadequately educated and low-skilled workforce limits employment growth, especially among large, rapidly growing firms. A young and competent workforce will help attract investment to expand opportunities for employment and can lead to sustained income gains. The current education system has not yet succeeded in equipping students with the specific skills and the soft skills necessary to thrive in the changing labor market (WB., 2017).

Over a decade after the conflict, the Government of Kosovo conceptualised the National Strategy for Economic Development 2016-2021. The documents identifies 4 main pillars towards economic development. The first pillar is the development of human resources in the country by improving the quality of education, as one of the most important factors affecting a general social and economic development of Kosovo (NDS, 2016).

Bertelsmann (2018) notes that the education system remains underdeveloped and weak and it fails to provide students with the skills they need in a rapidly changing labor market (Bertelsmann, 2018). This functions as a constraining element in particular in relation to private sector development, as it limits the potential of companies to grow. Cojocar (2017) reports that firms in Kosovo face difficulties when hiring new employees, largely because of insufficient experience or skills. Apparently, the workers upon graduation from vocational education and training (VET) schools do not possess the necessary skills and competence to engage in the market immediately. This stands particularly for more specialized profiles, such as specialists in marketing, sales, and design makes it harder to compete in export markets, where new product development and placement are vital (Cojocar, 2017). Cojocar (2017)

notes that close to two thirds of firms reported recruiting through informal and connections-based channels. The second most popular hiring channel is making job offers to experienced people from other firms. Only 17 percent of firms reported being in regular contact with educational/technical institutions to hire professional/technical staff, and only 7 percent in the case of non-technical staff. Informal hiring reduces the candidate pool for firms and disadvantages those without personal connections. Better alignment between firms' needs and the skills provided by the education and VET systems, inclusively through greater involvement of the private sector in the planning and provision of training, is an immediate priority (Cojocar, 2017).

The expectations about future levels of employment in Kosovo differ from the perspectives of policy-makers, employers and job seekers. Thus in the periodic quarterly research conducted by the Kosovo Chamber of Commerce, it results that 70% of enterprises consider that the situation will continue to be the same, 26% of enterprises expect growth in employment, while 4% of enterprises consider that the employment trends in the future will be downward (OEK, 2016). The Kosovo Chamber of Commerce (BCC, 2017) identifies the lack of adequately qualified and skilled workforce as the main barrier for Kosovo enterprises towards improving their productivity and quality of services provided, limiting their competitiveness in the market. A lot needs to be done also to change the mindset of entrepreneurs, in whose understanding businesses are often family undertakings, so their awareness on the critical importance of HR as assets need to improve (Rexha, 2016). Rukiqi identifies three main reasons why the investments of Kosovo SMEs on the development of human resources is so limited, respectively financial challenges in general, low awareness on the importance of HR as assets as well as the necessity to invest in technology primarily (Berisha, 2016).

#### **4.2. Non-formal education in Kosovo**

The offer of non-formal education in Kosovo is getting increasingly richer, with training programmes offered mainly in the frame of the Vocational Education and Training (VET) system, both public and private. Presently non-formal education provided could be clustered around the following categories:

- Vocational training (employment or job-related), provided in both public and private vocational training centers, and in employment);
- Adult compensatory education courses for those with uncompleted primary or secondary education, based on formal education programmes and offered mainly by schools;
- Other diverse kinds of adult learning provision in areas such as foreign languages, ICT, handicrafts, arts, music and culture etc. offered by private providers, NGOs etc.

The following diagram shows the main education and training areas, exit qualifications in each area and the progression routes between the areas.

The area of vocational education and training as well as adult education are conducted within a legislative framework that comprises a set of laws, such as: Law No.04/L –032 - 2011 on Pre-University Education; Law No. 04/L-138 - 2013 on Vocational Education and Training; Law No. 04-L-143, - 2013 on Adults Education and Training; Law No. 03/L-060 - 2011 on National Qualifications; Law No.2004/37 - 2004 on Inspection of Education; Law No. 03/L-018 - 2008 on Final Exam and State Matura Exam; Law No. 03/L-019 - 2008 on Vocational Ability, Rehabilitation and Employment of People with Disabilities; Law No. 03/L-068 - 2008 on Education in the Municipalities, as well as a large set of secondary legislation.

The concept of non-formal education is defined as follows in the Law on Vocational Education and Training: ‘Vocational education programmes other than those covered by the definition of formal vocational education in this Law, which may take place either within the same vocational education institutions that are providing formal programmes or completely independently of them, for example through employer-provided provision’.

Important steps about validation, recognition and certification of non-formal education activities were undertaken with the approval of the Law on National Qualifications in 2008. The purpose of the law is to establish a National Qualifications System, based on a National Qualifications Framework (NQF) regulated by a National Qualifications Authority (NQA). This law refers to NFE as learning other than that provided through programmes covered by the definition of ‘formal education’.

The objectives of the Ministry of Education, Science and Technology (MEST) with the adoption of the law, relate to the following:

Improve the recognition of qualifications at all levels of formal and non-formal education and training;

- Ensure that qualifications meet the needs of the labor market, economy and society;
- Regulate qualifications, assessment and certification, based on quality and standards;
- Improve access to assessment, including the recognition of prior learning;
- Make the qualifications system flexible and transparent;
- Enhance opportunities for improvement and transfer for all.

Pursuant to the adoption of the law, the National Qualifications Authority (NQA) was established in 2009 as an independent body. The mission of this agency is to oversee and develop the National Qualifications Framework (NQF) in the context of lifelong learning in partnership with the student / candidate, employer and provider of Vocational Education and Training at all levels and in compliance with the demand and needs of society and economy.

Main tasks of this agency include the following:

- Define the types and levels of certificates and diplomas, which will be included in NQF;
- Approve the proposed qualifications for inclusion in the NQF (approve standards arrangements, assessment and certification, for each qualification in NQF);
- Accredite and monitor assessment bodies;
- If necessary, withdraw accreditation from irresponsible institutions;
- Conduct external quality assurance of programs leading to the award of qualifications;
- Handle complaints / appeals by candidates regarding controversial decisions of assessment;
- Approve the certificates and diplomas issued to qualifications in the NQF;
- Maintain a database and verifiable documentation of qualifications in the NQF, certificates and diplomas awarded.

NQA is governed by a Board of 13 members, consisting of representatives of line ministries, universities, social partners, non-governmental organisations, and private sector (NQA, 2018).

As a framework leading such efforts, the Kosovo Government developed the National Qualifications Framework (NQF) in 2011. The process was extensively supported through the European Training Foundation (ETF) as well as other EU instruments and projects supporting VET in Kosovo (ETF, 2013).

NQF is considered an important component within the reform of the education and training system in Kosovo. It is intended to improve access to work and further learning by ensuring that qualifications are relevant to employment and learning, as well as meet the needs of individuals, the economy and education and training institutions (NQA, 2016).

The Kosovo National Qualifications Framework (NQF) has a total of 8 qualification levels and is very similar to the European Qualification Framework (EQF). An overview of the NQF follows in the next page.

Each qualification in the NQF will lead to a certificate or diploma accredited by the NQA. Qualifications at this level will have a range of credit values. They may be professional or academic in content and will commonly carry a credit value, associated with one or two years of full-time study (NQA .. , 2011).

It is very important to mention that the process is based on the European Credit System for Vocational Education and Training (ECVET) and that may be allocated to qualifications and modules offered. According to ECVET standards, a candidate would require 10 hours of study to get 1 credit, while concerning higher education levels, a candidate would require 25 hours of study for 1 ECTS credit.

These qualifications are likely to be offered by accredited institutions of adult education and training, but may also be offered in accredited workplace training centers. There are some institutions accredited to provide non-formal education in Kosovo (NQA, 2018).

The most common profiles accredited are foreign language courses, information technology, administrative assistant, bank cashier, as well as more vocational profiles such as livestock, bakery, computer systems and networks, electric technician, plumbing and sewage, milk processing, welding, etc.

Most of the qualifications belong to the 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, level of the National Qualifications' Framework (NQF). Recently a qualification belonging to the 5<sup>th</sup> level of the NQF has been

accredited, with Cactus Education establishing the first school of this kind in Kosovo (CACTTUS, 2016). The graduates of this IT programme represent a huge potential for the local labour market, though given the need for the profile, a target may be the international market.

Considering the complexity of the process, the National Qualifications Authority has developed manuals with instructions on how to apply for the validation of qualifications as well as how to apply for the accreditation of institutions, which offer, assess or issue qualifications. NQA makes available experts who advise interested institutions on the requirements and procedures of the validation and accreditation process.

The process of validating qualifications is recognised also as a process of quality assurance, which is important to confirm that the programme is of good quality and that the qualification meets the requirements of the candidates in alignment to the demands of the labour market (NQA., 2011).

The legal framework in Kosovo requires every institution interested to offer a qualification considered part of the NQF to preliminarily initiate a process of accreditation. As basic criteria of accreditation, the applying institution shall prove cooperation with local, but preferably businesses operating at the national level ( (NQA .. , 2011).

The accreditation of institution is a complex process, conducted in several phases, and it takes off with the informing and advising applying institutions, followed by the submission of a self-assessment report.

### The Kosovo National Qualifications Framework (NQF)

National Qualifications Framework				
NQF Level	Contains qualifications associated with			EQF ref. level
	Education programmes	Currently available qualifications (Type)	Potential work roles/occupational requirements	
8	Higher education - Bologna 3rd cycle (Doctorate)	Doctorate (A)	Entry to, or continuing professional development within, senior levels of management or higher level professional occupations	8
7	Higher education - Bologna 2nd cycle (Master)	Master degree (A)		7
6	Higher education - Bologna 1st cycle (Bachelor)	Bachelor degree (A)		6
5	Bologna short cycle and /or post-secondary VET	Title of qualifications still unknown (A), (C) Certificates of non-formal providers (D or E)	Specialist/Trainer/Manager	5
4	Preparation for progression into higher education and/or labour market entry	Matura diploma in general or vocational subjects (B), (C), Vocational education diploma (C)	Qualified Worker/Supervisor	4
3	Preparation for labour market entry (young people and adults)	Vocational education certificate (C) Certificates of non-formal VET providers (D or E)	Semi-skilled Worker	3
2	Progression from lower to upper secondary education (young people), preparation for labour market (adults)	No existing qualifications of formal education system identified Certificates of non-formal providers (D or E)	Low-skilled Worker	2
1	Basic education	No existing qualifications of formal education system identified Certificates of non-formal providers (E)	Minimum level of basic skills, inc. literacy/numeracy, required for entry to lowest level of employment	1

Figure 16. The levels of the NQF related to selected stages of lifelong learning in the context of the current education structure and legislation (NQA .. , 2011)



#### **4.2.1 Occupational standards**

A pre-condition to initiate the process of accrediting the institutions offering NFE and validating the qualification and module for a specific profession, it is required that an occupational standard on that profession is developed and nationally approved. An occupational standard is considered nationally approved, once endorsed by the Council for Vocational and Adult Education, a body established by MEST, pursuant requirements of the Law on Vocational Education. The occupational standards in Kosovo are recognised as ‘units that reflect the skills required to realise the functions related to a certain profession and the application of knowledge, skills and understanding of a certain profession’ (KOSVET, 2011).

The NQF law defines Occupational standards ‘as measurable indicators of achievement, defined either in terms of qualitative or quantitative criteria, that are required to be achieved by candidates for the award of qualifications’. Occupational standards provide a reference point for the identification of learning outcomes and the criteria used for assessment of qualifications, including the knowledge and skills relevant to the occupation” (NQA .. , 2011).

The Law on Vocational Education and Training requires that the Occupational standards are developed through participatory processes, including MEST and MLSW, other relevant ministries and social partners. The occupational standards shall be verified by the employers or business representatives in order to check if the standard is aligned to their needed skills. As a representative of business organisations, the Kosovo Chamber of Commerce has taken the lead in initiating the development of occupational standards, ensuring that the skills required by their member organisations are reflected in the standards. So far, through participatory processes, involving public and private institutions, the National Qualifications Authority has approved a total of 86 Occupational Standards. (NQA, 2018). In view of the training offers in the market, the number of nationally endorsed standards seems rather low. This is mostly due to the fact, that the participatory process of developing occupational standards has an extensive cost and needs to be sponsored, as well as the limited capacities of the Council for Vocational and Adult Education that needs to validate and nationally endorse the respective standard.

The above system of recognition of education and training efforts is meant to ensure that any knowledge or skills earned are assessed and validated. This is particularly important for individuals or employees that were exposed to training and educational activities, which were not formalised by a certificate or degree. The current framework enables them to request formal validation and certification of gained skills and knowledge. To this end, NQA in cooperation with different stakeholders developed the guidelines for recognition of prior learning. These guidelines provide information and guidance on implementing Recognition of Prior Learning (RPL). It is useful for the candidates concerned in terms of their education, training and labor market concerns, but as well for providers of vocational education and training programs, social partners including employers, employer organizations, trade unions and organizations that support job-seekers to gain access to the labor market (NQA, Draft Guidelines on Recognition of prior Learning, 2018). In relation to the NQF, occupational standards mostly cover the 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> level of the framework.

## Chapter 5. Analysis of research results

The design of this research combined qualitative and quantitative research techniques. Though, as the inherent semi-structured interviews were conducted using as a guide the main thematic elements of the questionnaire, the below section contains mainly the quantitative findings of the survey. The interview findings were very helpful in better understanding, analysing and interpreting the findings of the quantitative research and are therefore inherently integrated in the below findings of the quantitative research and are not reported explicitly.

In this chapter we dive into analyzing the findings of this research, bringing to the fore insights and perspectives deriving from the correlation and cross-tabulation of respective variables.

In the first part, we dive into a descriptive analysis of results, which helps us understand and value the various elements that shape SME development, the internal and external contextual elements that justify choices and approaches of managers as well as their perception and expectations of how important is human resource development – and more specifically NFE in that relation – for a further development of their businesses.

Through an econometric model, based primarily on multiple linear regression analysis, in the second part of this chapter we test the suggested hypothesis of this research. The various statistical analysis conducted help us explain the behavior of one variable (the dependent variable) using the predictive power of other independent variables.

### 5.1. Descriptive analysis of results

The descriptive analysis of results is clustered around the main themes of the questionnaire, as follows:

**Part 1:** general information about companies, such as legal status, type of ownership, sectors the companies operate in, experience in the business;

**Part 2:** companies' strategic approach to leading their business operations;

**Part 3:** companies' approach towards human resource development in general and non-formal education in particular;

**Part 4:** companies' approach towards human resource management cycle and the implications of human resource development on staff and organizational performance.

### 5.1.1. General characteristics of Kosovo SMEs

The strategic approach of enterprises towards employee' development results largely from the general social and cultural context in which these enterprises operate. In order to understand this context and their positioning, we start with an analysis of the gender balance dimensions in the ownership of SMEs.

Though discouraging, the results follow the wider socio-cultural pattern of patriarchy, with male dominating significantly in the ownership of companies. Thus, of all the companies in the survey sample, only 7.10% are led or owned by females, whereas the absolute majority of enterprises in the sample or 92.90% are owned by males.

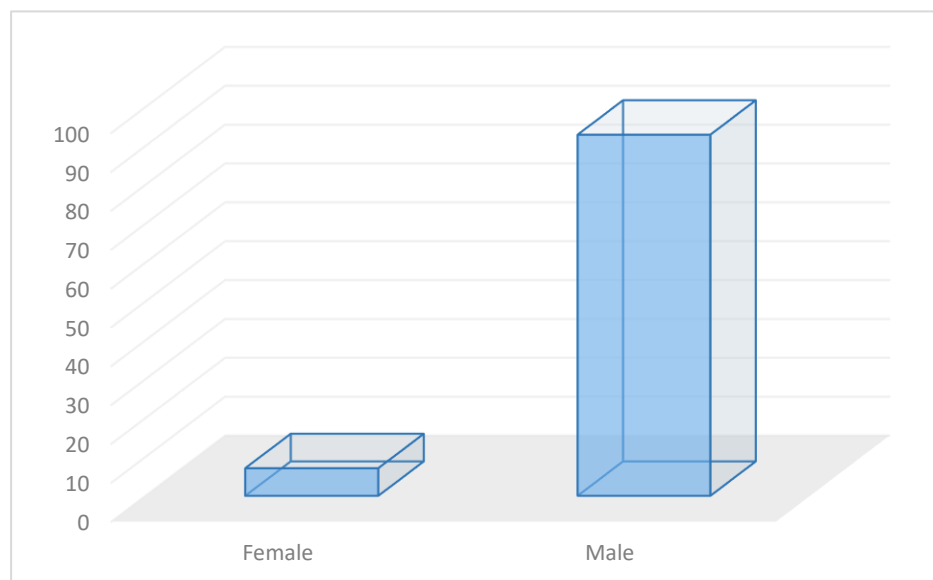


Chart 3. Ownership gender statistics

Such discrepancies in gender statistics in the ownership of companies have been indicated time and again by other sources, such as the Statistical Agency of Kosovo, which confirms that males dominate the ownership of businesses also in 2016 (Indeksonline, 2017). Though such discrepancy in gender ownership resonates well with the general social and cultural context of the society in Kosovo, indeed, as concerns the private sector, similar male dominance in the ownership of companies is noticed also in other developed countries, such as the United Kingdom. Apparently, this results from limited access to resources, education but also finance (FSB, 2016). The same factors definitively stand as limitations also in the case of Kosovo, in particular access to finance and the right to ownership.

At the global level, policies and mechanisms have been developed to encourage women in business and increase the number of female business owners (IFC, 2015). Kosovo is trying to follow suit, often with the support of initiatives from the international donor community, a number of mechanisms have been developed to support women with promising business ideas to get started through easier access to finance, more favourable bank provisions, etc.

The duration of the business tradition often defines how strategic is the approach of companies towards employees, particularly as concerns human resource development. With the aim of understanding these differences, the survey included questions over the type of ownership structure of companies as well as the duration of their tradition in the business over generations. Private sector in Kosovo was hardly developed in the pre-war period. With mostly state-owned companies prevailing, the business environment wasn't conducive for the development of small and medium enterprises. It is indeed, following the 1999 war, and in particular the independence of the country in 2008, that the flourishing of the private sector got boosted.

If we correlate these data with the gender dimensions, we see that only 7.86% of companies of the first generation belong to female owners, and only 5.57% of businesses of the second generation belong to female owners and there is no business of the third generation that is female-owned.

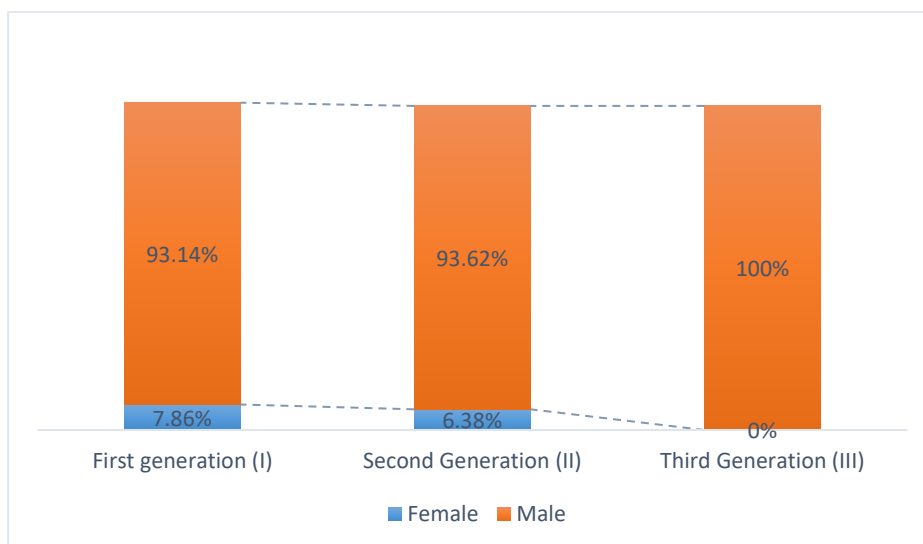
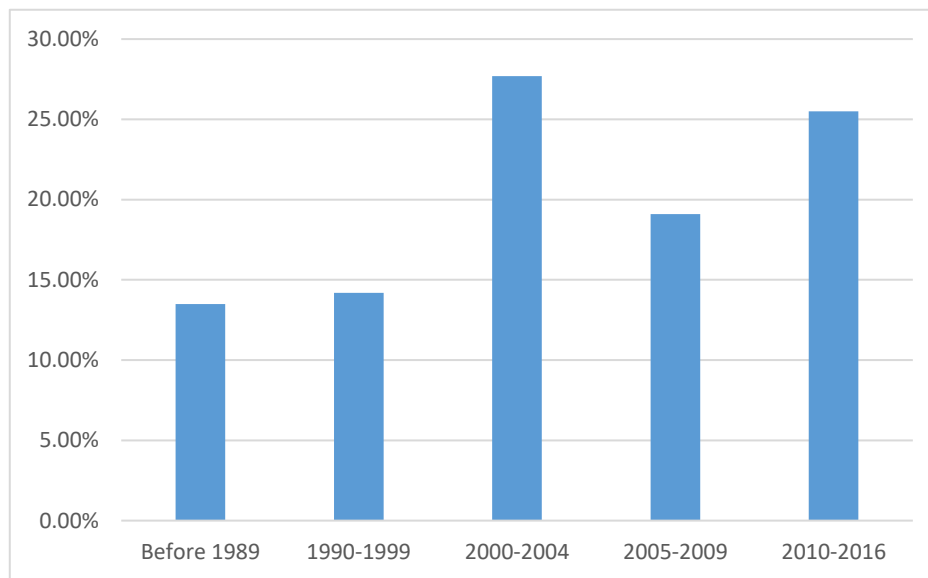


Chart 4. Gender statistics of businesses over generations

For a clearer overview of the time when businesses have been established, we have introduced periods of time that coincide with important milestones of Kosovo's economic development. The data show that the vast majority of enterprises in the survey were established after the war, with 27.70% of enterprises established in the period 2000-2004, 19.10% of enterprises have been established in the period 2005-2009, while 25.50% of the companies have been established in the period 2010-2016.



*Chart 5. Details of the time businesses were established*

A cumulative of 27.70% of enterprises were already active before the war, with 14.20% of enterprises established in the period 1990-1999, while only 13.50% of small and medium enterprises in the survey declare to have been in the business from 1989 and earlier.

An important dimension defining strategies approaches of companies in business as well as human resource development is also the legal and ownership structure of the company. This is a question our survey looks into. In line with previous indications of a nascent private sector, the survey, not surprisingly, finds out that 66.70% of the companies are led by a single owner. The next prevailing setup indicated is limited liability companies (LLC) with 18.40% of enterprises currently having this status, whereas only 11.30% of the companies in the sample are managed by multiple owners. The survey findings confirm the general assumption that foreign direct investment is particularly low in Kosovo. In only 2.80% of enterprises in the survey, ownership is shared with internationals. A higher involvement of foreign companies

is certainly important to expose Kosovo companies to modern management and strategic approaches in business management in general, and human resource management and development in particular. A mere minority of 0.70% of the companies declare another ownership type, respectively the joint stock company.

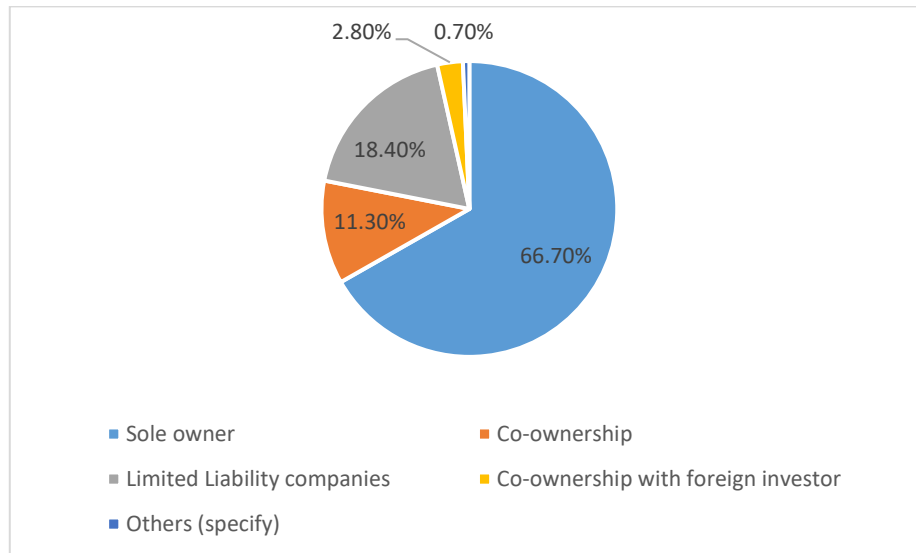


Chart 6. Details on the structure of business ownership

Context challenges and opportunities differ from one business sector to the other and shape companies' business and human resource management and development. In light of this, it is important to observe the sectors in which the companies of the survey sample operate.

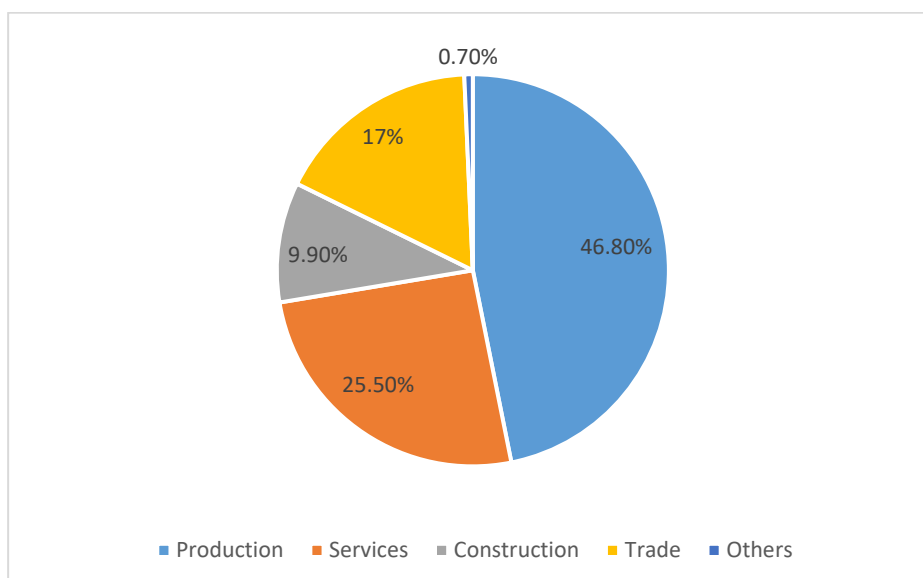


Chart 7. Statistical details on the business sectors of the enterprises

From the total of 141 enterprises participating in this study, 46.80% of them are active in production, 25.50% are active in the service sector, 9.90% of the enterprises in the survey sample are active in construction, while 17% are dealing with trade and only 0.70% declare to be active in the processing and packaging industry.

The development of the enterprise depends to a large extent on the development and prosperity potential of the sector in which the enterprise is operating in. The survey included questions checking the perception of the enterprises on the development potential of the sector they are active in. The results show that in general the situation is considered as good in all sectors. It is striking that the enterprises in the production sector consider it with high potential. Only a small number of enterprises consider the situation in their sector of operations as bad.

The profitability and economic standing of the companies is an important factor to observe in relation to human resource development. As experience shows, only once the companies are on a good economic standing, will they divert attention to the development of their workforce. It seems that the enterprises participating in this survey are on a relatively good financial position, or share that perception. A total of 89.40% of companies participating in the survey consider their current financial standing as good (58.90% of companies) or very good (30.50%).

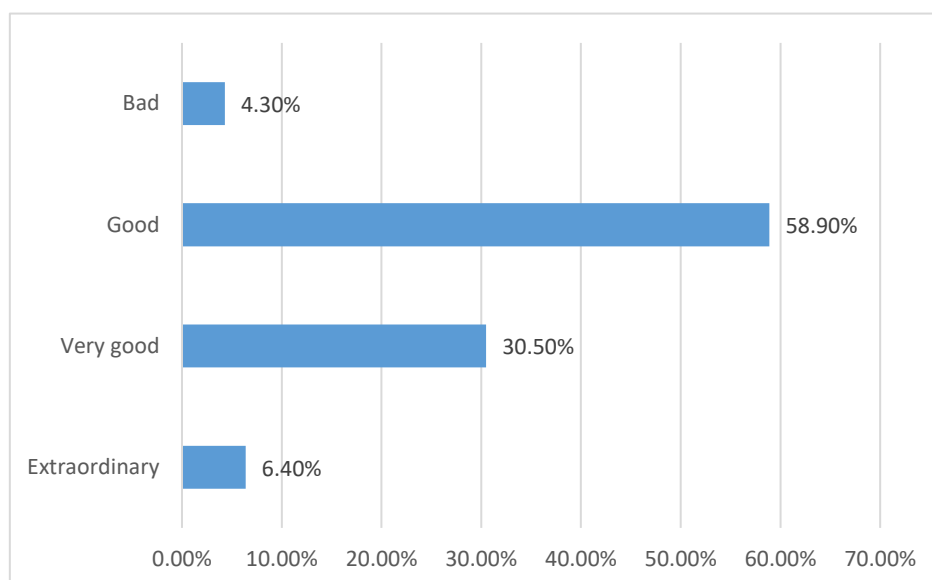


Chart 8. Perception of businesses with their actual financial standing



A slight share of 6.40% of companies in the sample are extraordinarily satisfied with the performance of their businesses, while some 4.30% of companies in the survey consider their businesses to be performing bad.

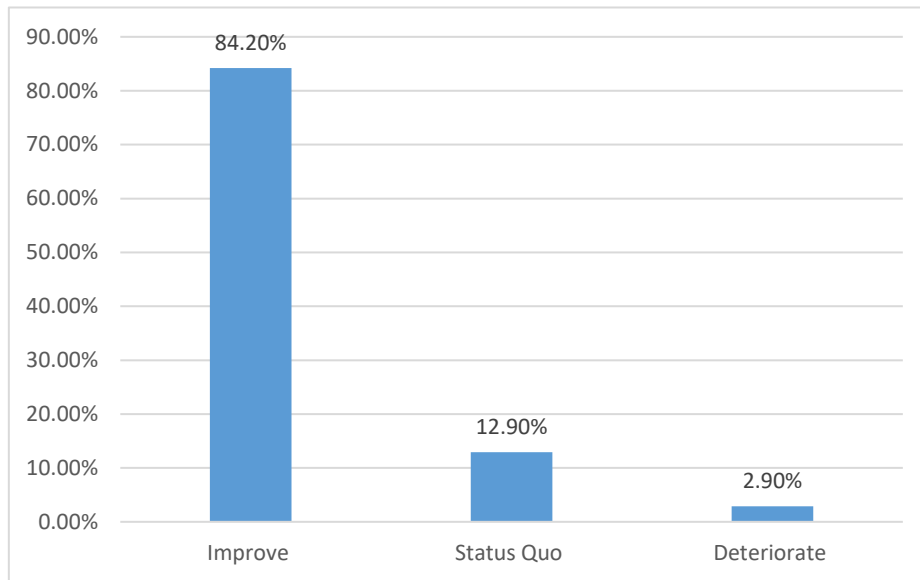


Chart 9. Perception of businesses for expected future growth

The above table shows encouraging results about the companies' perception on their future prospects. Thus, 84.20% of the enterprises are convinced that their businesses will certainly grow in the coming years. 12.90% of the enterprises in the survey consider that their businesses will remain at their current size also in the future, while 2.90% of the enterprises perceive their businesses will continue to shrink in the future.

The enterprises' prospect for growth have been confirmed also in a recent study of the Kosovo Chamber of Commerce (Commerce, 2016), which assesses the expectations for growth of companies in 2017, concluding that all business sectors surveyed expect increases in sales and growth in the year 2017.

Despite perceptions of progress, the multiple challenges faced by the business community in the recent years in Kosovo have limited the success rates. Expectations for further development vary, from sector to sector. In the **production sector**, 90.90% of the enterprises expect their businesses to grow in the coming years, while 9.10% of the enterprises expect their business capacity to remain stable with no significant growth in the coming years.

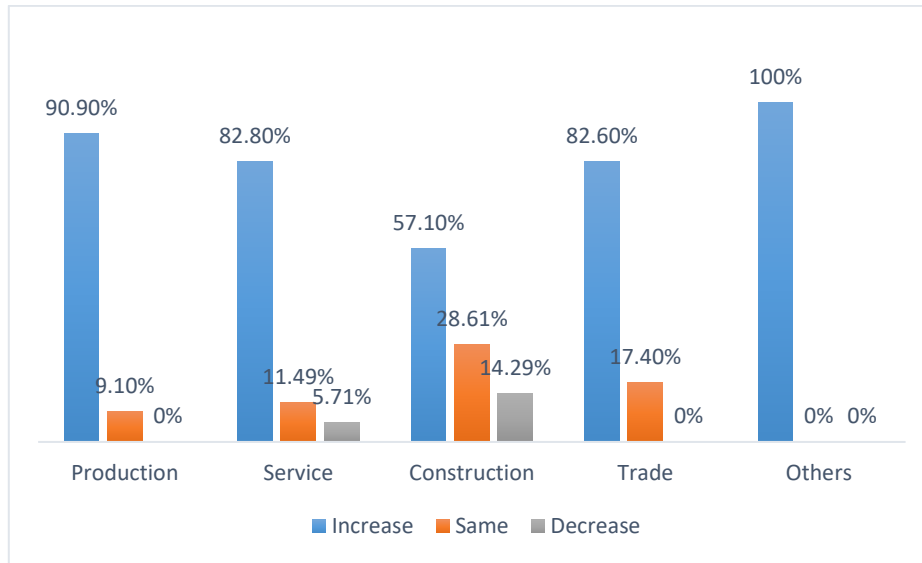


Chart 10. Graphic presentation of the expectations of enterprises to grow based on sectors

In the **service** sector, 82.80% of the enterprises expect their business to grow in the coming years, while 11.49% of the enterprises expect their business capacity to remain stable with no significant growth in the coming years. Moreover, 5.71% of the enterprises in the sample expect their capacity to decrease in the coming years.

In the **construction** sector, 57.10% of the enterprises expect their business to grow in the coming years, while 28.61% of the enterprises expect their business capacity to remain stable with no significant growth in the coming years. Moreover, 14.29% of the construction enterprises in the sample expect their capacity to decrease in the coming years. In the **trade** sector, 82.60 % of the enterprises expect their business to grow in the coming years, while 17.40% of enterprises expect a status quo.

For the aims of this study it is important to understand the size and features of companies in the survey, such as the number of employees. In line with the general overview of the economy of Kosovo, the majority of enterprises, including in this survey sample are micro enterprises, with 48.20% of enterprises employ 10-49 employees. Another 37.60% of enterprises employ only 0-9 employees, whereas a small share of while 14.20% of the enterprises in the sample declare to have 50-249 employees. It is worth noting that due to informality, many businesses declare less employees compared to the original numbers they've got employed.

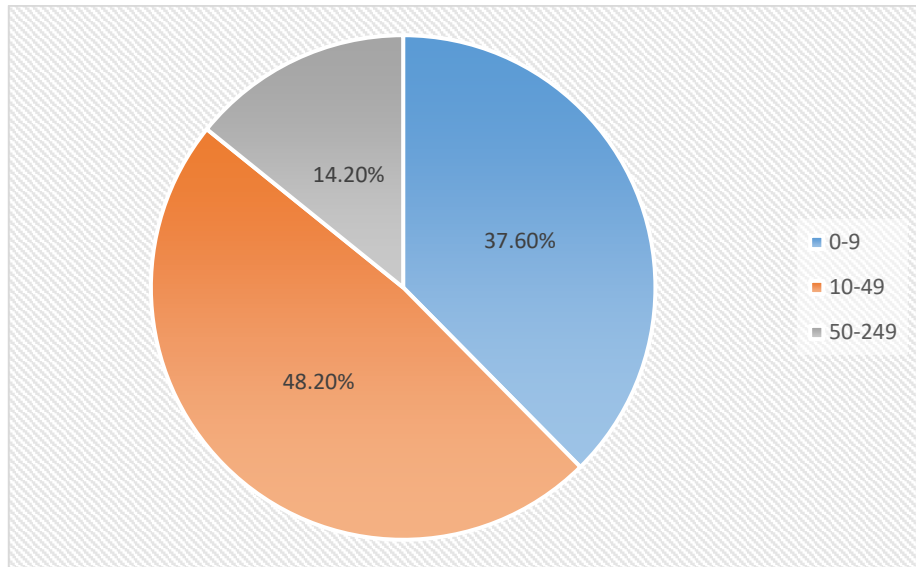


Chart 11. Details on the number of employees in the enterprises

An analysis of the data across sectors show that the companies with the largest number of employees are operational in the production and construction sector. In the **production** sector 25.76% of companies in the sample employ 50-249 employees, while a share of 54.55% of companies employ 10-49 employees. While there seems to be no company registering over 50 employees in construction, a large share of 86% of companies in the **construction** sector employ 10-49 employees.

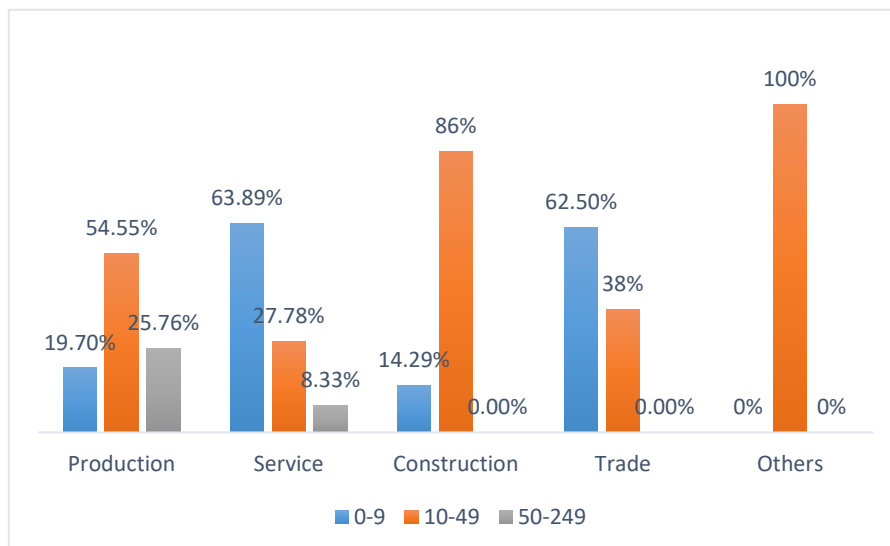


Chart 12. Size of enterprises across sectors

On the other hand, companies in the services and trade operations seem to be rather small, with over half of companies in both sectors being rather micro. The **service** sector shows mostly micro companies, a vast 63.89% employing only 0-9 staff, whereas a mere minority of 8.33% employs over 50 staff. Similarly, in the **trade** sector, a large share of companies is very small, with 62.50% employing only 0-9 staff.

### 5.1.2. Strategic approaches of Kosovo SMEs

In a context of swift political, democratic and economic transition such as Kosovo, where informality prevails in many economic sectors, the nascent private sector often operates building on imminent priorities and fails to be led by long-term strategic business plans. Even when available, strategic documents are established often to meet some formal requirements, e.g. related to access to finance and aren't genuinely used to guide the strategic development of the business venture. Given the aim and scope of this study, it is critical to understand how strategic are the businesses development in their operations, as that certainly influences also their approach and rationale with which they approach human resource development.

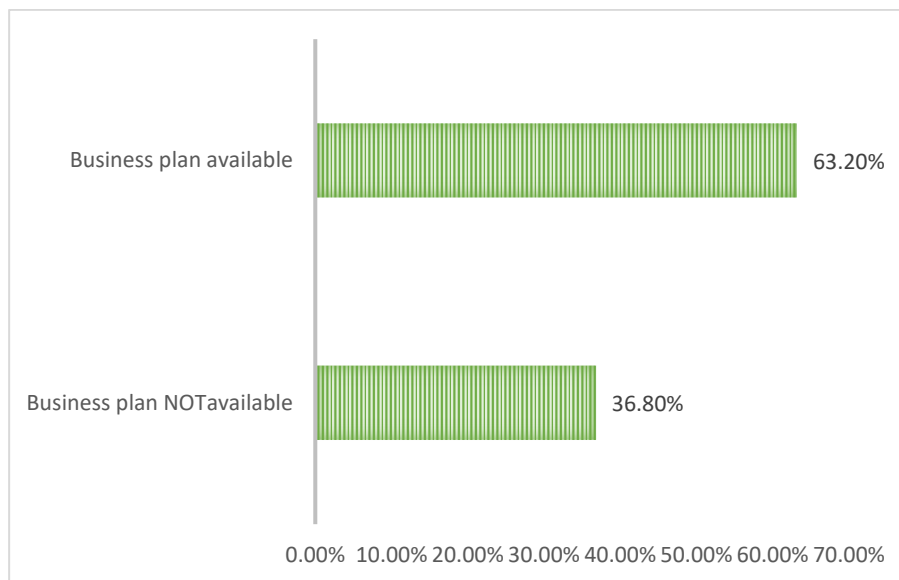


Chart 13. Availability of business plans

Survey data show us that a good majority of the businesses, 63.20% have available a strategic business plan. Local research (Shehu, 2017) confirms the above-mentioned assumption that the availability of the business plans doesn't by necessity imply that it is used to lead business operations in practice. In some occasions it appears that business plans are available only as

instruments of meeting formal legal requirements, e.g. participate in some international development project, apply for fiscal or financial subventions and fail to document elaborate strategies and considerations of developing and growing the business to become more profitable. The accompanying interviews to the survey reveal that while 36.80% of the interviews don't have a business plan available, they also don't really see the need for such a document.

There are quite stark differences among sectors as concerns the availability of business plans. In our study, the trade and construction sectors show the highest number of enterprises that operate without a business plan. Thus, 72.70% of the enterprises in **trade** declare they operate without a business plan and similarly 71.40% of the enterprises in the **construction** sector seem to operate without a business plan. Surprisingly, enterprises in the production and service sectors seem more organised and possess strategic business planning documents, with 84.40% of the enterprises in the production sector declaring they have business plans. In the **service** sector, 60% of the enterprises in the sample declare to have a business plan. The interviews with business owners undertaken as part of this research show that it's often due to lack of adequate human resources able to strategize that defines the absence of business plans.

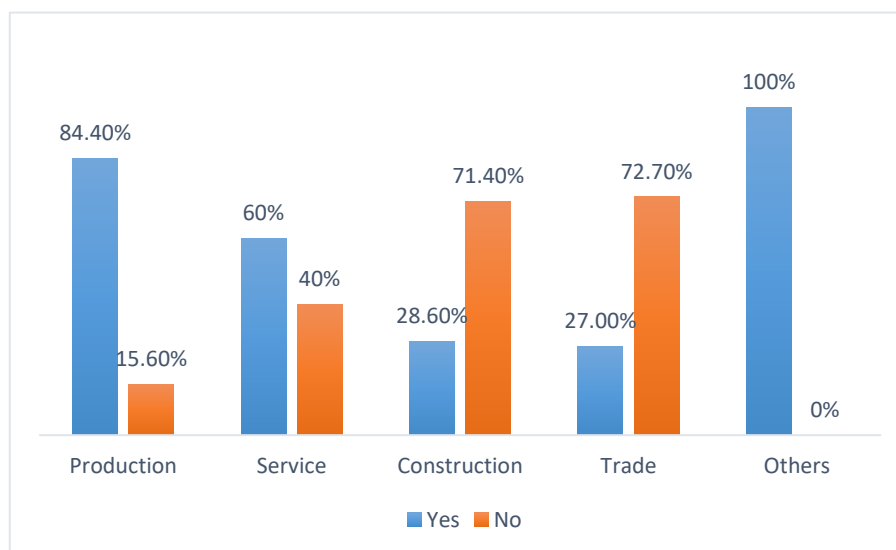


Chart 14. Availability of business plans within sectors

Of the businesses that expect stable development without major increases, only 50% of them possess business plans. On the other hand, 75% of the businesses that expect a downturn in

their progress in the future do not possess any business plan.

When available, the business plans generally cover short periods of time. Thus over 80% of companies possess business plans of no longer than 5 years (47.10% of companies with business plans up to 3 years and 40% of companies with business plans of up to 5 years). Only a very small minority of 2.40% of enterprises in the study possess business plans that cover a duration longer than 10 years.

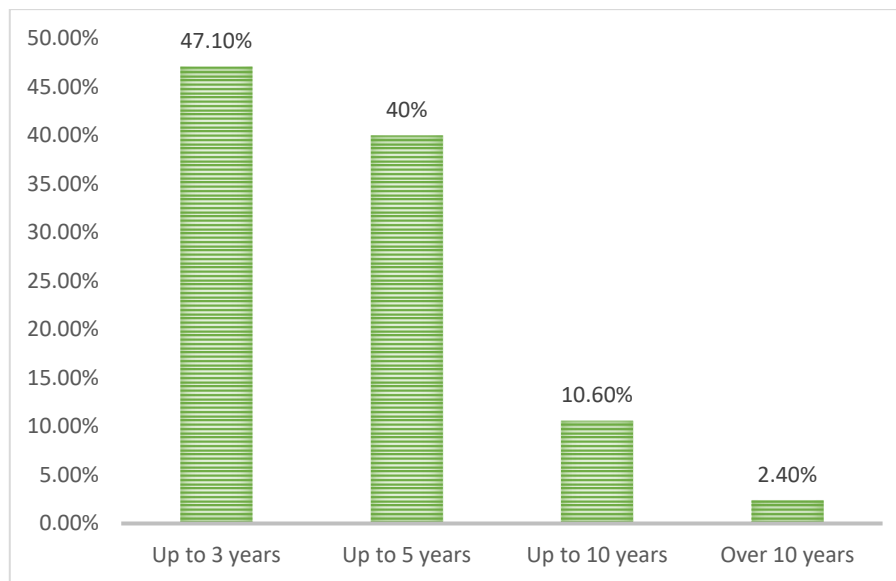


Chart 15. Duration of business plans when available

Analysing such details across sectors, we may conclude that the situation is similar across sectors. Only in the case of the production sector, we notice that 3.80% of companies possess business plans that cover a duration of over 10 years. The absence of long-term strategic business planning has to do with the long-term prospects of business development on one hand, but as well with strategic thinking capacities available to companies internally.

As mentioned above, the Strategic Human Resource Management model recognizes human resource management as an inherent component of business strategy development. Therefore, we have included questions in this survey which aim to understand the approach of businesses towards human resource development, how systematic and strategic are they, on what grounds and with what rationale are human resource development initiatives pursued and through which modality is this undertaken. As seen from the below chart the results aren't very encouraging with only 34.80% of the enterprises in the sample having available a strategic human resource development (HRD) plan, while an additional 14.50% of companies seem to

be in the process of developing such strategic framework for HRD. As in the case of business plans, the fact of such documents being available is no indication whatsoever of their quality or guarantee of their use to guide strategic decision-making.

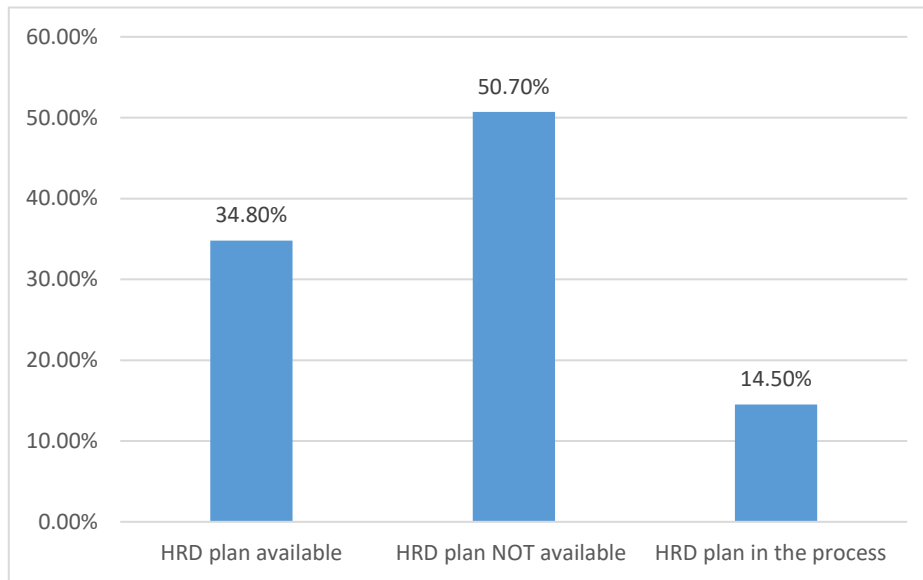


Chart 16. Availability of strategic Human Resource Development (HRD) plans

The below chart shows that at present 63.80% of the enterprises in the survey make all decisions related to HR on ad-hoc basis and without any proper strategic deliberations.

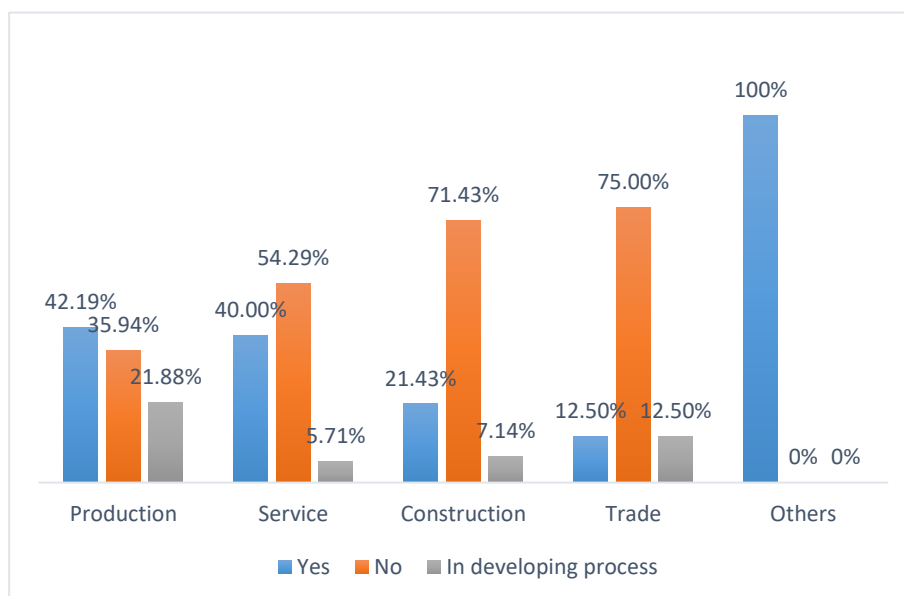


Chart 17. Availability of strategic HRD plans across sectors

Analysing the data across sectors, we observe that the production and services sectors stand somewhat better compared to the rest. Thus in the **production** sector, 42.19% of the enterprises in the survey have available a strategic HRD plan to guide their decisions, followed by 40% of enterprises in the **service** sector. HRD decision-making in the construction and trade sectors seems to be quite arbitrary, with only 21.43% of companies in the construction sector and 12.50% of companies active in **trade** presently having in place strategic HRD plans.

When correlating the data on the availability of strategic HRD plans and the expectations of enterprises for progress and growth in the future, we get a mixed picture, as only 38.60% of companies that expect to grow in the future have also a strategic HRD plan in place. Surprisingly, the share of companies not expecting to grow much in the future and having available a strategic HRD plan is significantly high at 46.49%.

New Employments levels of the enterprises in the last three years reveal an interesting picture. The data confirm a slow growth of companies during the past three years. Almost half of enterprises, a share of 47.50% seem to have hired only 1-5 new employees during the past three years. Whereas the share of companies who have had more significant growth of their workforce in the last three years is limited to 30.5% with companies employing 11-20 new employees (17.7%) and beyond 20 employees (12.8%). A significant share of 8.5% of enterprises in the survey have had no new employment in the past three year.

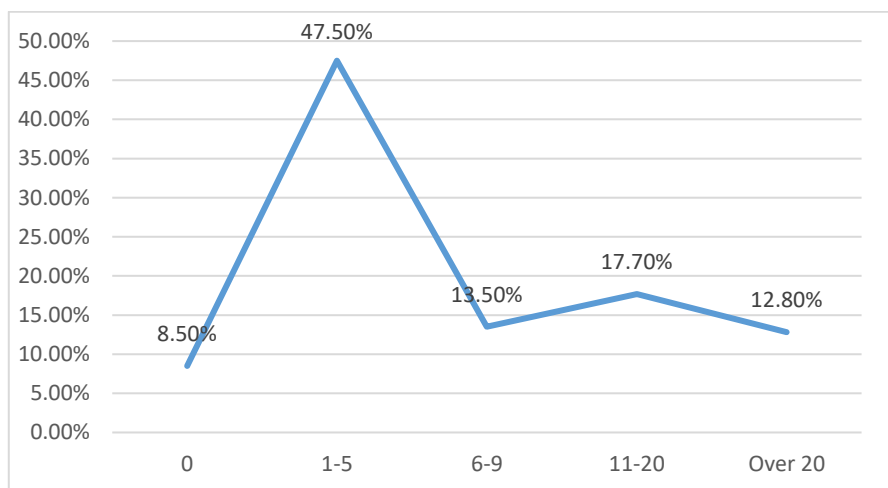


Chart 18. New employment in the companies during the past three years

Given the focus of this study, we looked closer into features of the workforce, such as gender, age and educational attainment. From a gender perspective, the data reveal an interesting



situation, as there seem to be companies – 25.82% of companies in the sample – employing exclusively males and no single female employee, as well as 2.12% of companies in the sample employing exclusively females and no single male.

The data on the average age of employees show that the majority of employees in the enterprises are middle age, with 54.60% of enterprises declaring that the average age of their employees is 35 years and an additional 14.20% of the enterprises employ staff of a relatively young age, up to 25 years.. In 27% of enterprises the average age of employees is around 45 years, while another 4.3% of enterprises in the survey employ staff older than 45 years.

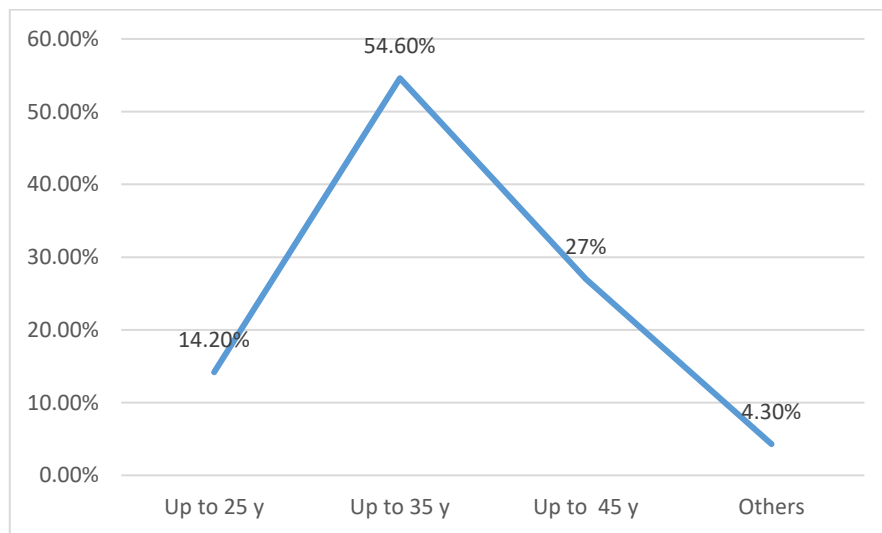


Chart 19. Average age of the workforce

Workforce age characteristics are critical in considerations of human resource development. Therefore this section looks closer at age differentials in the enterprises of the various sectors at the focus of this study. The below chart shows that companies in the **services** sector have the youngest staff, as the average age of employees is 35 years in 61.11% of companies, and 25 years average age in another 22.22% of companies. **Trade** and **construction** sectors seem to employ also older staff in average. Thus in **trade**, 41.70% of companies employ staff up to 45 years, whereas the majority employ staff up to 35 years old (in the case 25% of companies) and up to 25 years old (in the case of 29.16% of companies). In **construction**, a good share of 35.71% of companies employ staff up to 45 years, whereas the majority is fairly young, with 50% of companies counting employees aged up to 35 years old and 14.29% of companies counting employees younger than 25. In the **production** sector on the other hand, the vast majority of enterprises, namely 62.10% of the enterprises employ staff with an average age of

around 35 years. And in another 27.30% of enterprises in this sector, the average age of employees is around 45 years. Such age patterns in the production sector relate to business necessity of hiring more experienced professionals, potentially prior to the war and a significant share of younger staff, which is assumed to help companies keep up with recent technological developments.

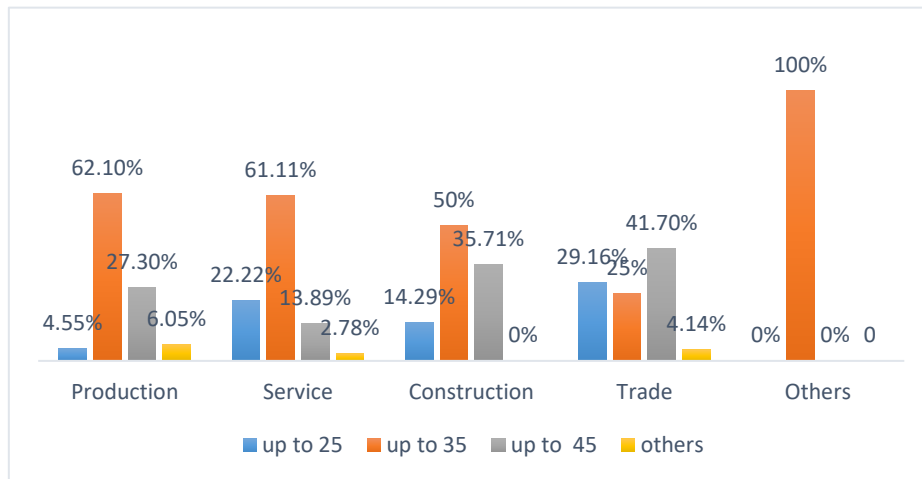


Chart 20. Average age of the workforce across sectors

This study has also looked at the educational attainment of employees in small and medium enterprises. The prevailing education profile in the companies seems to be technical vocational schools, with 91.50% of the enterprises in the sample declaring they employ people with such qualifications, confirming once again the importance of a well-developed non-formal education system.

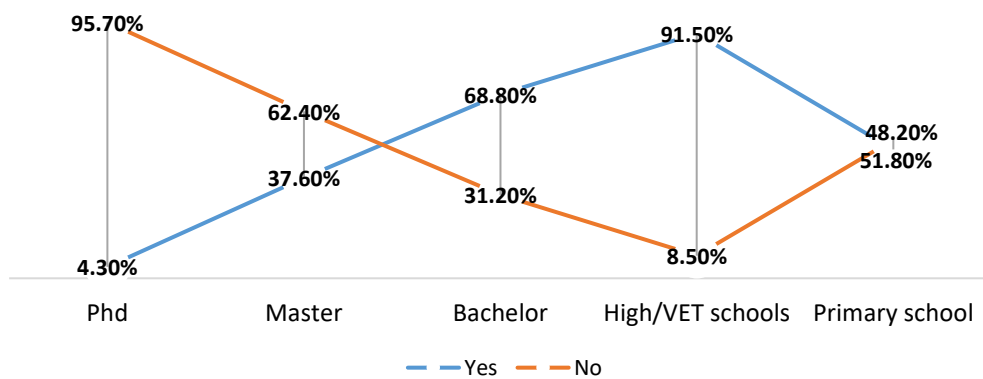


Chart 21. Graphic presentation of employees and their qualifications

Another 48.20% of enterprises declare they employ staff with only primary school. The companies declaring employment of staff with higher education attainment namely academic degrees is lower, as presently only 4.30% of enterprises in the sample declare to have an employee with a PhD degree, while 37.60% of enterprises declare they employ staff with master degrees. With reference to Bachelor degree, a total of 68.80% of enterprises confirm employing one or more employees with such a degree.

Though the data show that there are various levels and types of qualifications available among human resources in enterprises, the accompanying interviews in this research reveal that such education doesn't provide the enterprises with adequate skills needed to run their businesses. Discussions reveal also flaws in the recruitment process, as most of the enterprises seem to be resourcing their employees based on personal recommendations and acquaintances, resulting with inadequately skilled and experienced personnel, while pursuing formal recruitment and selection processes could ensure them better results.

In the context of Kosovo, the identification of adequately skilled employees remains one of the most important challenges and bottlenecks for a genuine development of enterprises. This assumption is confirmed by Selimi (Selimi, 2017), who shows that businesses face many difficulties in identifying adequately skilled employees that match the needs and requirements of their businesses.

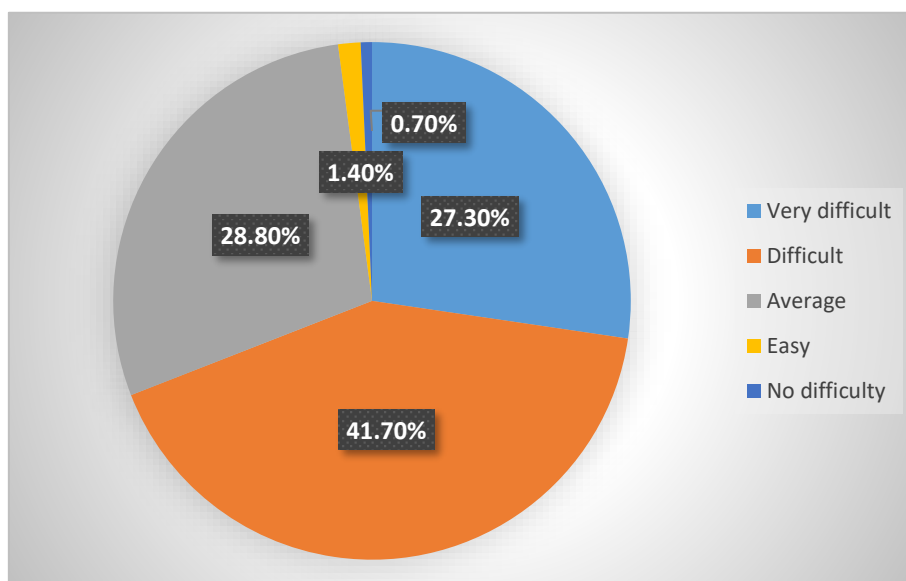


Chart 22. Difficulty of identifying adequately skilled employees

Our survey confirms this finding, as a combined 69% of the companies participating in the survey find it very difficult (27.30%) or difficult (41.70%) to identify adequately skilled employees, while another 28.80% of the companies state this is of average difficulty. It is only for a 2.10% of companies easy and without any major difficulty to identify adequately skilled employees.

The analysis of the above data shows how difficult it is for enterprises in Kosovo to identify the skills required in the labour market. A look into such data should actually serve as a call for action and trigger respective responses from relevant institutions to improve education and training sectors in general, ensuring that the labour market makes available skills, qualifications and know-how that meets the requirements and needs of Kosovo enterprises.

Difficulties in identifying adequately skilled staff vary among sectors. Construction is one of the sectors where it seems particularly difficult to identify employees with adequate skills. The feedback of the companies from the **construction** sector shows that a huge 92.85% of the companies in the survey find it very difficult (35.71%) or difficult (57.14%).

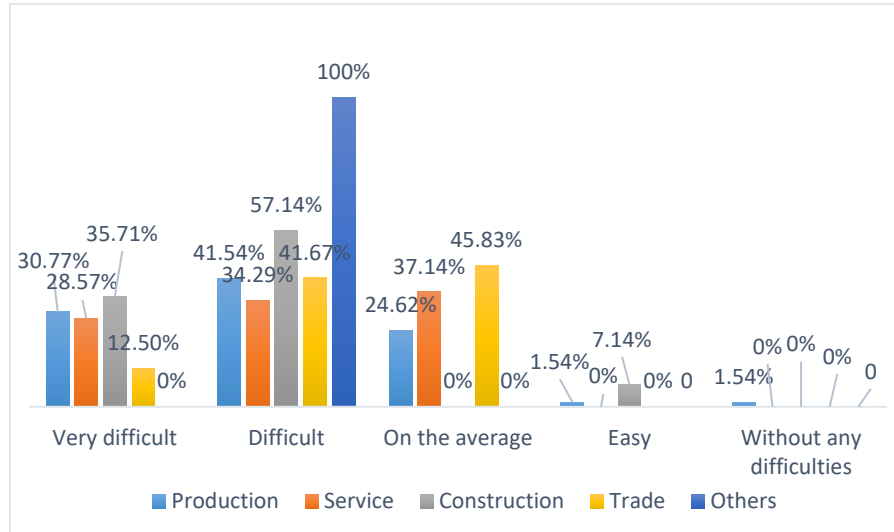


Chart 23. Difficulty of identifying adequately skilled employees across sectors

The **production** sector follows suit with a total of 72.31% of the companies finding it very difficult (30.77%) or difficult (41.54%). In the **services** sector the picture is more balanced with 37.14% of the companies finding the identification of adequately skilled staff of average difficulty. On the other hand, in the **trade** sector the companies find it easier to identify adequately skilled staff as there is no company that finds this very difficult.

As confirmed by Selimi (Selimi, 2017) this leads to a set of inconveniences for the companies. On one hand, it inhibits companies to realise their full potential as the employees lack required skills while on the other hand, due to skills gaps the companies are required to invest in employee development programmes. And for the companies this implies a cost in time, efforts and finances invested that could have been put to better use.

The starting point towards a good recruitment is a well planned and conducted selection process. It shall be led by clear targets in terms of skills and experience required as well as proper selection of recruitment channels and methodologies. The survey points out of a number of deficiencies in this regard that need to be addressed by the Kosovo SMEs. A staggering 77.30% of businesses participating in the survey seem to be recruiting staff on the basis of recommendations, often without proper consideration of qualifications or motivation for employment, acting primarily on the basis of favouritism.

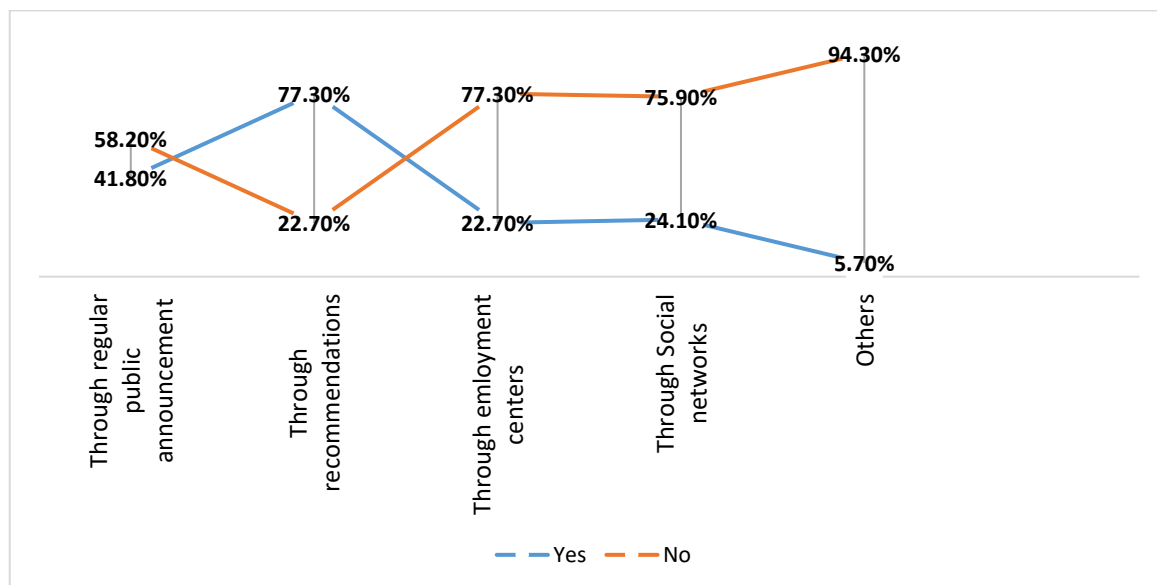


Chart 24. Various modalities pursued in employee' recruitment

The concept of meritocracy is not well established and acknowledged, be it in the private or public sector. Recommendations for employment often extend beyond family circles to wider clans, often driven by considerations of political interests and the potential to influence and benefit business relations. As noted by Lemieux et al. (Lemieux, Vincent and Noel S.j.r, 2017) this dimension goes often beyond clients and business associates in the direction of serving the prevailing political patronage in the country. In other cases, the companies seem to be using some form of announcing the vacancies publicly, namely 41.80%. Though such public

recruitment platforms have started being used for resourcing, the managers concede that the way the process is organised and handled needs to be improved for more effective results. In view of such high rates of recruitment based on favouritism it is no wonder that the private sector struggles with absence of adequately skilled staff. Such skills gaps make HR development indispensable for further progress.

In an effort to facilitate employers the selection of appropriate resources, many countries have established platforms that aim to match job-seekers with available jobs. Such a function in Kosovo is exercised by the Employment Offices. Present in all municipalities, under the auspices of the Ministry of Labour and Social Welfare (MLSW), these offices register unemployed individuals, map their skills and qualifications, provide them with training opportunities and aim to facilitate their employment. The survey results show that in 22.70% of cases, the companies seem to be using the services of these centres for recruitment. Even when such cooperation takes place, it might well be motivated by participation requirement in donor-supported projects, such as co-financing for temporary job placement, rather than because of the effectiveness of such centres in adequate resourcing.

Given the recent technology developments and wide internet penetration in the society, social media is gaining importance for all types of activities, including for resourcing the workforce. Social media as a resourcing channel holds a huge potential for the private sector, foremost due to its efficiency and cost effectiveness for sharing information, promoting positions and leading ultimately to better decisions in the recruitment process. Despite such potential, only 24.10% of the companies in the sample state to have occasionally used the social media for recruitment purposes. Other companies have concluded that the experience with social media for recruitment purposes wasn't worth the effort, due to the time and effort that had to be invested in screening and managing all the resulting applications. Social media is mostly preferred for business promotion.

Our inquiry on what are key elements guiding the recruitment decision we get the following picture. While worldwide companies make use of a wide range of ability and personality tests in the selection process of employees, in Kosovo the situation seems to be much different. Only 46.10% of the enterprises in our sample state to use some type of testing in the process of recruitment of employees, depending from the position that is concerned. Interviews seem

more preferred. Thus, 68.80% of enterprises declare they include interviews in the recruitment processes, though they admit it is often only a formal discussion for the purpose of acquaintance rather than a discussion defining the recruitment decision. While, in principle one would expect that qualifications and skills of the candidates for the position concerned are supposed to lead the recruitment decision, this seems not to be the case in Kosovo. The survey shows that almost half of the companies in the sample, 45.50% don't take into account these factors in their recruitment processes. Prior experience of the candidates seems to be a more valuable dimension, as 74.50% of the enterprises pay close attention to this element during the selection process. Yet, in view of the above-mentioned recruitment channels and prevailing mindset, the companies are forced to select among few candidates only, forcing them to go ahead with whatever they can get.

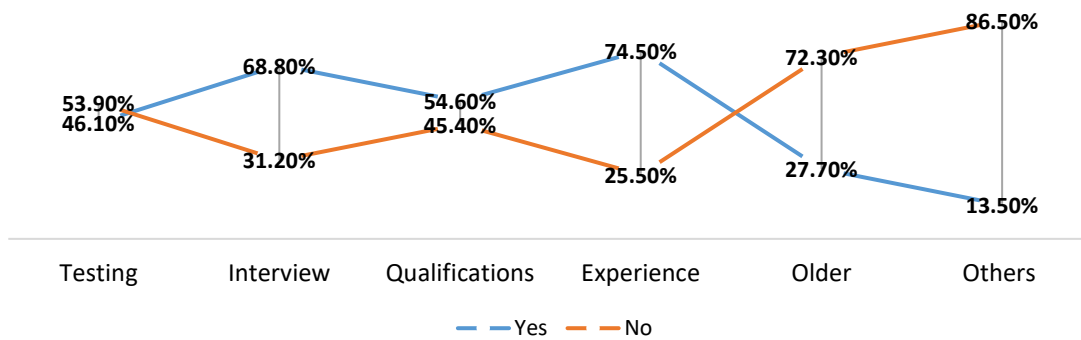


Chart 25. Graphic presentation of the criteria/modalities in the selection and recruitment of new employees

Recruitment decisions are guided by various criteria across sectors.

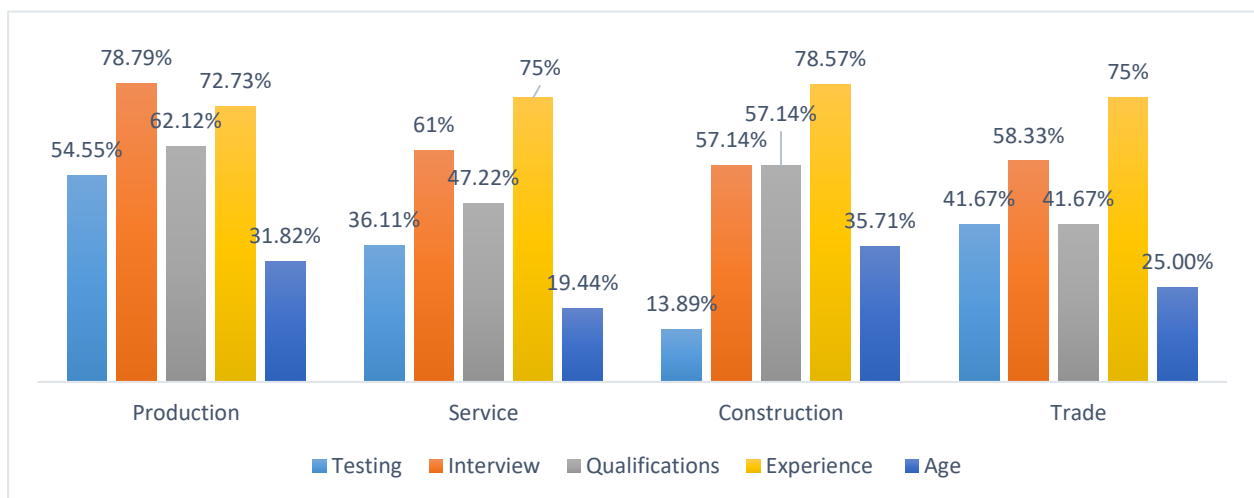


Chart 26. Criteria guiding recruitment across sectors

The overview though shows that prior experience is an important dimension in all sectors' recruitment processes as are the interviews. Formal testing seems to be conducted less regularly, particularly in the construction and services sectors. Formal qualifications likewise only in half of the cases seem to be used as leading recruitment processes.

Induction training is another important dimension in the whole resourcing process. The Kosovo SMEs seem to organise some sort of induction training for new employees, which introduces them to business processes and enables them to perform independently. The duration of such induction trainings seems to be changing from company to company, from sector to sector. In most cases, an induction training of up to 3 months seems to be the norm, respectively in the case of 54% of the enterprises in the sample. In cases when business processes are not complicated this seems to be sufficient. Only in 12.90% of companies, it takes employees longer than 6 months to master business processes and be able to perform independently.

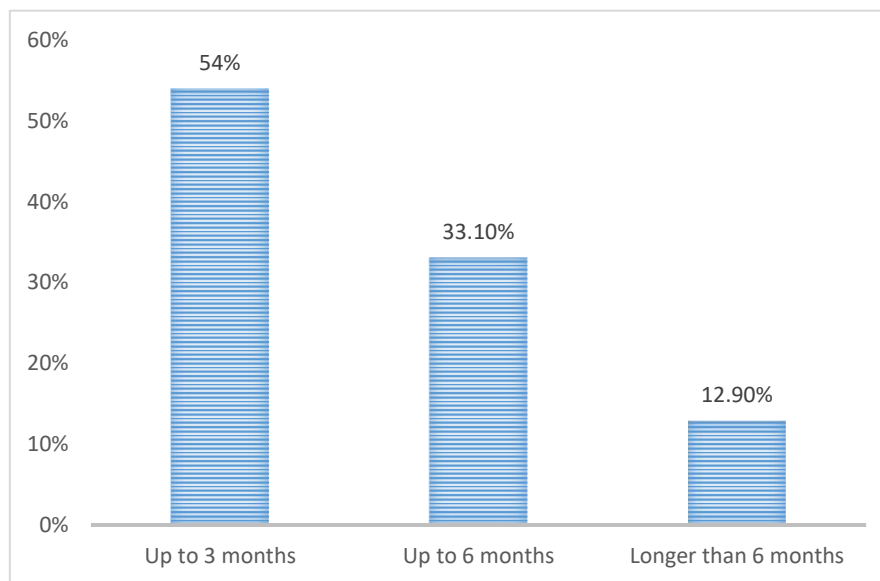


Chart 27. Duration of induction training in companies

The correlation of data on the difficulty of identifying adequately skilled staff and the duration of induction training for new employees gives us interesting insights. We single out the **production** sector for a more detailed analysis. The complexity of production processes seems to require a longer induction training for employees to become independent, as 18.45% of enterprises indicate that that new employees require over a year to be able to perform



independently the range of tasks assigned with the job description.. Yet, in 46.15% of the companies, it is believed that it requires up to 3 months of training for an employee to perform independently; whereas 35.40% of enterprises consider a period of 6 months is required. The **services** sector ranks second in this dimension, with 13.89% of enterprises stating that it takes longer than 6 months for their new employees to perform independently.

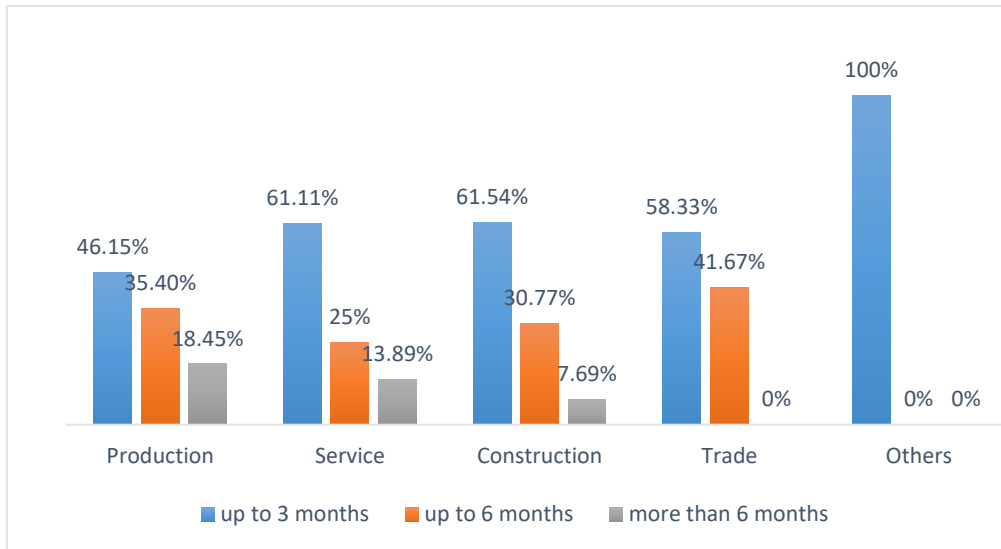


Chart 28. Duration of induction training across sectors

In view of the above-mentioned discrepancy between skills entering the labour market and the ones required by the private sector, a proper **training needs' assessment (TNA)** would certainly need to be a well-developed process in the enterprises, in order to address the gap and ensure the range of skills and competence required is built. Yet, our findings show that training needs' assessment is not properly organised as it is considered a complex process. At the general sample level, a share of 40.60% of enterprises seems were engaged on some sort of training needs' assessment exercise and are well familiar with the process and its importance. Yet, accompanying interviews in this research revealed that rather than some genuine and well developed exercise of strategically identifying and addressing training needs' of the workforce, the exercise rather concerns some internal discussions of needs, often self-declared by the employees during some rather informal exchanges. The remaining enterprises seem either not to engage in any proper training needs assessment or are in the process of developing respective tools and processes.

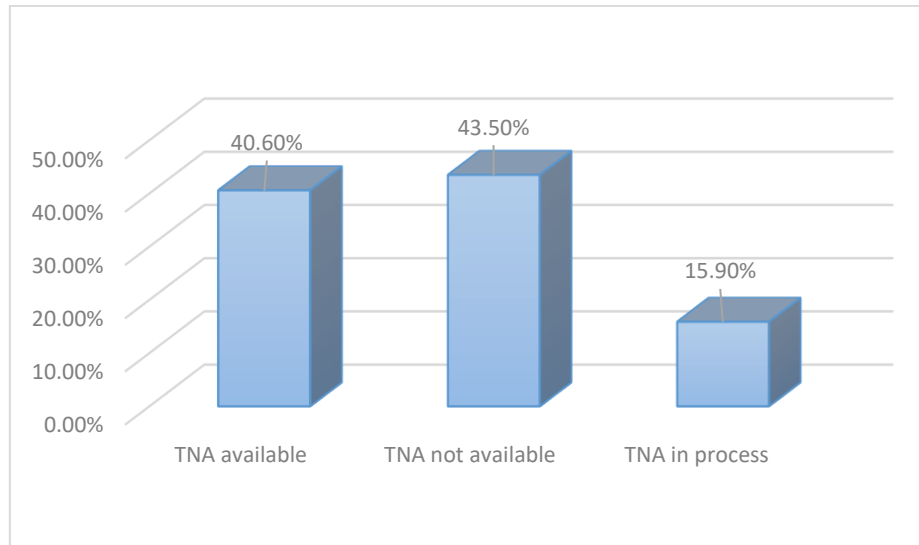


Chart 29. Training needs's assessment (TNA) in enterprises

Comparisons across business sectors on this question reveal an interesting picture. The **production** sector seems to be engaging in quite some training needs' assessment, as 49.23% of enterprises in the sector confirm this. **Trade** on the other hand is the business sector with least investment in TNA as only 17.39% of enterprises seem to be engaged in such efforts. In this sector is also the highest share of companies that don't engage nor plan to engage in TNA, respectively 69.57% of enterprises. The picture is somewhat more balanced in the **construction** and **services** sectors.

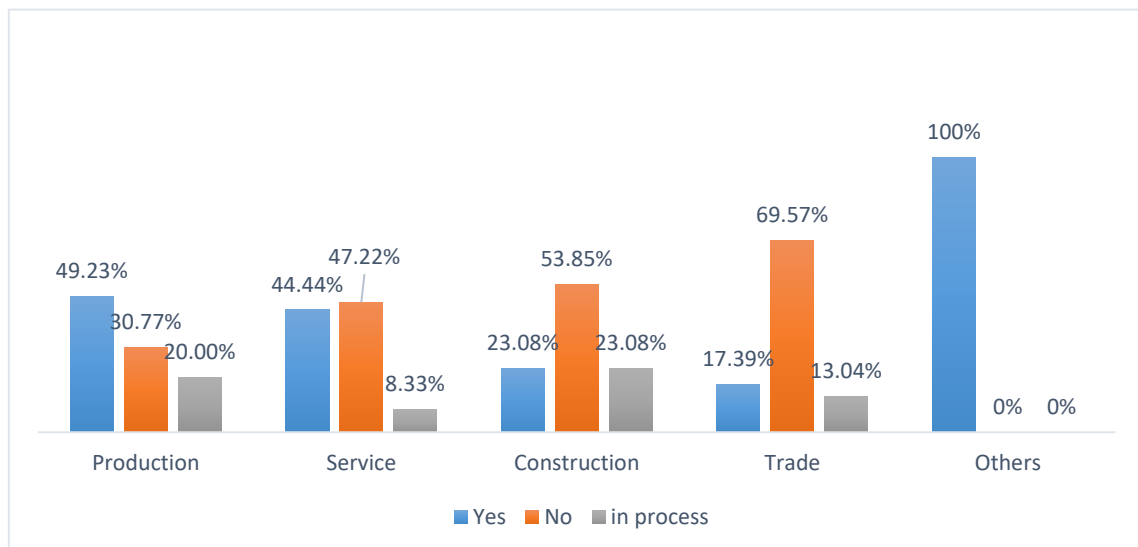


Chart 30. Training needs by sectors

### 5.1.3. Human Resource Development (HRD) in Kosovo SMEs

Human Resource Development (HRD) approaches in enterprises were approached from a horizon of the last three years. The results show 47.90% of enterprises in the sample engage in some sort of HRD activities, of which 14.60% through work-based learning processes, mostly facilitated by senior staff within companies.

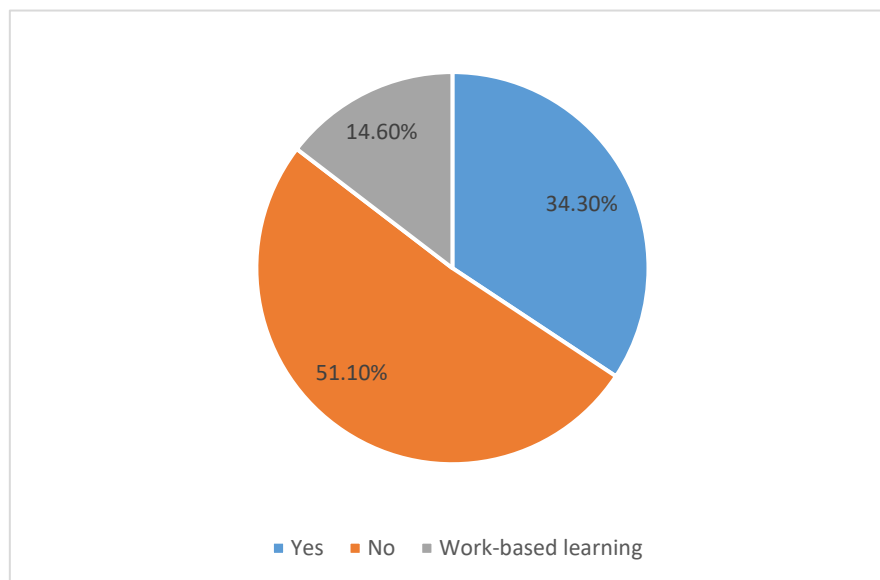


Chart 31. Employee' participation in training sessions in the last three years

The interviews reveal that decisions on training participation are influenced by the above-mentioned phenomenon of favouritism, meaning that even when companies engage in HRD activities, participants are often selected based on favouritism and not on a proper analysis of which positions or individuals need to be trained, thus perpetuating and further extending the gap in terms of skills needed for further business development.

In view of the concerns with adequately skilled staff when recruiting, the finding that 51.10% of the enterprises in the sample confirm not having engaged in any HRD activity during the past three years is extremely concerning and shows in what a nascent state private sector development in Kosovo is. The sector the enterprise is active in seems to be playing a critical role in determining the decision of companies to engage in HRD. As the below chart shows, companies in the **trade** sector hardly engage in any HRD activities for their workforce, with 86.36% of enterprises in the sample confirming they have not enabled the participation of their employees in any training event in the past 3 years.

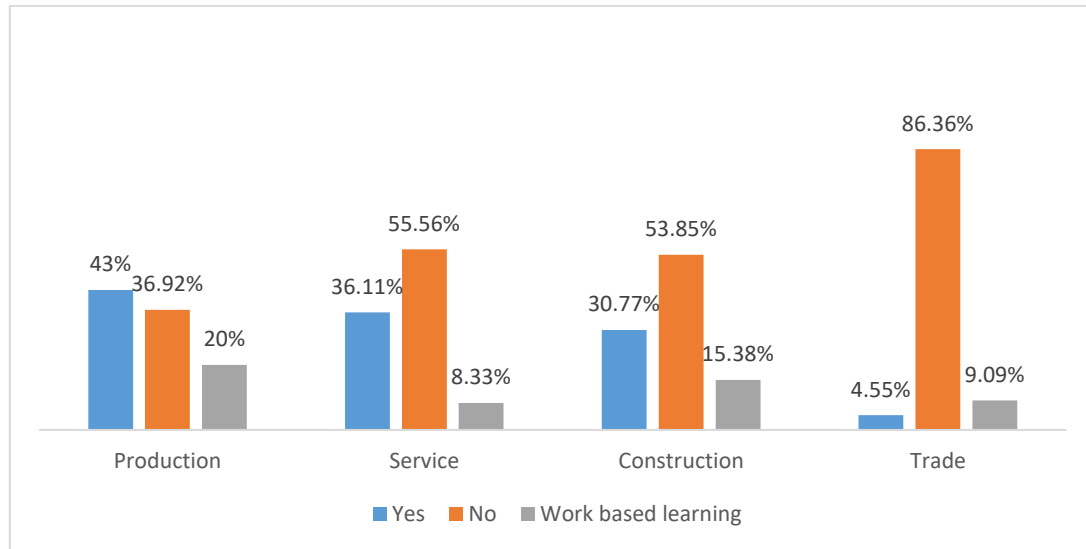


Chart 32. Graphic presentations on the participation of enterprises in HRD activities- by sectors

The situation with HRD seems somewhat better in the **production** sector, where a good share of 63% of enterprises have engaged in HRD in the course of the past three years, of which 20% through work-based learning. They consider such a methodology as effective and quite cost-efficient, as they utilise trained staff to function as trainers through on-the-job training for the workforce. The share of companies in the **service** and **construction** sectors not engaging in any HRD in the past three years is quite similar. This is concerning, particularly in the construction sector, given the relatively high number of fatalities in construction worksites, indicating that at least modules on safety at work shall become mandatory for enterprises in this sector.

In order to understand the rationale of such decisions related to HRD, we have correlated some of the data on this research. An important factor defining the approaches of companies towards HRD is the overall financial stability of the companies. The correlation of these sets of data confirms the assumption that companies invest in HRD depending on their overall financial stability. Thus 66.67% of enterprises who self-assess their financial situation as extraordinary, also confirm investments in HRD during the past three years. The same correlation is confirmed in the case of companies with a very good financial stability, with a combined share of 58,14% of enterprises engaging in HRD or some form of work-based learning. Yet, in the case of companies not faring very well, the levels of investment on HRD continue to drop, with none of the companies faring bad investing in any form of HRD.

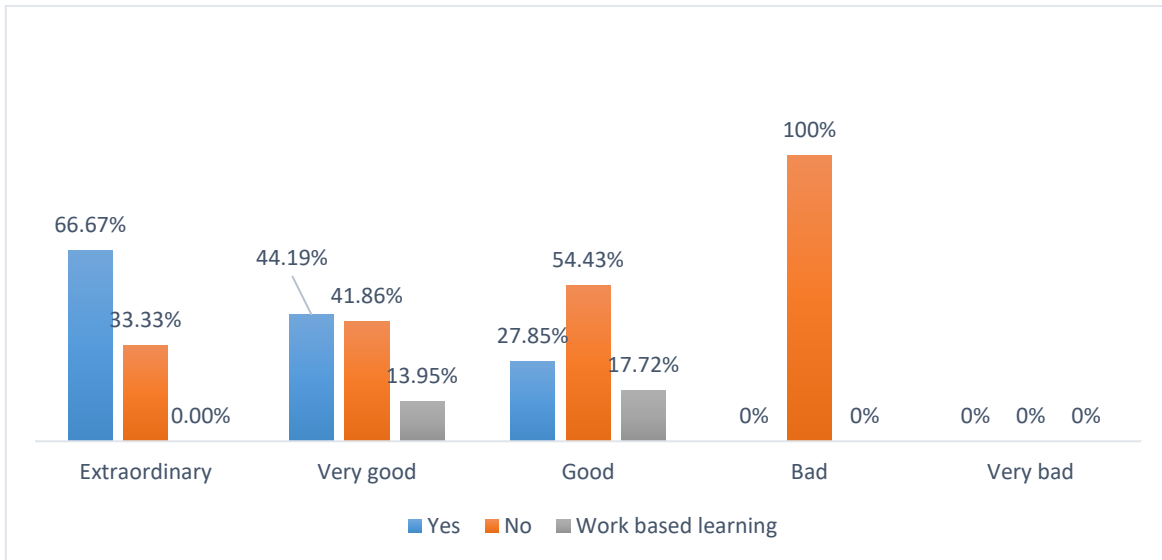


Chart 33. Correlation of data: Financial standing of companies and HRD activities in the past three years

A second correlation we have performed concerns the expectations of enterprises for future growth and their decisions to engage in HRD activities of their workforce. Of the companies that expect to grow in the future, the vast majority are engaged in some form of HRD, 35.39% and another 16.81% of enterprises organised some form of work-based learning in the last three years. Only a share of 33.33% of enterprises expecting the same level of turnover in the future seem to have engaged in some form of HRD during the last three years.

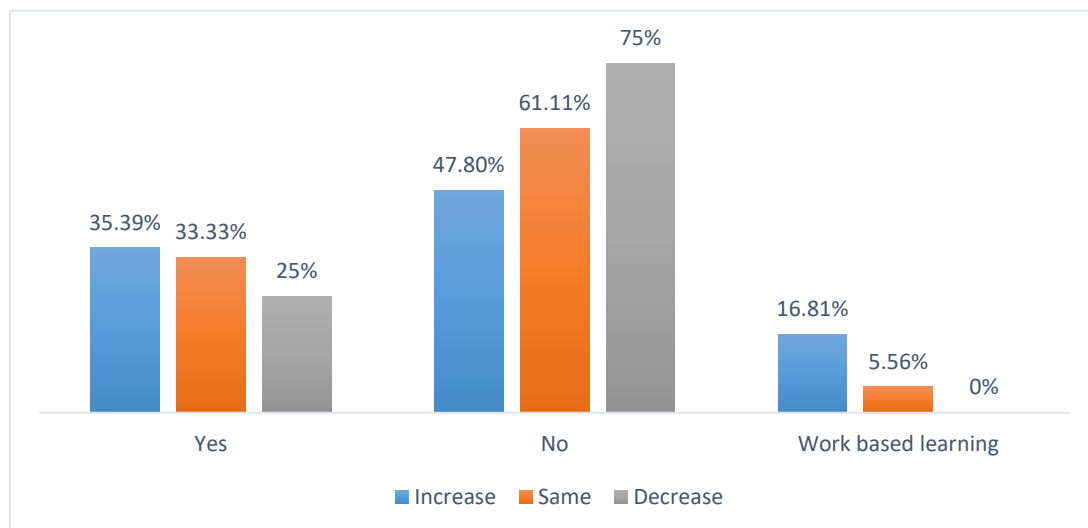


Chart 34. Correlation of data: Expectations for future growth and HRD activities in the past three years

In order to understand the scope of HRD activities in the workforce, in the cases of companies that engage in that process, we inquired on the share of staff within companies that were

involved in HRD activities in the past three years. Of the 46.10% of companies that engage in HRD, it is only in the case of 5% of enterprises in the sample that over 50% of their workforce participated in HRD activities, while in another 5% of enterprises in the sample up to 50% of their staff participated in HRD activities. In 24.8% of enterprises that engage in HRD activities, the scope in terms of the workforce is limited, with below 10% of their staff being involved.

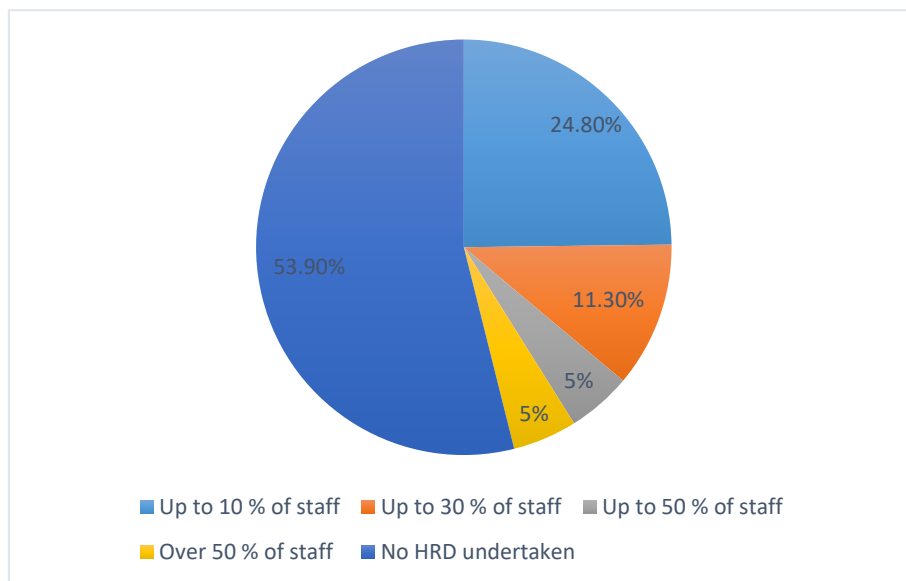


Chart 35. Employee participation in HRD training sessions

As reflected above, Kosovo SMEs seem to privilege often a few of their staff for HRD, often on the basis of favouritism. When comparing the data on employees participating in HRD activities with the overall number of employees of the companies in this survey, we see that only about 10% of employees get to participate in some sort of HRD activities. Such low participation in HRD shows that Kosovo SMEs don't consider HRD a priority for their business development. This conclusion is based on the fact that 53.90% of the enterprises in the sample declare that none of their staff participated in any HRD activity past three years.

In order to understand how thorough was the HRD process undertaken, the research inquired on the number of HRD sessions organised by the enterprises in the past three years. Of the share of enterprises engaging in HRD, the data reveal that the vast majority of enterprises, respectively 68.30% of enterprises have engaged in up to 5 HRD sessions during the past three

years. Only 6.30% of enterprises seem to have engaged in over 20 HRD sessions during the past three years.

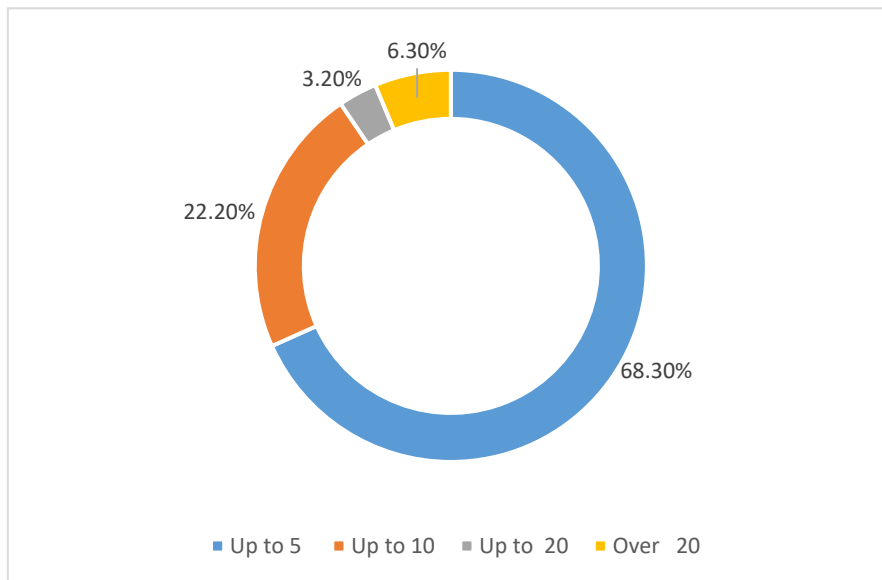


Chart 36. Number of HRD sessions attended by employees in the last three years

Scope of participation in HRD activities varies significantly among sectors. The **production** sector strikes out from the below sectors comparison chart. In this sector, companies engage in plenty of HRD activities, with 57.89% of enterprises enabling the participation of employees in up to 5 HRD activities, others in more, whereas another 7.89% enterprises have enabled the participation of employees in over 20 HRD activities in the past three years.

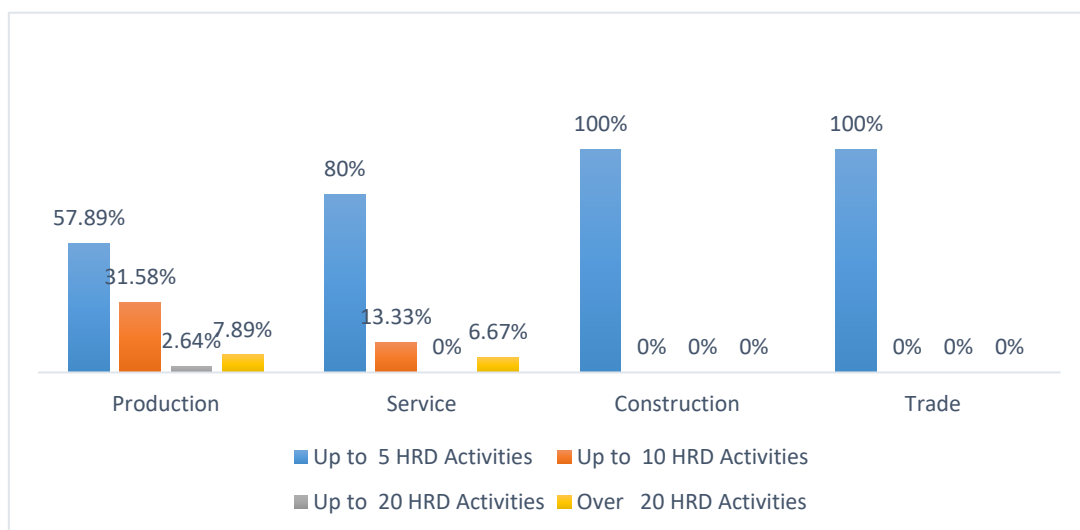


Chart 37. Sector comparison on the scope of participation in HRD activities

The situation is comparable in the services sector, however a lot more different in the **construction** and **trade** sectors, as no single enterprise reported of having enabled participation of staff in more than 5 HRD sessions during the past three years.

In order to check the effectiveness of HRD activities, the study inquired on the level of satisfaction of employers and enterprises with the quality of HRD activities and the extent they consider it improved the performance of employees following attendance of such HRD activities. Only a minority of enterprises, 10.80% seem to be extremely satisfied with the performance of employees following conclusion of HRD sessions, while the majority, 52.30% of enterprises seem to be satisfied on average with the effectiveness of the HRD sessions.

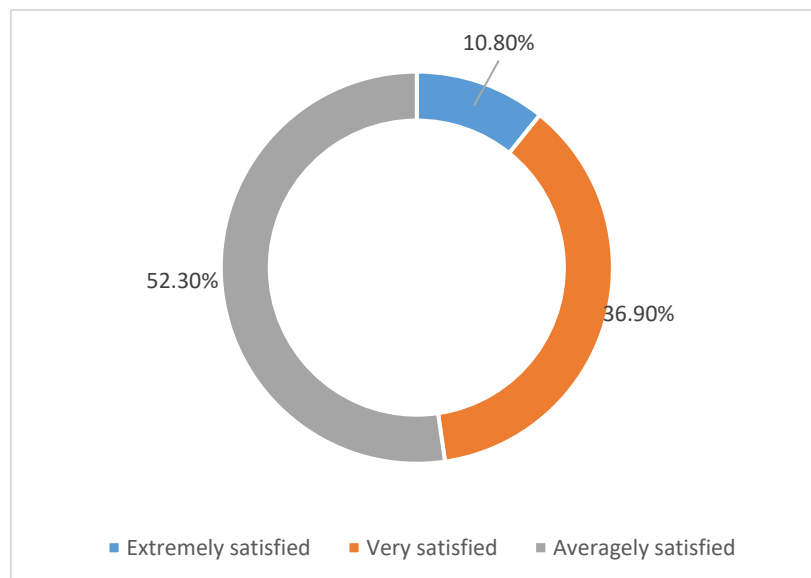


Chart 38. Employers' satisfaction with employees following conclusion of HRD sessions

In line with the above findings which rate **production** and **services** sector as more active in participating in HRD sessions, the below chart likewise shows that enterprises in these sectors are somewhat more satisfied with HRD's effect on employee performance as compared to **construction** and **trade**, which seem to be satisfied on average.

The perception of the quality of the formal education sector in Kosovo shapes to a great extent the approach of Kosovo SMEs towards HRD engagement of their workforce. The formal education sector is generally perceived of a low quality. Consecutive low results of Kosovo's ranking in the Programme for International Student Assessment (PISA) validate this perception (EUEA, 2016). Given the importance of such perceptions on the side of the



companies, the survey attempts to understand their point of view in relation to the perceived quality of the formal education sector in Kosovo.

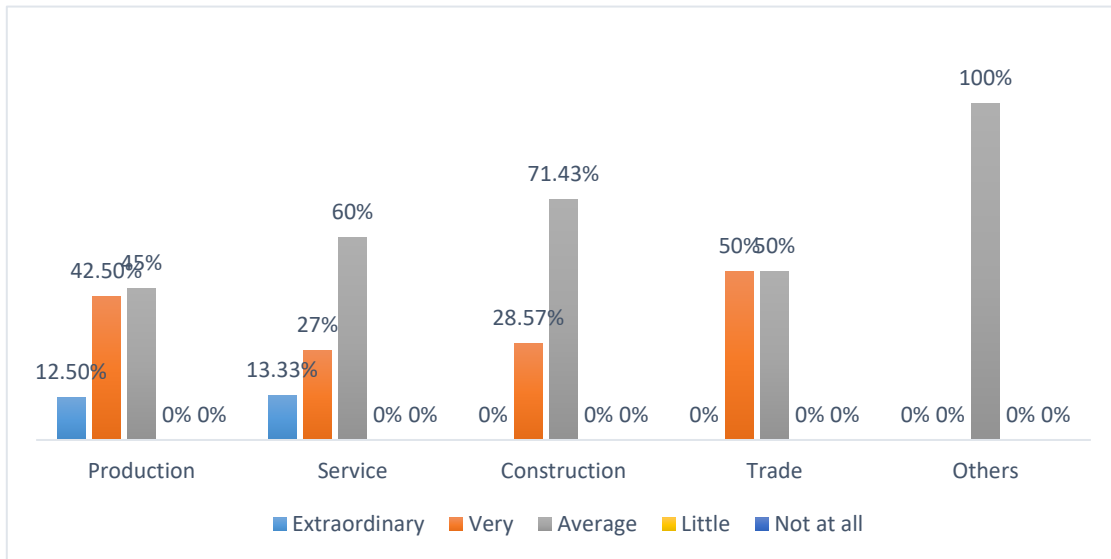


Chart 39. Sector comparisons - Employers' satisfaction with employees following conclusion of HRD sessions

The results aren't very encouraging and confirm a general societal perception that the quality of the education sector is poor. Thus only 1.40% of enterprises in the sample consider the quality of the education sector as very good. A vast majority, 50% of enterprises consider education of average quality, while a combined 28.2% of enterprises in the sample consider the quality of education as bad or very bad.

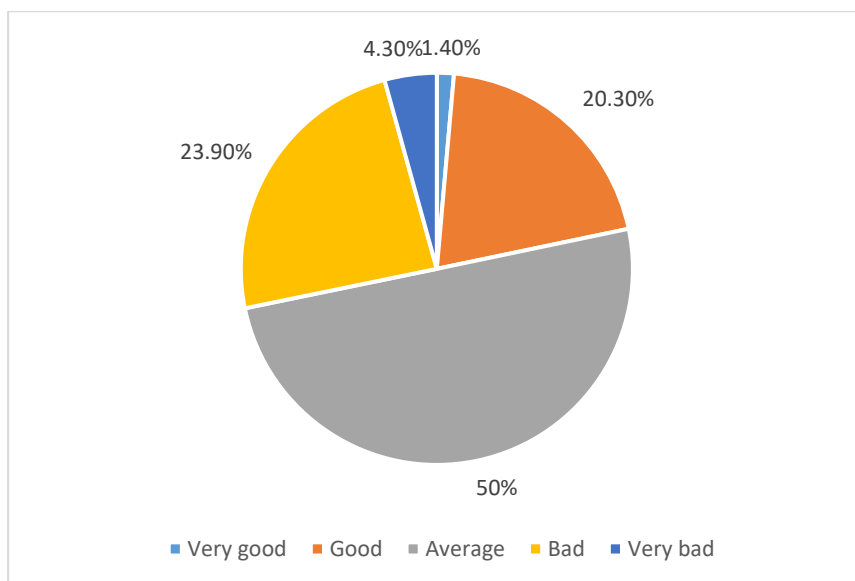


Chart 40. Perception of enterprises on the quality of HRD activities available in Kosovo

This perception clarifies the general reluctance of companies to invest in HRD activities, as we recall that more than half of the companies in our sample chose not to engage in HRD activities. Certainly a better perception of the quality and effectiveness of education sectors would trigger more participation of SMEs in HRD activities for their workforce. Yet, against this backdrop, non-formal education comes naturally as an important alternative in addressing deficient skills and competence of the workforce in Kosovo’s SMEs.

In an attempt to understand the range and alternatives of HRD activities in which the enterprises engage and their favourite options, we checked their perception on various modalities. As Chart no. 41 shows, trainings targeting technical staff are the favourite HRD alternative for 61% of enterprises in the sample. A second HRD alternative best favoured is training activities that lead to a certain ISO certification for the companies. A total of 38.30% of companies in the sample seem to be interested in engaging in modalities of HRD which lead to an ISO certification, as an assurance of their quality standards. Factors limiting enterprises in pursuing such HRD activities mostly relate to the high cost for the companies that such ISO certifications entail as well as investing in the ISO certification of specific personnel. In cases when the ISO certification concerns specific individuals and not quality assurance of processes of the enterprise itself, companies are reluctant for fear of ISO certified personnel fleeing to the competition.

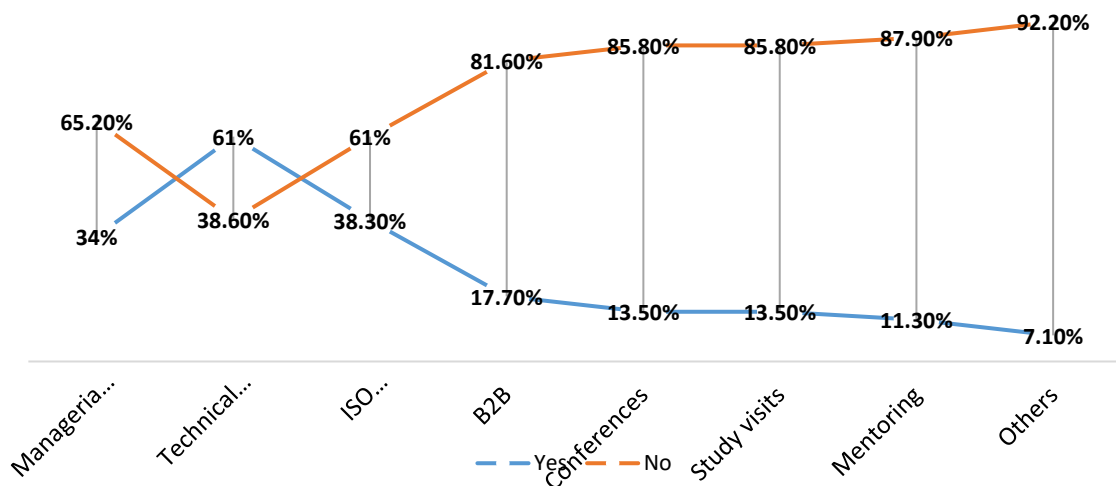


Chart 41. HRD modalities preferred by enterprises

A third HRD alternative best favoured by the enterprises concerns management trainings, which is meant to ensure the managerial and leadership skills required for a proper strategic management of the enterprise. The survey shows that 34.0% of enterprises in the sample would consider management trainings as preferable. Such a preference is validated by research undertaken by the Kosovo Chamber of Commerce (KCC-KCC, 2017) which indicates the importance of such skills in conducting business operations and expanding activities.

Business to business meetings B2B are considered an excellent opportunity to initiate new collaborations. Yet, such a modality is considered preferable only in the case of 17.70% of enterprises in the sample. Preference of enterprises on other modalities such as conferences, study visits or mentoring is significantly more limited, despite the potential they hold in triggering interest and fostering motivation to improve business processes.

The chart below maps out HRD modality preferences across sectors. The data reveal that it is the enterprises in the **production** sector that lead in their preferences for engaging into various alternatives of HRD. Among this category, 63.64% of the enterprises prefer technical trainings for their employees, 40.91% of enterprises would consider participation of staff in management trainings, 54.55% of the companies would consider engaging in some HRD activity leading to ISO certification, while an additional 24.24% of companies consider B2B exchanges as preferable and beneficial for business development. The **services** sector ranks second in terms of willingness to invest in HRD activities. The priorities are ranked as follows: 60% of enterprises list technical trainings as preferable HRD activity; 28.57% of enterprises would invest in HRD activities leading to ISO certification; while 22.86% of enterprises would consider investing in management training. In the **construction** sector on the other hand, trainings targeting technical staff seem to prevail, with 85.71% of enterprises indicating this choice during the survey. And in **trade**, as indicated earlier, engagement in HRD activities is more limited, while data show that trainings targeting managers and technical staff are rather preferred.

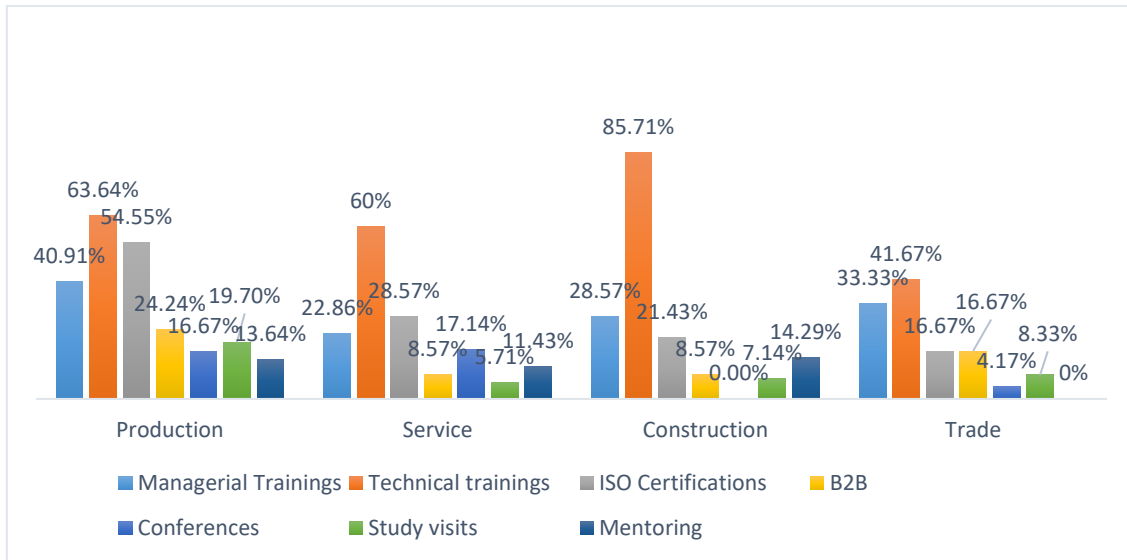


Chart 42. Sector comparisons: HRD modalities preferred by enterprises

In order to understand the importance bestowed on HRD, the research inquired also on the finances dedicated to this issue by the Kosovo SMEs. This dimension helps us understand better the extent and scope of HRD undertaken by the companies in a year.

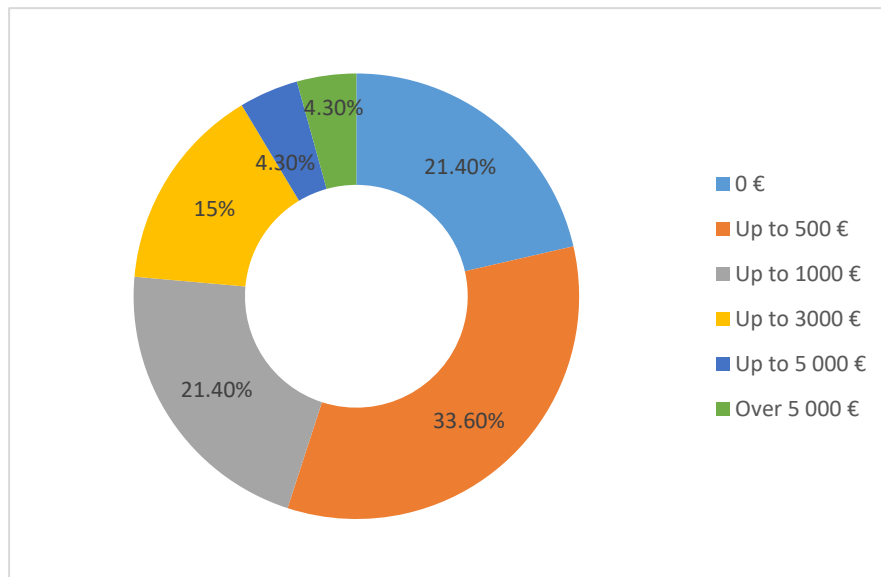


Chart 43. Overview of the willingness of enterprises to invest on HRD

The findings confirm the above assumption that though the potential of HRD and more specifically of non-formal education is well recognized, in practice the Kosovo SMEs engage only to a limited extent in such activities. In the horizon of the previous year, over half of the companies in the survey haven't allocated any amounts for HRD (21.40% of enterprises) or

only a meagre of 500€ a year (33.60%) for this matter. The share of companies who invest more generously on HRD, either up to or above 5'000 € is limited to only 8.60% of enterprises in the sample, respectively. Comparing data across sectors, we notice that it's mostly companies in the **production** and **service** sector that allocate more significant amounts to HRD. Accompanying interviews in this research validate the above findings and show that in some cases, though planned initially, funds dedicated to HRD are redirected to other business priorities that are more pressing.

Willingness to invest on HRD is influenced also by the companies' expectations on the return on investment. This is an additional issue inquired through the survey. The findings show that the expectations from most of the companies are ambitious and to some extent exaggerated, as over half of companies, 50.40% expect a return on their HRD investment within one year. The remaining companies are somewhat more realistic in their expectations, allowing some more time for the return on their HRD investment. An assessment of sector-related data, shows that companies across all sectors expect a quick return of their investment, with enterprises in the construction sector standing out.

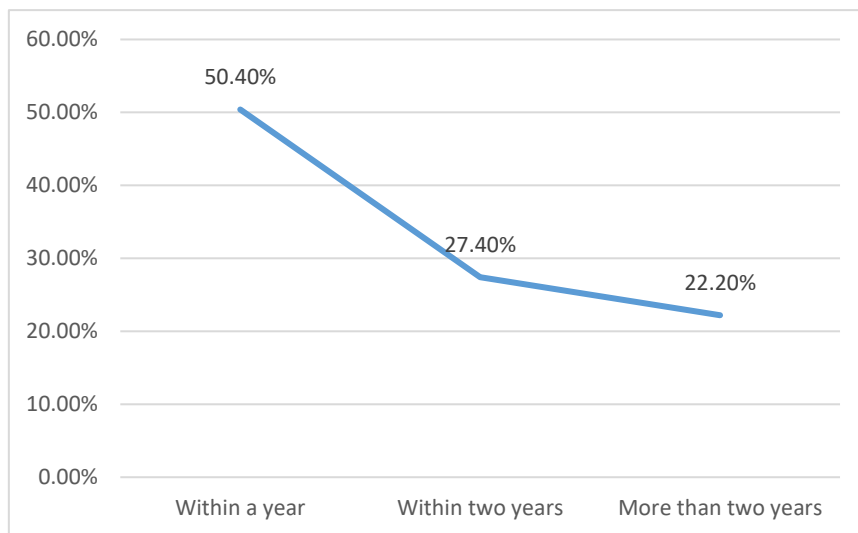


Chart 44. Expectations of enterprises on the return of HRD investment

Adding this to the extremely limited financial amounts dedicated to HRD in the past year, we can conclude that the enterprises need to approach more systemically and strategically both their business development in general as well as HRD in particular. Against this backdrop, the research tried to understand the potential causes of these limited investments on HRD. Most

often this seems to be due to the fear that trained staff might flee to the competition, respectively 51.10% of the enterprises in the sample state this as the main reason of not investing in HRD. A similarly high share of enterprises in the survey, specifically 26.60% hesitate to invest in HRD fearing that trained staff following the attendance of some certified trainings might aspire to spin off a new venture of their own in the same area. A third dimension mentioned quite frequently concerns salary. Thus, 28.10% of enterprises in the survey sample are reluctant to invest in HRD, concerned that trained staff might require higher salaries. Such a tendency is confirmed also by international research, as in the case of Keeley, whose research confirms this as one of the reasons refraining companies from investing in HRD (Keeley, 2007).

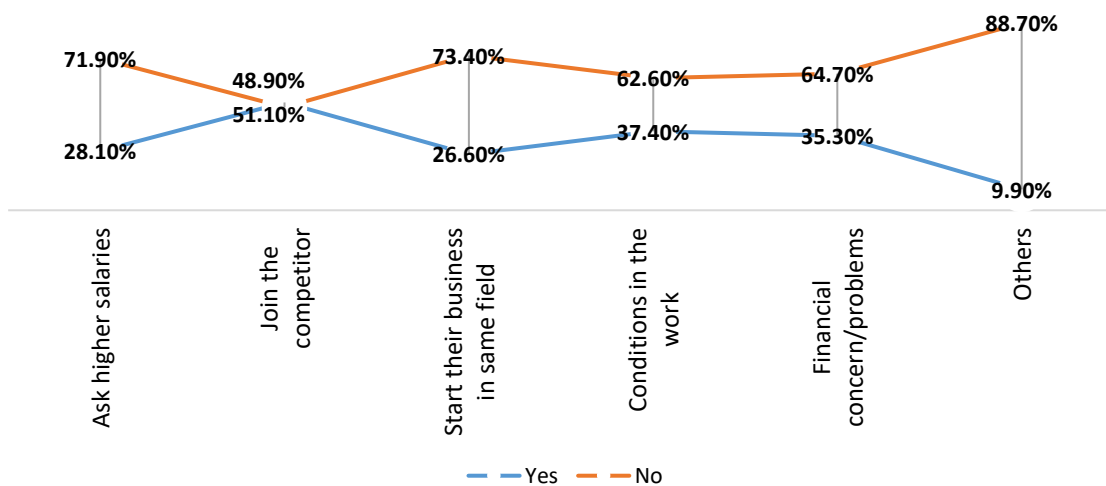


Chart 45, Graphic presentation of factors refraining companies from investing in HR professional development

The above findings bring to the fore a very important deficiency within organisations in the private sector, such as lack of trust and failure to establish long-term contracts and commitment of employees to the company. A strategic approach towards human resource management, embedding links between HRM functions of performance appraisal, training and development, promotion and proper motivation would improve commitment and trust between employers and employees. Another frequently quoted reason of not investing in HRD concerns financial struggles the company is facing in their overall business process. Thus a sheer 35.30% of enterprises in the sample indicate that their financial issues in the business disable them from dedicating more attention and resources to HRD activities. Among other

reasons influencing SMEs engagement in HRD activities, the companies listed the following: lack of HR managerial skills to identify, plan and organise HRD activities for the workforce, that training is not required or doesn't necessarily lead to improved performance, lack of interest and willingness of employees to participate in HRD activities, etc.

Reluctance to invest own company funding on HRD relates also to the fact that various international development projects have been offering extensive training programmes for the private sector. SMEs in Kosovo mostly perceive HRD sessions expensive, with 28.50% of the enterprises considering the price too expensive, while another 32.80% of the enterprises consider HRD as expensive. Only one company in the survey finds the cost of training not expensive.

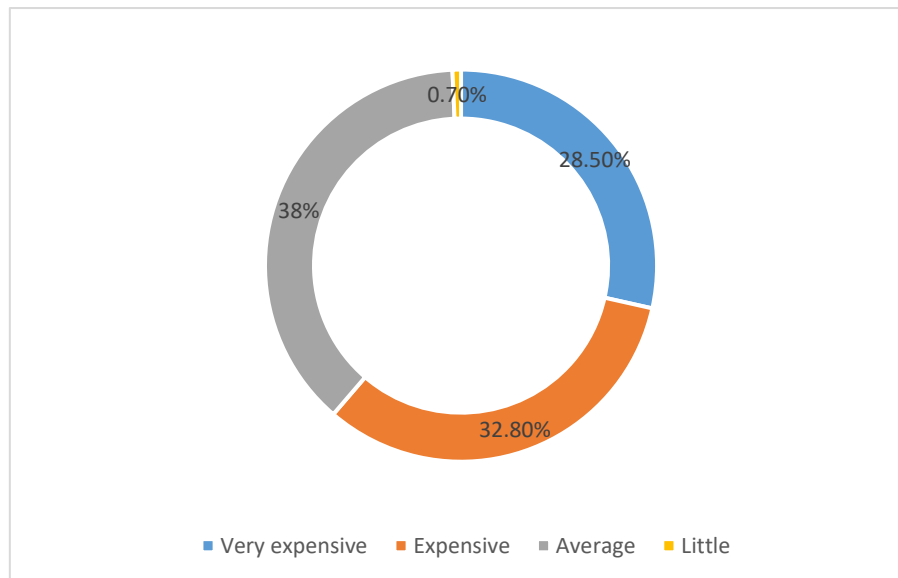


Chart 46. Enterprises' perception of prices for HRD sessions offered in Kosovo

It is difficult to deduce whether the perceived high cost of HRD relates to the overall financial challenges the companies are facing in their general business development. Despite the perceived high cost of HRD, it seems the enterprises may tap on very few additional sources of support to cover the cost of such activities.

The chart below reveals that 80.10% of enterprises did not have any alternative support. A cumulative of 16.30% of enterprises indicate donor grants and project support in the past, despite Official Development Assistance (ODA) in Kosovo being one of the highest per capita in developing countries. The extremely low support directly from Government schemes,

mentioned in only 1.40% of enterprises shows how little support is presently provided to private sector development. Some fiscal and policy measures have been introduced lately, which enables the companies to reduce the profit tax commensurate to their investment on HRD.

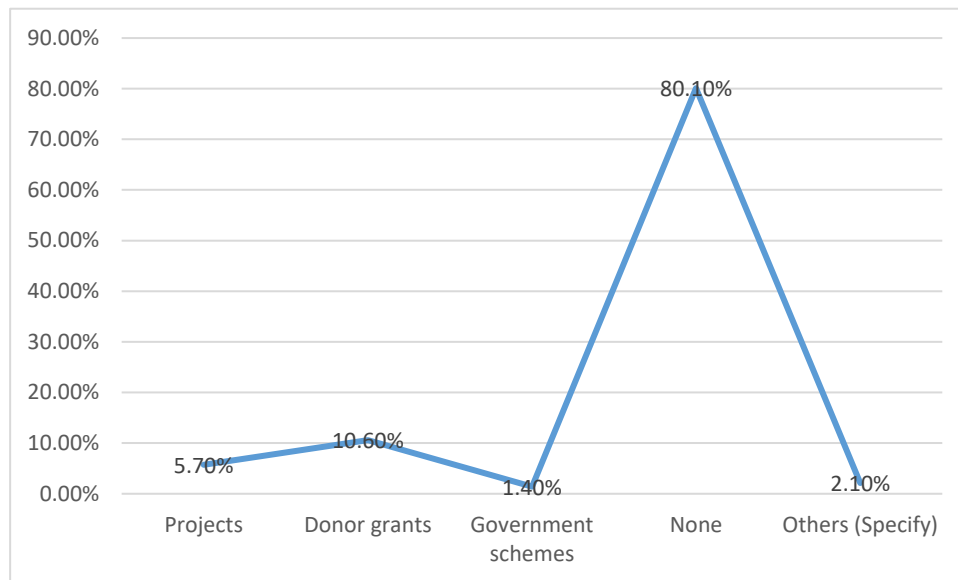


Chart 47. Additional sources of support for HRD

In principle, this shall serve as an additional important incentive for the private sector to engage in HRD. Yet, the survey reveals that only slightly above half of the enterprises, respectively 54.60%, are aware of this policy measure. Therefore, the survey looked initially on the awareness of the companies on this entitlement as well as the extent they make use of it. About half of the enterprises seem to have been aware of this entitlement, respectively 54.6% of the enterprises in the survey. Comparing sector-specific data, we noticed that companies in the **production sector** were more aware of the policy measure, with 51.91% of the companies more inclined to apply for the tax incentive.

While about half of the enterprises in the sample seem to be aware of this opportunity, the extent to which it is being made use of is quite small. Of the companies aware of the opportunity, 79.30% have never used this benefit, while only 10.90% have used this benefit up to 5 times. The share of companies using the benefit 10 or more times is insignificant. Analysing secto-specific data shows that it is mostly companies in the **production** and **services** sectors that utilize such benefits. Such a fiscal benefit is certainly an important



incentive that could potentially have a great impact on the engagement of the private sector on HRD and in the long run influence the productivity of employees and growth of the private sector. Given this potential, eventual bureaucratic incentives in the application for the benefit need to be addresses and the opportunity needs to be better promoted in order to enhance application.

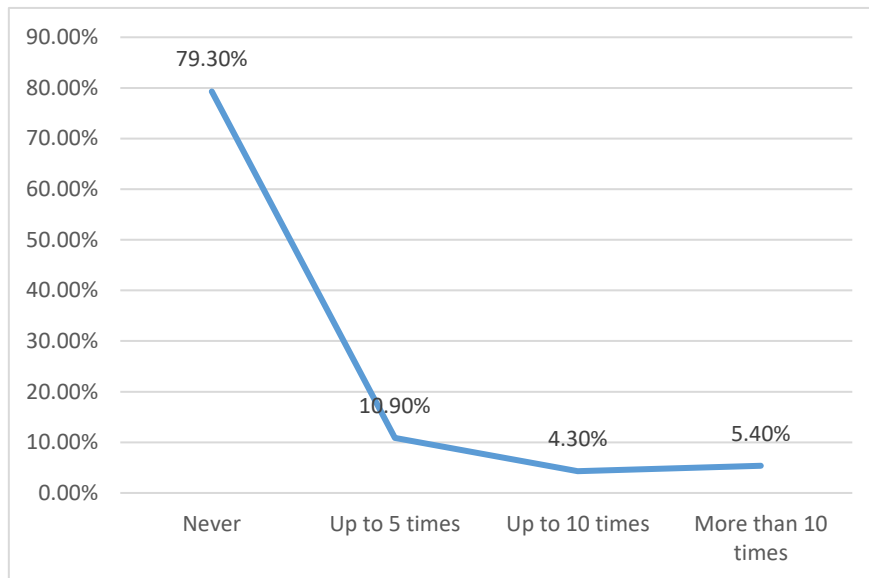


Chart 48. Enterprises utilisation of the tax benefit entitlement

Towards a well-established HRD approach, partnerships with formal and non-formal educational institutions would add to the value and effectiveness of training activities. The resulting information isn't very encouraging, as 51.10% of enterprises in the sample have not initiated any partnership with training providers. Of the category of enterprises that have established some sort of cooperation, non-formal training providers prevail with a total of 19.10% of enterprises in the survey indicating partnerships established with this category of training providers. Vocational schools follow with 14.20% of enterprises indicating partnerships with such formal education institutions, while cooperation with public or private universities and colleges is limited, as only 4.30% of enterprises indicated some form of cooperation has been established with these academic institutions.

Another category of 11.3% of enterprises point out to partnerships established with training centres abroad. Accompanying interviews in this survey show that such cooperation mostly

relates to training centres of large companies, e.g. in auto-mechanics, in the case of Volkswagen or Mercedes representations.

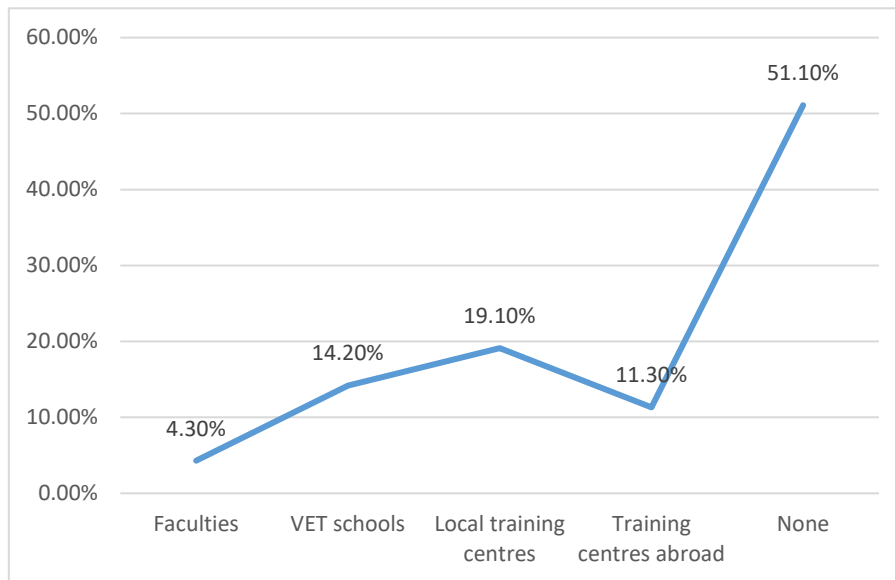


Chart 49. Enterprises utilisation of the tax benefit entitlement

Sector-specific data rank the **production** sector ahead from others as well as favour partnering with VET school and local training providers mostly.

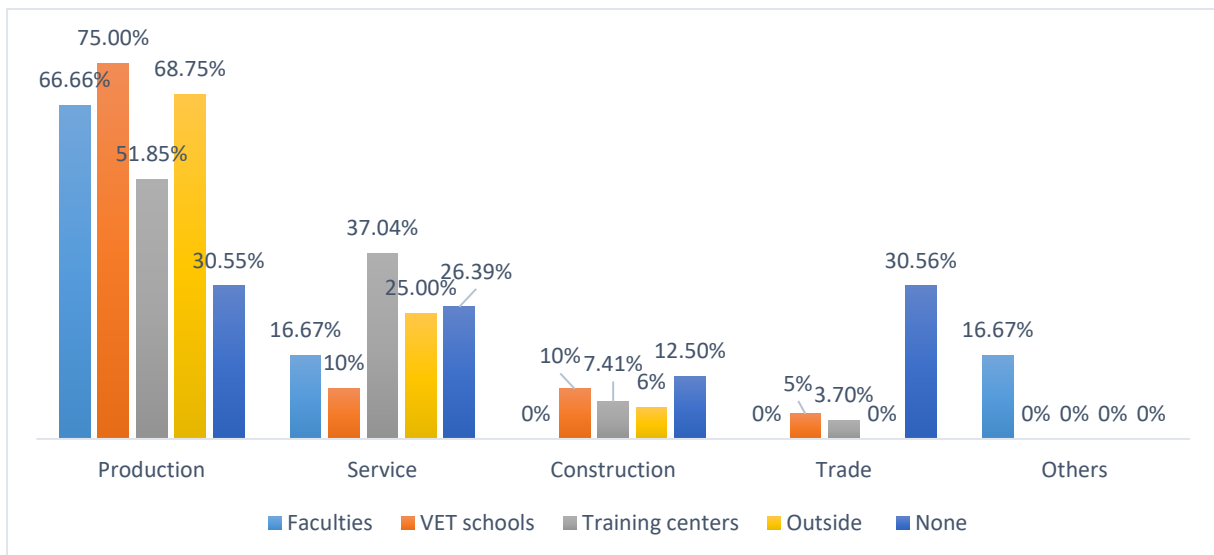


Chart 50. Sector analysis: Partnerships of enterprises with training providers

With the aim of understanding the profiles of staff targeted with HRD activities, respective inquiries were included in the survey. Trainings targeting technical staff as well as newly

employed staff seem to prevail, as 57.40% of enterprises in the survey seem to equally prioritize these categories. The category of managers is addressed with HRD activities by only 31.20% of enterprises in the survey, while another 25.50% of enterprises give priority to supervisors. The finding that only 9.21% of enterprises engage in trainings that include all of their workforce once again validates the assumption that though its potential is recognized, Kosovo companies presently have a limited engagement in HRD activities of their workforce.

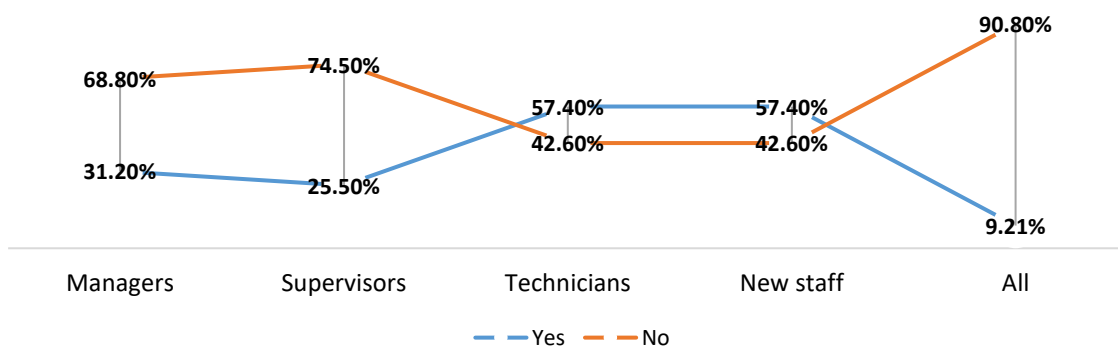


Chart 51. Structure of employees prioritised for training

Newly employed staff as a target for HRD clearly strikes out in the analysis of sector-specific data, particularly in the **construction, services** and **production** sectors.

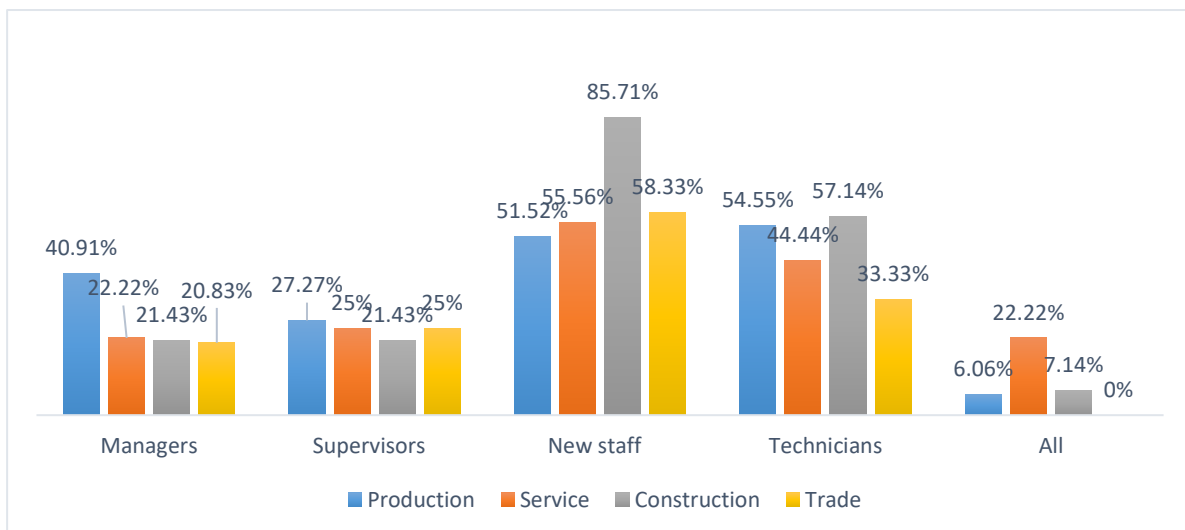


Chart 52. Sector analysis: Structure of employees prioritised for training

Given the relatively low involvement of Kosovo SMEs on HRD activities, findings on the perceived impact and benefits of HRD activities are surprisingly positive. Thus, a large share

of companies, 77.30% of enterprises in the survey consider that participation in HRD activities contributes to enhancing the professionalism of the workforce. An equally large share of 60.30% of enterprises in the survey consider that participation in HRD activities improves the productivity of employees. An additional 40.40% of enterprises find that HRD activities help make employees more alert, diligent and punctual, while an additional 23.40% of enterprises consider that engagement on HRD activities has a positive effect on the motivation of employees.

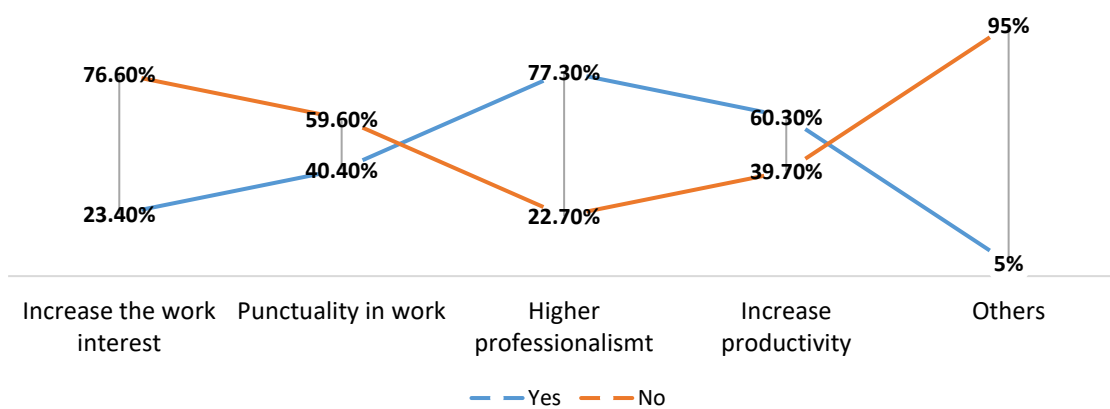


Chart 53. Perceived effects of HRD sessions on employee performance

As regards the future, the willingness of Kosovo SMEs to invest on HRD is mixed. Whereas a good majority of companies are decided to invest on HRD in the future, respectively 48.20% and another 23% want to explore the potential of work-based learning, the remaining enterprises are still not decided or are reluctant to consider investing on HRD in the future. As prospects for future development of enterprises in general have a bearing on decisions around staff, in the charts below we have correlated these data with the willingness to invest on HRD in the future. Thus, the enterprises expecting growth have a more positive approach towards employee' development, with 51.30% of enterprises stating their intention to invest in trainings, while an additional 23.48% of enterprises in this category would consider the potential of work-based learning. The resulting data on the category of businesses expecting a status quo regarding their future development reveal a large share of companies considering HRD in the future, 33.33% or through work-based modalities, 27.78%, respectively.

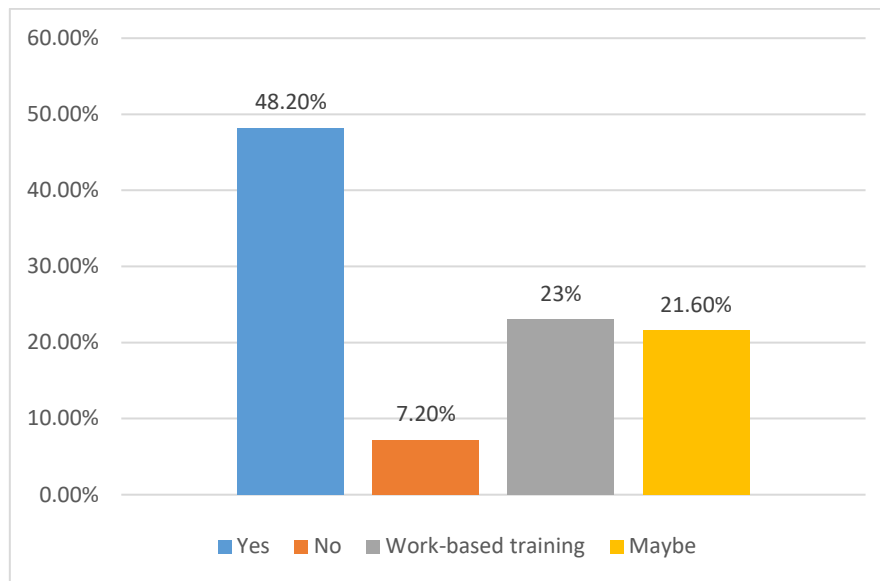


Chart 54. Willingness of enterprises to invest on HRD in the future

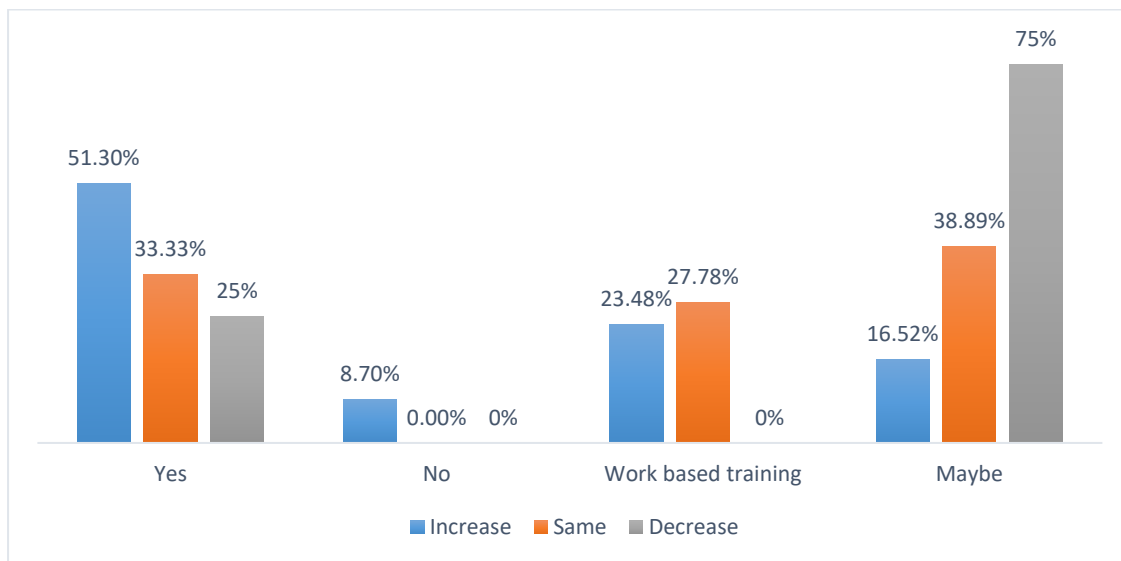


Chart 55. Correlation of data: Willingness to invest on HRD and future financial standing

Given the central theme of this study and in order to understand better the factors shaping the propensity and willingness of Kosovo SMEs to invest in HRD, we correlated the data on this indicator with the data on availability of business plans, which hints to a properly structured company. Most of the companies that operate based on business plans seem to recognize the value of non-formal education as they intend to support the participation of their employees in training sessions. Of this cluster, 55.29% of enterprises would support the participation of their employees on HRD sessions, whereas another 25.88% of enterprises intend to organise training sessions at the workplace. Only a minority of 7.05% of enterprises has no concrete

plans to start with HRD sessions. Of the cluster of companies operating without a business plan, a lower share of companies plan to engage in HRD sessions, 36.73% and an additional 16.33% of enterprises intend to look into work-based learning modalities. A significant share of companies from this cluster have ambiguities as to how to approach the topic of HRD. This certainly has to do with a generally poorly structured business approach as well as HR strategy.

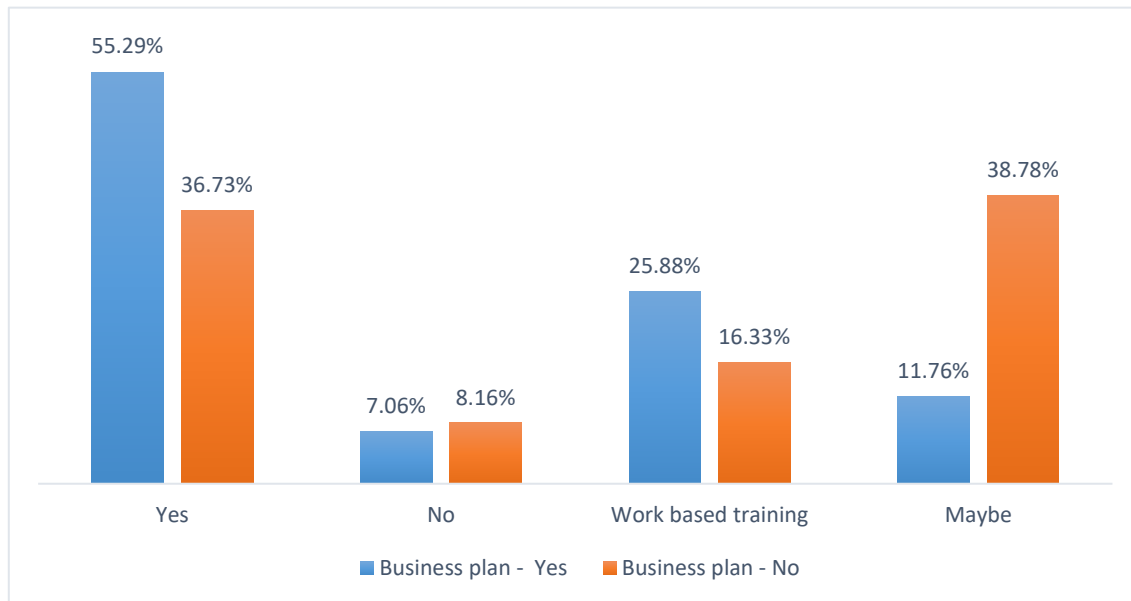


Chart 56. Correlation of data: availability of business plans and enterprises' willingness to invest in HRD

Reasons leading Kosovo SMEs to invest in HRD seem to be multiple. Competitiveness in the market seems to be largely prevailing. Thus, 59.60% of the companies in the sample indicate this as the main reason for considering pursuing a more systematic approach towards HRD in the future. This is a key recognition of the importance of human resources in the further development of enterprises. A second rationale prevailing in relation to HRD in the future is the necessity to provide the necessary skills and knowhow to operate new technology. A significant share of enterprises in the sample, 49.60% consider plausible the idea of investing in HRD in the future in order to ensure the adequate skills needed to operate new technology required for their business development. Another important reason in the rationale towards HRD in the future is business expansion plans of companies, with a total of 30.50% of enterprises in the sample indicating this as an important justification for their HRD plans in the future.

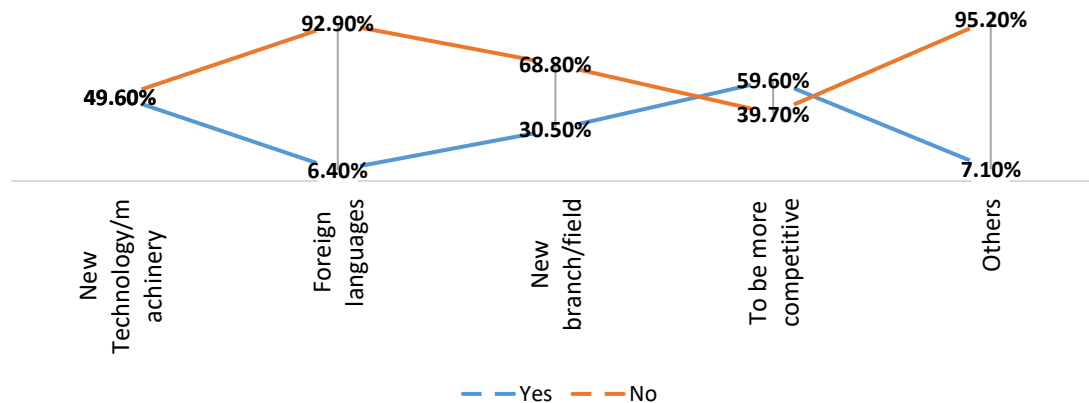


Chart 57. Enterprises' rationale of investing on HRD sessions in the future

Analysing sector-specific data of reasons behind intentions to invest in HRD sessions in the future show that the **production** sector tops the list of companies planning future engagement in HRD. Skills required to operate new technology seems to be a driving reason of future investment in HRD, followed by the aim of becoming more competitive and further expansion of their business. The data from the other sectors show mostly the propensity to invest in HRD given the rationale of becoming more competitive.

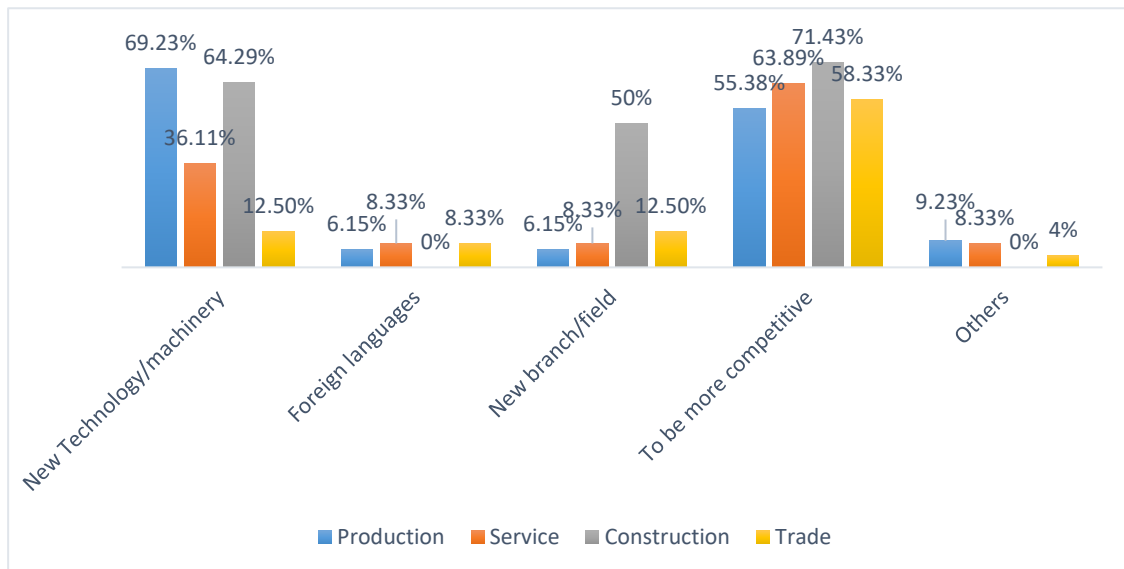


Chart 58. Main reasons for investing on employee' training according to business sectors

#### 5.1.4. HRM practices in Kosovo SMEs

This section of the survey looks closer at some selected HRM practices within Kosovo SMEs with a focus on how the enterprises manage, motivate, reward and retain their staff, as well as the role HRD plays to this end. Whereas the enterprises conceived HRD as a means to several ends, including becoming more competitive in the market, next we observe whether HRD sessions are perceived as an important motivational factor for employees. Considering the structure of this study, perceptions are conveyed from the perspective of enterprises, respectively employers.

According to the perception of enterprises, involvement in HRD activities acts as an important motivational factor for employees. Survey data show that a total of 65.20% of enterprises in the survey completely agree (24.60%) or agree (40.60%) with the assumption that participation in HRD acts as an important motivational factor for employees. Only a small share, 8% of enterprises do not agree with this assumption. The correlation of data on the perception of enterprises on the motivational effect of HRD activities with the data on the duration of companies business operations doesn't show any significant differences between enterprises belonging to the first, second or third generation.

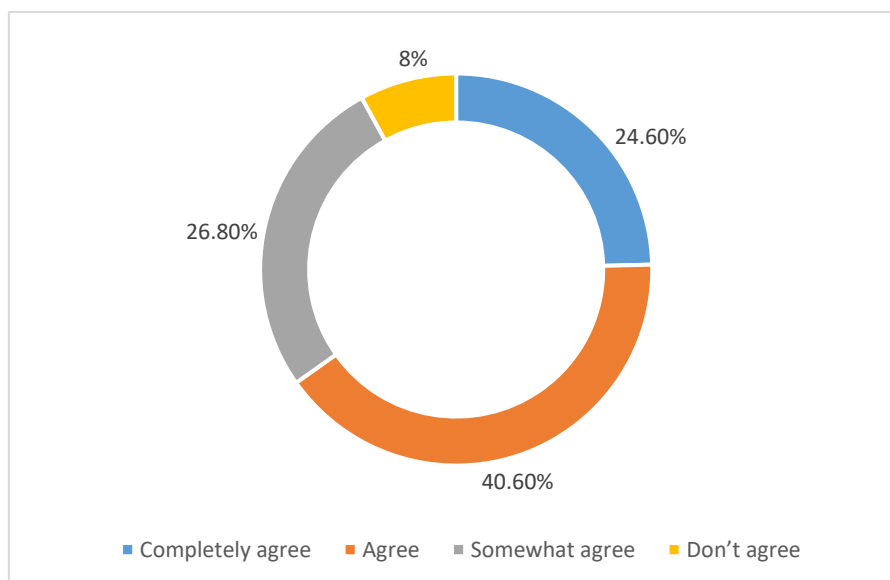


Chart 59. Perception of enterprises on HRD sessions acting as an efficient motivation strategy

Other than HRD, enterprises perceive that some other HR practices enhance employe' motivation. The results show that financial benefits compensating overtime engagement act



as important motivational measures for employees, confirmed by 64.50% of enterprises in the survey. Career prospects and promotion opportunities are ranked as a second effective motivational measure by 45.40% of enterprises in the sample. While improving working conditions and environment for the workforce and recognition of the contribution of employees are considered important motivations measures, we will next look closer at the perception of enterprises on the importance of wage as the most important motivational strategy.

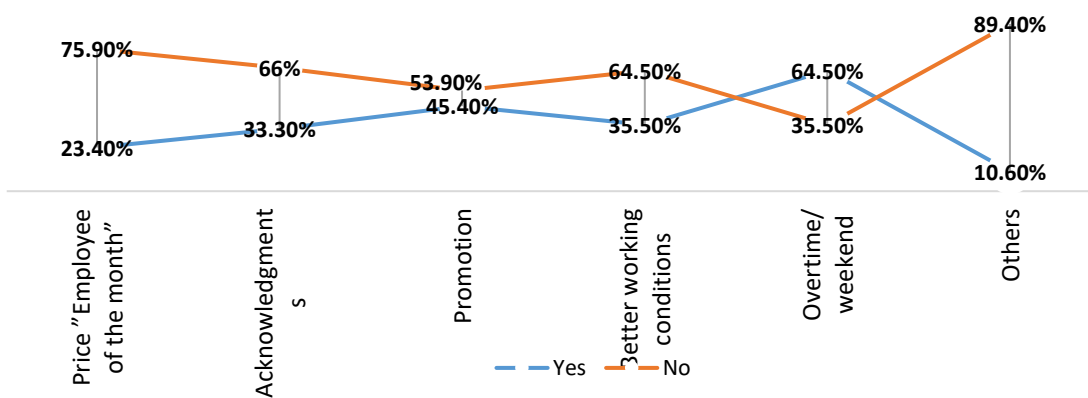


Chart 60. Enterprise' perceptions on successful motivational strategies

A large share of enterprises seem to perceive wages as the single most important motivational strategy, as a total of 65.20% of enterprises either completely agree (26.8%) or agree (38.4%) with this assumption. Only 7.2% of enterprises in this survey don't agree with the statement that the wage factor is the single most important strategy in the motivation of staff.

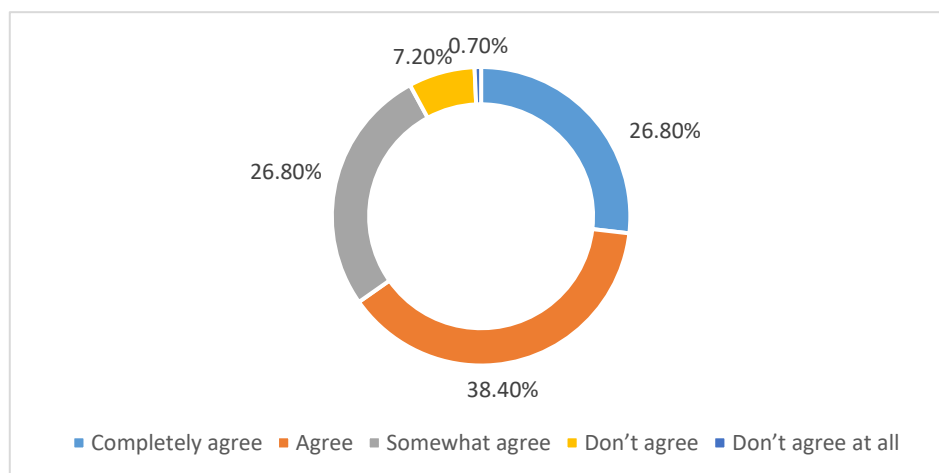


Chart 61. Enterprises' perceptions on wage increase being the single most important factor for enhancing employee' motivation and productivity

Below we have correlated the data on the perception of wages as the single most important motivational factor with data on expected growth of enterprises in the future. We see that wages are considered a motivational factor of critical importance, as even in the case of enterprises that envisage a deterioration in the future, the enterprises completely agree (50%) or agree (25%) with this assumption.

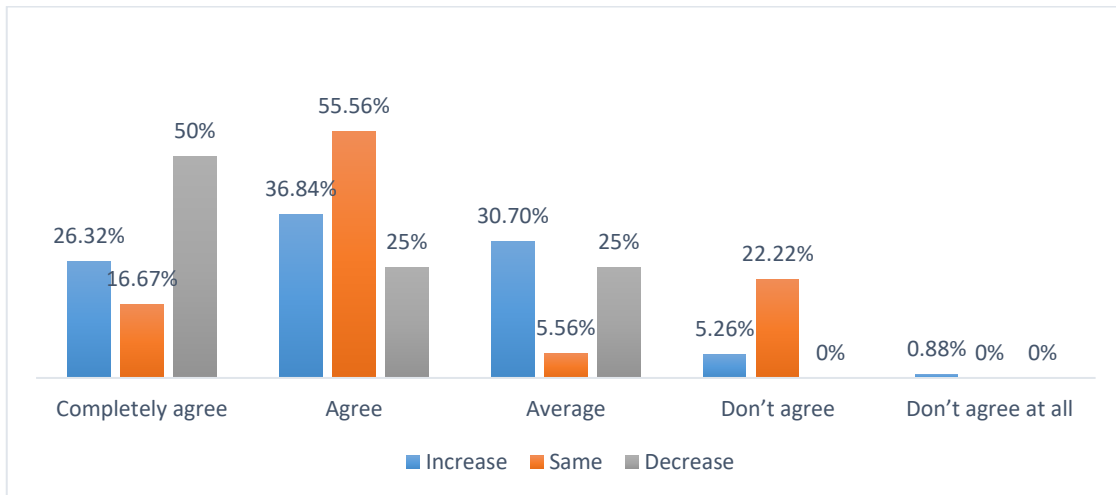


Chart 62. Correlation of data: Enterprises' perceptions on wage increase as motivational and expectations for future growth

Pleasant working conditions and levels of stress play an important role in the motivation of employees. Based on the perspective of employers, the environments and functions of staff in their enterprises are not considered to induce stress, as a total of 55.70% of enterprises in the sample perceive that their employees are not exposed to stressful situations (36.40%) and operate in relaxed environments (19.30%).

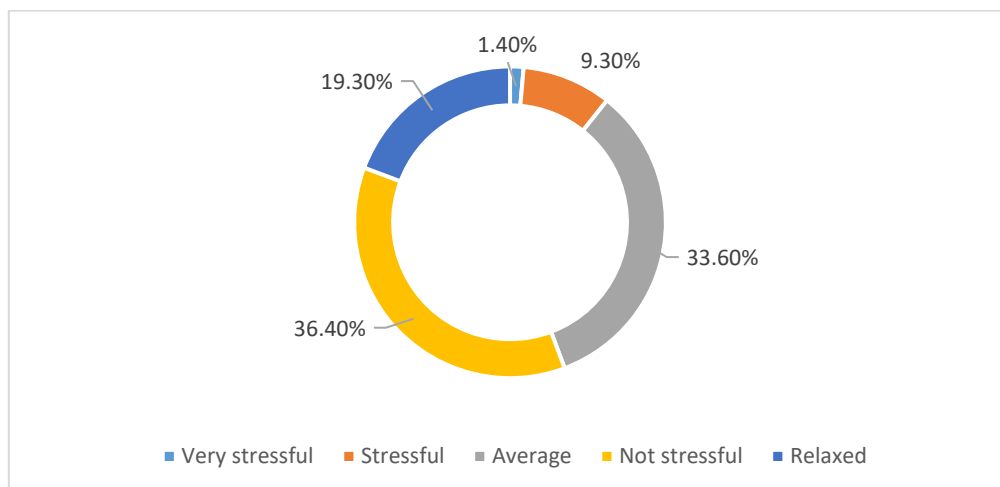


Chart 63. Enterprises' perceptions on how stressful is work considered

While the above section of the research revealed the perception of enterprises on HRD and how the general business situation affects that, now we'll turn our attention to the satisfaction of enterprises with the performance of employees, their creativity and independent performance.

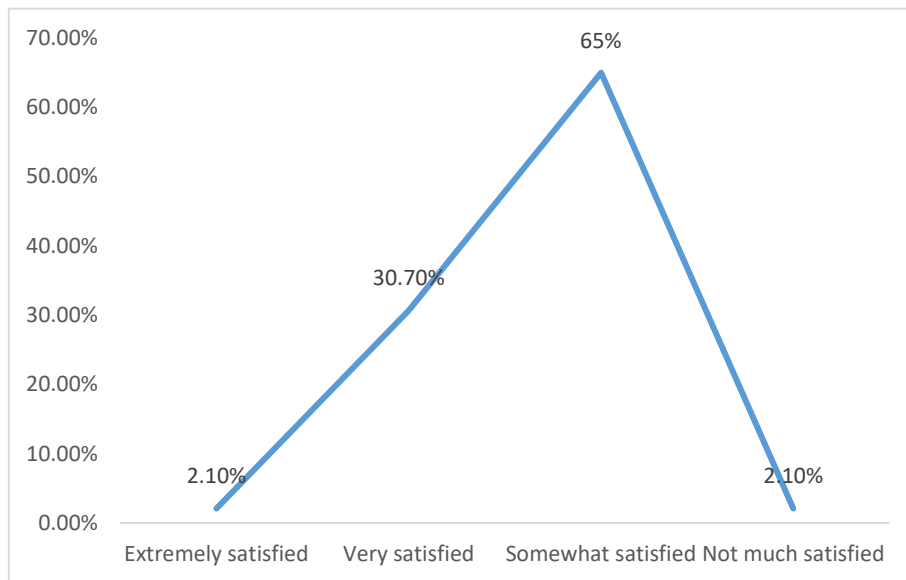


Chart 64. Enterprises' satisfaction with the performance of their present employees

The data show that a vast majority of enterprises in the sample 64.50% are only somewhat satisfied with the performance of their employees. Another remarkable share of 30.70% of enterprises seems to be very satisfied with the performance of employees.

The perception of enterprises on related aspects of performance, such as creativity and innovation of the workforce as well as the ability to operate independently were inquired through this survey. The deriving data on this question are quite in line with the above perception on general performance, though skewed slightly towards a more positive perception. The majority of enterprises in the sample, 52.90% are only somewhat satisfied with the creativity and innovation of its workforce, while a good share of 20.70% of enterprises in the sample are very satisfied with such dimensions of employee performance. A more enhanced engagement in HRD activities would certainly contribute to enhancing the creativity and innovation of employees in the private sector.

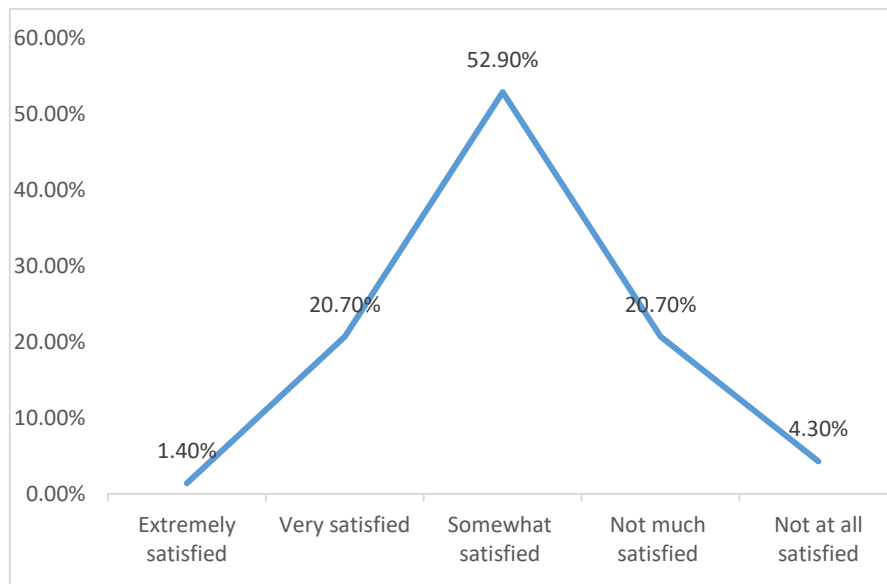


Chart 65. Enterprises' perception on the creativity of employees

A very similar picture derives also from the analysis of the data on the perception of enterprises on the potential of their employees to perform independently and use problem-solving skills. Also in relation to this performance dimension, the vast majority of enterprises in the sample, 61.40%, are only somewhat satisfied with the independent performance and problem-solving skills of their workforce. Similarly to the above performance dimensions, only a share of 20.70% of enterprises are very satisfied with the independent performance of their staff and rely on the problem-solving skills of their workforce.

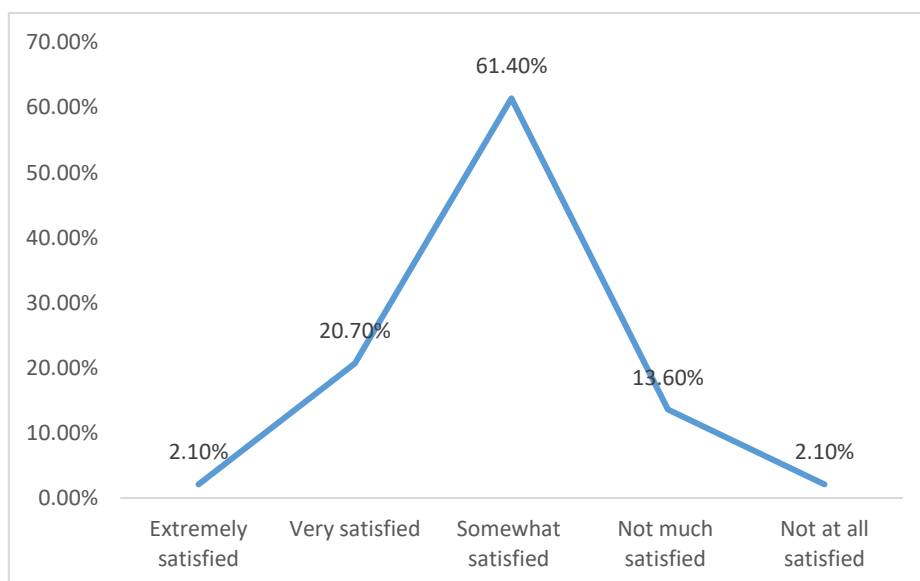


Chart 66. Enterprises' perception of the ability of employees to perform independently

The literature review showed that performance appraisal is a human resource function of critical importance, particularly when it is linked to practices of rewarding employees for outstanding performance as well as to the identification of HRD activities that aim to address the related gaps in performance and skills. The respective inquiry in this survey confirms yet again that Kosovo SMEs don't actually have in place a properly thought mechanism of strategic human resource management practices, with such a mechanism not available in 46.70% of enterprises. Only 31.40% of the enterprises in the sample confirm having in place a performance appraisal system, which enables assessing the performance of employees based on initially set performance goals and targets. Against the backdrop of the above findings related to recruitment and selection methodologies, the data on the availability and strategic use of performance appraisal mechanisms point to a rather urgent need for the enterprises to review systemically their HRM approaches and adopt a more strategic approach in this regard.

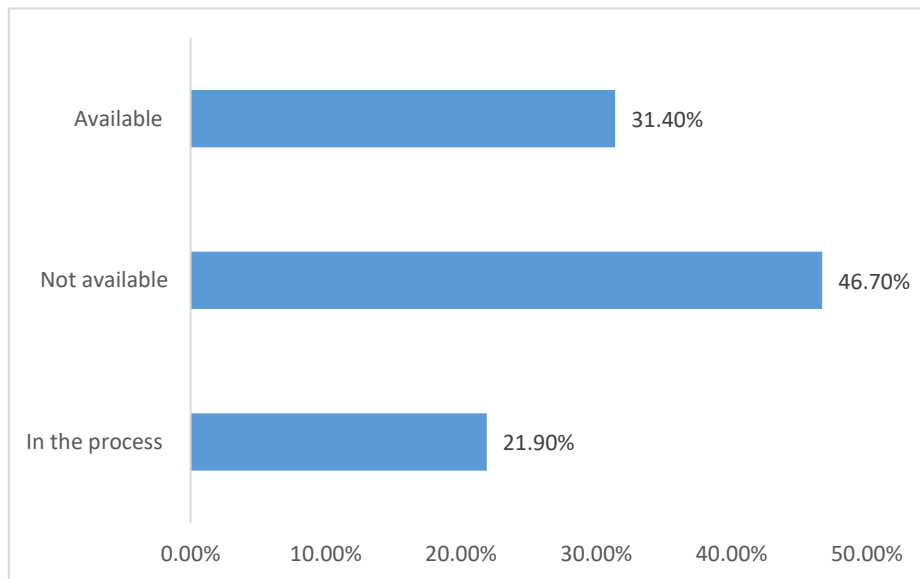


Chart 67. Availability of performance appraisal mechanisms in enterprises

According to Armstrong, the analysis of job positions is extremely important as it provides key information on the expectations of the position, the range of tasks to be performed and thus serves as an excellent basis for assessing performance (Armstrong M. , 1998).

In absence of mechanisms tailored to measure the performance of each single employee on the basis of initially set performance targets and expectations, the enterprises chose often to

utilise some proxy indicators that measure collective productivity and performance of the enterprise as such.

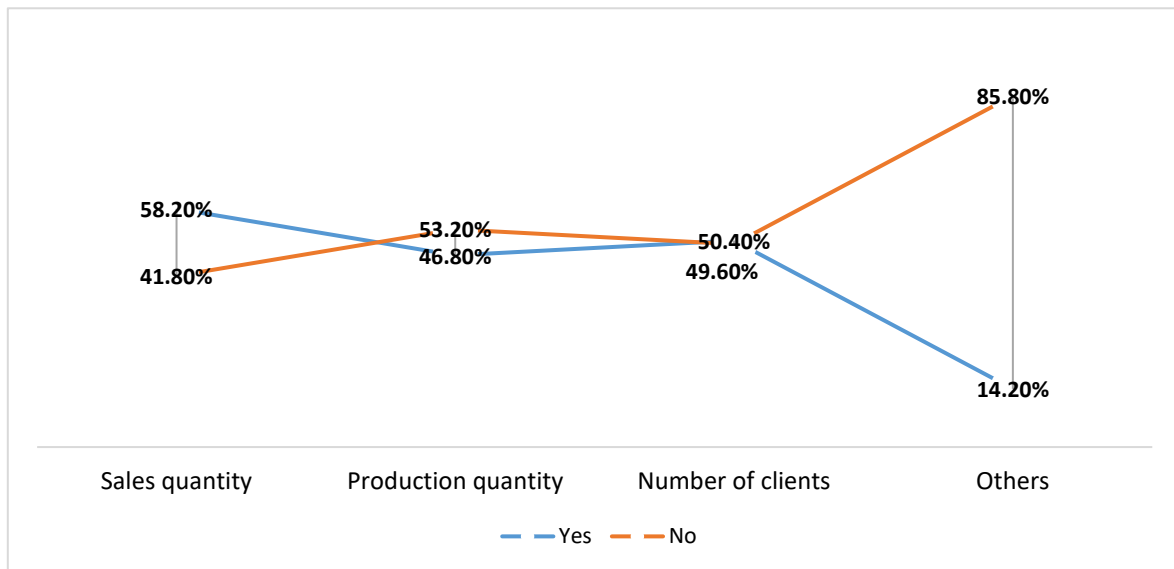


Chart 68. A selection of proxy indicators used during performance appraisals

As the above chart shows, among these collective indicators, the quantity of sales annually seems to be utilized by the majority of enterprises, respectively 58.20% of enterprises in the sample. Another share of 50.40% of enterprises in the sample indicate the number of clients remaining with the business. While an additional 46.80% of enterprises in the sample, primarily belonging to the production sector, point to quantities in the production process. In addition to the above indicators of assessing the collective performance of employees, some 14.20% of enterprises mention a range of other indicators they take into account while assessing the performance of their employees, such as client satisfaction, the communication with clients, timely completion of tasks, the quality of products and services, hygiene, etc.

In the elaborations above we have seen that the enterprises generally were not very satisfied with the performance of their employees, as well as, there is limited investment on HRD. Related indicators with this scope is the dismissal of employees. Despite the issues noted in the above section, surprisingly, 37.90% of enterprises in the sample have not dismissed a single employee in the last 3 years. A good share of enterprises, respectively 44.30% have dismissed only 1-3 employees in the past 3 years. Only 3.5% of enterprises in the sample have dismissed over 10 employees in the past 3 years. Overall low rates of dismissal could potentially be related to generally low expectations of identifying better staff.

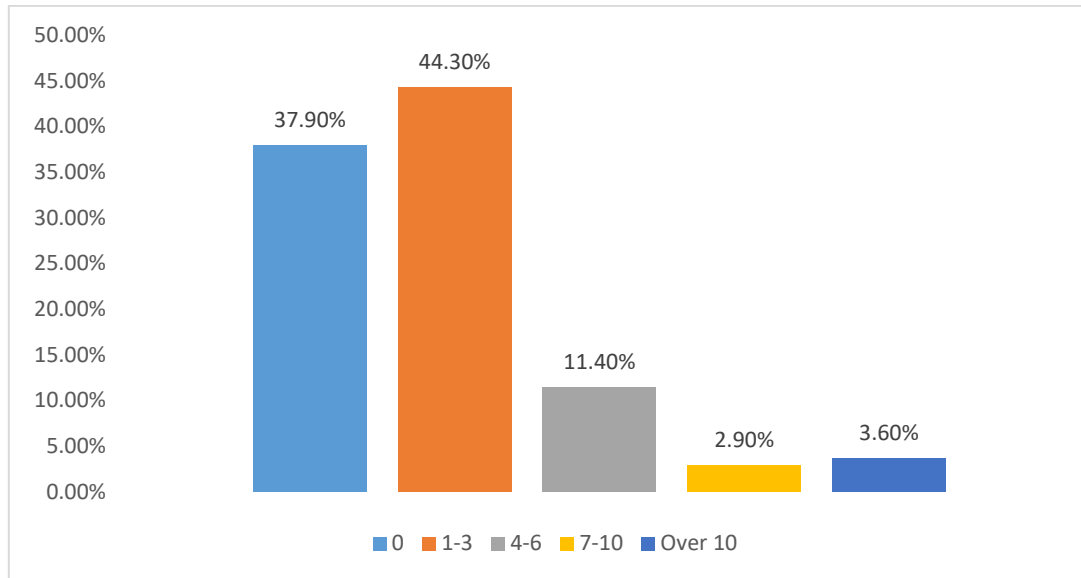


Chart 69. Dismissals due to poor performance during the past three years

In view of the gap with skills made available by the education sector and the ones required by the private sector to keep up with technology development, do Kosovo SMEs hire beyond Kosovo? Obviously, for a good majority, respectively 64.20% of enterprises the answer is no. A more significant share of 28.50% seems to have hired 1-3 employees from the region or beyond. Companies hiring more staff are insignificant.

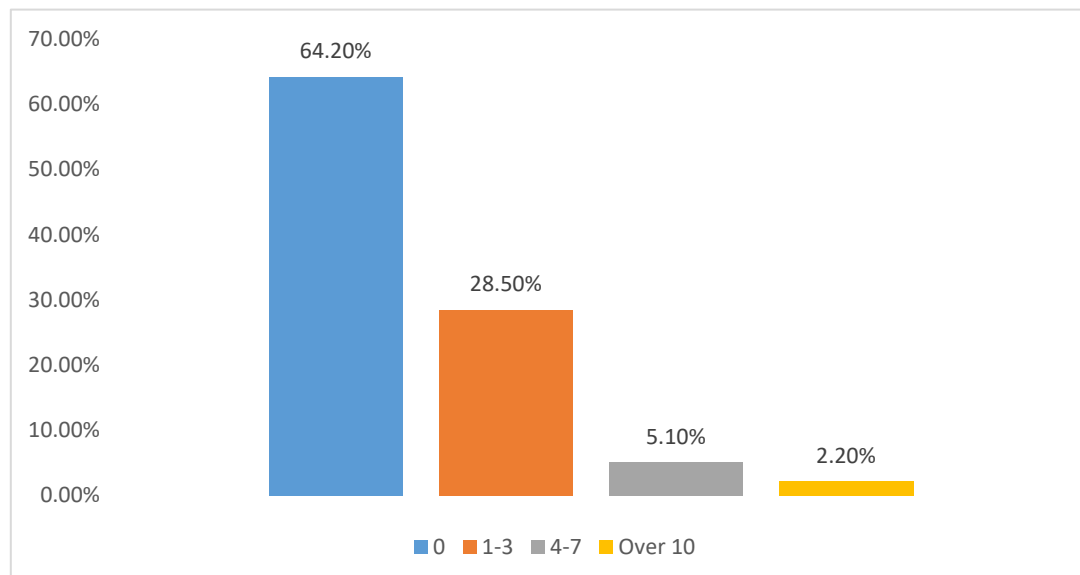


Chart 70. Enterprises practices of hiring from regional or international markets

As important as the identification of adequately-skilled staff is, the retention of such talented staff, considered of key business value for the enterprise is of equal importance. The survey

shows that most of the companies in the sample do employ some sort of retention strategy. Indeed only 3.5% of enterprises in the survey don't employ any retention strategy at all. Monetary bonuses seem to be employed widely as a retention strategy, with 63.10% of enterprises in the sample considering bonuses as an effective retention strategy. Another widely used retention strategy are long-term contracts for talented staff, with 61% of enterprises using contracts longer than 3 years as a measure to retain talented staff. The enterprises in the survey next mention career prospects within companies, in 56% of cases, salaries higher than the competition, in 53.2% of cases. Flexible working hours seem to be considered a less effective retention strategy as it is being applied by only 29.10% of enterprises in the sample, as is the option of awarding employees discretion over decision-making with only 22.70% of enterprises in the sample considering this an effective retention strategy.

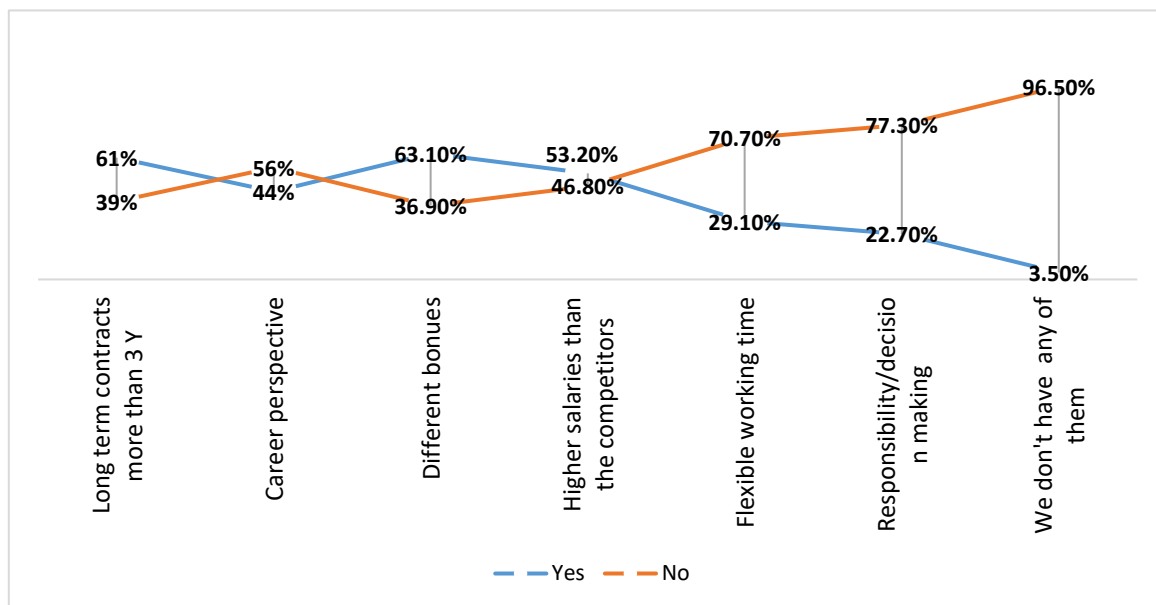


Chart 71. Retention strategies employed by the enterprises

In terms of planned future new employment in the coming 3 years, almost half of the enterprises in the survey 48.90% expect to employ only 1-5 new employees. This shows that most of the enterprises in Kosovo are extremely small and expect to grow slowly in the coming years. This conclusion is validated with an additional 8% of enterprises in the survey indicating they don't intend to recruit any new staff in the coming 3 years. Plans for the future for the other companies in the survey seem to be brighter. Thus, 8% of the enterprises in the



survey expect to employ over 50 new staff in the coming 3 years; while another 6.60% of the enterprises expect to employ 21-49 new staff in the coming 3 years.

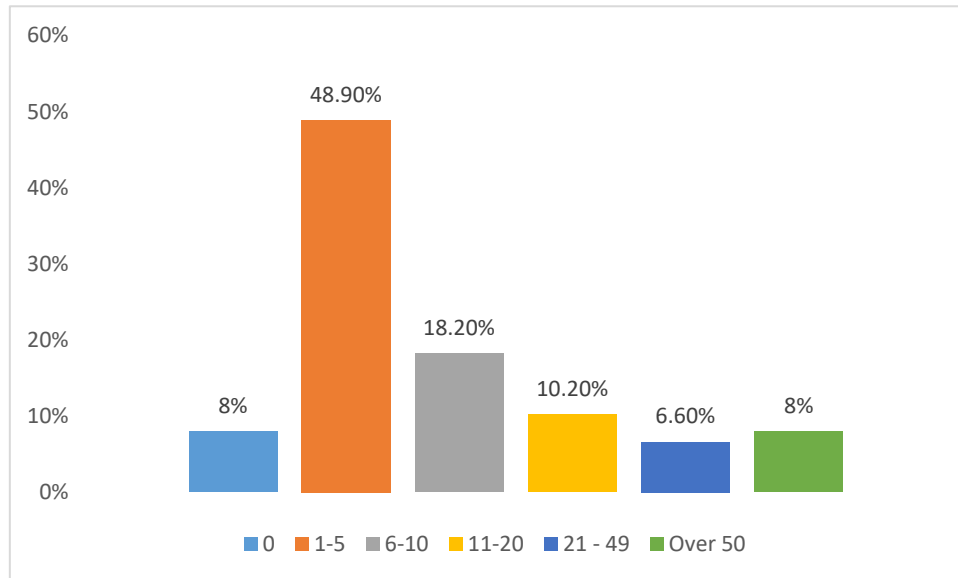


Chart 72. Enterprises' intended new employments in the coming three years

Analysing the data on intended new employments in the coming 3 years in the subset of companies expecting growth in the future gives us a comparable picture to the one above, with some 6.13% of enterprises in this subset not envisaging any new employment in the coming 3 years and almost half of the companies, 47.82% expect to employ 1-5 new employees in the coming 3 years. The situation is somewhat different in the subset of companies expecting steady growth, particularly in the case of companies not expecting any new employment in the near future, with as much as 23.52% of enterprises in this subset.

## 5.2 Testing of hypothesis

In order to understand whether the relation between dependent and independent variables is statistically significant, we have conducted hypothesis testing. According to the Magenta Book(2005, in statistical terms, a hypothesis test is undertaken to ascertain if there is enough evidence to confirm a hypothesis (GSRU, 2005). We have tested and analyzed all hypothesis in our study through multiple linear regression. Multiple linear regression presents and explains the relations between a dependent variable and several other independent variables through a mathematical equation, as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \dots + \beta_nX_n + \varepsilon$$

Y-represents the dependent variable

$\beta_0$  - represents the beta coefficient – constant,

$\beta_1$  - represents the beta coefficient of the first independent variable

$X_1$  - is the first independent variable

$\beta_2$  - represents the beta coefficient of the second independent variable

$X_2$  - is the second independent variable

$\beta_n$  - represents the beta coefficient of the n-th independent variable

$X_n$ -is the n-th independent variable

$\varepsilon$  -is standard error which takes into account the values of other variables that affect the dependent variable but are not included in the model.

Associated with the hypothesis test is the level of significance. The level of significance is the threshold that is used to decide if an observed difference in the sample was unlikely to have been observed by chance and hence confirm the hypothesis. The level of significance is expressed as a probability and is often taken to be 0.05. This may also be described as significant at the 5% or 95% level, or displayed as  $p < 0.05$ . A p-value lower than 0.05 is considered statistically significant ( (GSRU, 2005)).

All multiple linear regression and other statistical analysis aimed at the testing of hypothesis, were conducted through the SPSS software.

### 5.2.1 Testing of Hypothesis #1

**Hypothesis 1:** Non-Formal Education has a positive role on employee performance of SMEs in Kosovo.

In order to test **Hypothesis #1**, we have conducted a multiple linear regression analysis, which tests the relation between the level of satisfaction with the performance of employees, as a dependent variable, and a number of related independent variables, such as type of ownership of SMEs, sector of operations, present performance of the businesses, expectations for further development, availability of a business plan, availability of a strategic human resource development plan, level of satisfaction with employee' performance after trainings, NFE as a factor for motivation, training prices, annual budget for trainings and cooperation with education and training institutions.

This analysis helps us understand the relation of the dependent variable with independent variables, more specifically to understand which independent variables influence the dependent variable, in a way that is statistically significant.

The relations between the dependent and independent variables derive the following equation of linear regression. All results derived from this equation are presented in table 6.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \beta_9X_9 + \beta_{10}X_{10} + \varepsilon$$

Satisfaction with the employees after the training = 1.423 + 0.0785 (Type of ownership of SMEs) - 0.047 (Sector of operations) + 0.051 (Present performance of the businesses) + 0.233 (Expectations for further development) + 0.191 (Availability of a strategic human resource development plan) + 0.108 (Availability of a business plan) + 0.120 (NFE as motivation for employees) - 0.22 (Cooperation with education and training institutions) + 0.042 (Training prices) + 0.021(Annual budget for trainings) + 0.648

Y-represents the dependent variable: satisfaction with the employees after the training

$\beta_0$  - represents the beta coefficient – constant,

$\beta_1$  - represents the beta coefficient of the independent variable - type of ownership of SMEs

$X_1$  - is the independent variable - type of ownership of SMEs

$\beta_2$  - represents the beta coefficient of the independent variable - sector of operations

X<sub>2</sub> - is the independent variable - sector of operations

β<sub>3</sub>-represents the beta coefficient of the independent variable - present performance of the businesses

X<sub>3</sub>-is the independent variable - present performance of the businesses

β<sub>4</sub>-represents the beta coefficient of the independent variable - expectations for further development

X<sub>4</sub>-is the independent variable - expectations for further development

β<sub>5</sub>-represents the beta coefficient of the independent variable - availability of a strategic human resource development plan

X<sub>5</sub>-is the independent variable - availability of a strategic human resource development plan

β<sub>6</sub>-represents the beta coefficient of the independent variable - availability of a business plan

X<sub>6</sub>-is the independent variable – availability of a business plan

X<sub>7</sub>-is the independent variable - NFE as motivation for employees

β<sub>7</sub>-represents the beta coefficient of the independent variable - NFE as motivation for employees

β<sub>8</sub>-represents the beta coefficient of the independent variable - trainings prices

X<sub>8</sub>-is the independent variable - trainings prices

β<sub>9</sub>-represents the beta coefficient of the independent variable - annual budget for trainings

X<sub>9</sub>-is the independent variable - annual budget for trainings

β<sub>10</sub>-represents the beta coefficient of the independent variable - cooperation with education and training institutions

X<sub>10</sub>-is the independent variable - cooperation with education and training institutions

ε -is standard error which takes into account the values of other variables that affect the dependent variable but are not included in the model.

The R-Square value is 0.324, which means that the variables included in this model explain and support one another with statistically significant empirical values. All these values are presented in details in the tables 5, 6, 7, 8 and 9.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.570 <sup>a</sup>	.324	.166	.47649

Table 5. Model summary – testing of hypothesis #1

a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.423	.481		2.958	.470
	Type of ownership of SMEs	.0785	.053	.133	1.460	-.028
	Sector of operations	-.047	.046	-.100	-1.014	-.138
	Present performance of the businesses	.051	.78	.064	.649	-.104
	Expectations for further development	.233	.109	.194	2.141	.017
	Availability of a strategic human resource development plan	.191	.075	.244	2.554	.043
	Availability of a business plan	.108	.117	.97	.926	-.123
	NFE as motivation for employees	.120	.058	.203	2.056	.004
	Cooperation with education and training institutions	-.022	.044	-.054	-.503	.111
	Training Prices	.042	.066	.62	.627	.090
	Annual budget for trainings	.021	.048	.051	.664	.073

a. Dependent Variable: Level of satisfaction with the performance of employees

Table 6. Coefficients of NFE role on employee performance

The analysis in table 6 shows that several independent variables are statistically significant and influence the dependent variable, as follows: type of ownership of SMEs, present performance of the businesses, expectations for further development, availability of a business plan, availability of a strategic human resource development plan, trainings price, level of satisfaction with employee' performance after trainings, NFE as motivation for employees, annual budget for trainings and cooperation with education and training institutions. The only variable that is not positively related to the dependent variable is the sector of operations for SMEs.

a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.126	11	.466	2.052	.044 <sup>b</sup>
	Residual	10.671	47	.227		
	Total	15.797	58			

Table 7. ANOVA analysis: The role of NFE on employee performance

In table 7, the regression analysis shows a sum of squares of 5.126, a  $df_0$  value (n-11) of 47 (58-11=47), while the F test value is 2.052 and the significance value is 0.044. According to the F-test, the entire model is statistically significant.

Expectations for further development		N	Mean	Std. Deviation	Std. Error Mean
Training prices	Increase	117	2.2137	.78597	.07266
	Decrease	24	1.4167	.50361	.10280

Table 8. Descriptive data on the companies' perception of prices of training events in Kosovo

Based on the analysis in table 8, the average of 117 companies that expect further development of their businesses is 2.2137, while the average of 24 companies that expect a decrease of their development in the future is 1.14467.

		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Training prices	Equal variances assumed	5.410	.021	4.764	139	.000	.79701	.16731	.46620	1.12782
	Equal variances not assumed			6.331	49.285	.000	.79701	.12589	.54407	1.04995

Table 9. t-test of independent variables: Company's expectations for further development and prices of trainings

Moreover, the t-test of independent variables in table 9 shows that the companies that expect further development of their businesses in the future consider the cost of training expensive, whereas the companies that expect a decrease of their businesses in the future consider the cost of training as very expensive. The change in perception and expectations between the two categories of companies is clear. This is confirmed also by the significance results ( $p=0,021$ ) which confirms that the variables expectations for further development and the cost of training are statistically significant.

***In view of the above statistically significant results of analysis, we can conclude that the Hypothesis # 1 'Non-Formal Education has a positive role on employee performance of SMEs in Kosovo' is accurate and herewith confirmed.***

### 5.2.2 Testing of Hypothesis #2

**Hypothesis 2:** Kosovo SMEs are aware of the importance of non-formal education in improving staff and organizational performance.

In order to test **Hypothesis #2**, we have conducted a multiple linear regression analysis, which tests the relation between the willingness of companies to engage employees in non-formal education, as a dependent variable, and a number of related independent variables, such as type of ownership of SMEs, sector of operations, expectations for further development of the enterprise, availability of a business plan, number of employees, quality of education services, annual budget for trainings.

The relations between the dependent and independent variables derive the following equation of linear regression. All results derived from this equation are presented in table 12.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \varepsilon$$

Willingness of companies to engage employees in non-formal education = 0.635 + 0.017 (type of ownership of SMEs) - 0.066 (sector of operations) + 0.443 (expectations for further development) + 0.172 (availability of a business plan) - 0.001 (number of employees) + 0.214 (the opinion about the quality of education) - 0.365 (annual budget for trainings) + 0.635

Y-represents the dependent variable - willingness of companies to engage employees in non-formal education

$\beta_0$  - represents the beta coefficient – constant,

$\beta_1$  - represents the beta coefficient of the independent variable - type of ownership of SMEs

$X_1$  - is the independent variable - type of ownership of SMEs

$\beta_2$  - represents the beta coefficient of the independent variable - sector of operations

$X_2$  - is the independent variable - sector of operations

$\beta_3$  - represents the beta coefficient of the independent variable - expectations for further development

$X_3$  - is the independent variable - expectations for further development

$\beta_4$  - represents the beta coefficient of the independent variable - availability of a business plan



X<sub>4</sub> - is the independent variable - availability of a business plan

β<sub>5</sub> - represents the beta coefficient of the independent variable - number of employees

X<sub>5</sub> - is the independent variable - number of employees

β<sub>6</sub> - represents the beta coefficient of the independent variable - the opinion about the quality of education

X<sub>6</sub> - is the independent variable - the opinion about the quality of education

β<sub>7</sub>-represents the beta coefficient of the independent variable - annual budget for trainings

X<sub>7</sub>-is the independent variable – annual budget for trainings

ε -is standard error which takes into account the values of other variables that affect the dependent variable but are not included in the model.

The R-Square value is 0.230, which means that the variables included in this model explain and support one another with statistically significant empirical values. All these values are presented in details in the tables 10, 11, 12, 13 and 14.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.480 <sup>a</sup>	.230	.186	1.12158

Table 10. Model summary – testing of hypothesis #2

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	46.235	7	6.605	5.251	.000 <sup>b</sup>
1 Residual	154.727	123	1.258		
Total	200.962	130			

a. Dependent Variable: Willingness of companies to engage employees in non-formal education

Table 11. ANOVA analysis: Awareness of the importance of non-formal education

As seen above, the regression analysis shows a sum of squares of 46.235, a df<sub>0</sub> value (n-7) of 123 (130-7=123), while the F test value is 5.251 and the significance value is 0.000.

Coefficients <sup>a</sup>						
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.716	.635		2.704	.008
	Type of ownership of SMEs	.017	.110	.013	.153	.879
	Sector of operations	-.066	.099	-.060	-.663	.508
	Expectations for further development	.443	.217	.168	2.044	.043
	Availability of a business plan	.172	.242	.067	.711	.479
	Number Employees	-.001	.174	.000	-.005	.996
	Quality of education services	.241	.123	.162	1.962	.052
	Annual budget for trainings	-.365	.087	-.394	-4.207	.000

a. Dependent Variable: Willingness of companies to engage employees in non-formal education

Table 12. Coefficients of awareness of the importance of non-formal education

The analysis in table 12 shows that several independent variables are statistically significant and influence the dependent variable, as follows: type of ownership of SMEs, expectations for further development of the enterprise, availability of a business plan, and the perception on the quality of education services. The variables that are not positively related to the dependent variable are the sector of operations for SMEs, number of employees and the annual budget for trainings.

	Future expectations	N	Mean	Std. Deviation	Std. Error Mean
Annual budget for trainings	Increase	117	2.7692	1.26889	.11731
	Decrease	24	1.2083	.58823	.12007
Quality of education services	Increase	117	2.6496	1.12431	.10394
	Decrease	24	4.0833	.92861	.18955

Table 13. Descriptive data on companies' perception over earmarked annual budget for trainings and the perceived quality of education services

Based on the analysis in table 13, we can derive that the average of 117 companies that expect further development of their businesses is 2.7692, while the average of 24 companies that expect a decrease of their development in the future is 1.2083. Moreover, the analysis confirms that the companies that expect further development of their businesses in the future do earmark a specific annual budget for training sessions, whereas the companies that expect a decrease of their businesses in the future do not earmark specific budget for trainings. This is confirmed also by the significance results ( $p=0,000$ ) which confirms that the variables expectations for further development of businesses in the future and earmarked annual budget for trainings are mutually statistically significant.

		Independent Samples Test								
		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
Annual budget for trainings	Equal variances assumed	18.774	.000	5.885	139	.000	1.56090	.26523	1.03650	2.08530
	Equal variances not assumed			9.299	74.419	.000	1.56090	.16786	1.22645	1.89534
Quality of education services	Equal variances assumed	5.617	.019	-5.847	139	.000	-1.43376	.24523	-1.91862	-.94891
	Equal variances not assumed			-6.632	38.226	.000	-1.43376	.21618	-1.87131	-.99621

Table 14. t-test of independent variables: Company's expectations for further development, earmarked annual budget for trainings and the perceived quality of education services

Moreover, we have conducted a t-test of significance among the following independent variables: companies' expectations of further development of their businesses in the future, perceived quality of education services and earmarked annual budget for trainings. The analysis in table 14 shows that the independent variable perceived quality of education services confirms it is statistically significant ( $p=0.019$ ) with the variable companies' expectations of further development of their businesses. The average of 117 companies that expect further development of their businesses is 2.6496, while the average of 24 companies that expect a decrease of their development in the future is 4.0833. Hence, we can conclude that the companies that expect further development of their businesses in the future have a more positive perception of the quality of education services in Kosovo, whereas the companies that expect a decrease of their businesses in the future consider the quality of education services rather poor.

***In view of the above statistically significant results of analysis, we can conclude that the Hypothesis # 2 'Kosovo SMEs are aware of the importance of non-formal education in improving staff and organizational performance' is accurate and herewith confirmed.***

### 5.2.3 Testing of Hypothesis #3

**Hypothesis 3:** Kosovo SMEs approach staff development and training systematically and in alignment to business development strategies.

In order to test **Hypothesis #3**, we have conducted a multiple linear regression analysis, which tests the relation between the availability of a strategic human resource development plan, as a dependent variable, and a number of related independent variables, such as SME establishment year, type of ownership of SMEs, sector of operations, availability of a business plan, number of employees, average age of employees, training needs analysis, availability of performance appraisal mechanisms in the enterprise.

The relations between the dependent and independent variables derive the following equation of linear regression. All results derived from this equation are presented in table 17.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \varepsilon$$

Availability of a strategic human resource development plan = 0.055 - 0.024 (establishment year) + 0.83 (business ownership) + 0.05 (sector of operations) + 0.205 (availability of a business plan) + 0.148 (number of employees) + 0.93 (average age of the employees) + 0.288 (training needs analysis) + 0.143 (appraisal mechanisms) +0.432

Y-represents the dependent variable,

$\beta_0$  - represents the beta coefficient – constant,

$\beta_1$  - represents the beta coefficient of the dependent variable - establishment year

$X_1$ -is the independent variable – establishment year

$\beta_2$ -represents the beta coefficient of the independent variable - business ownership

$X_2$ -is the independent variable – business ownership

$\beta_3$ -represents the beta coefficient of the independent variable - sector of operations

$X_3$ -is the independent variable – sector of operations

$\beta_4$ -represents the beta coefficient of the independent variable - availability of a business plan

$X_4$ -is the independent variable – availability of a business plan

$\beta_5$ -represents the beta coefficient of the independent variable - number of employees

X<sub>5</sub>-is the independent variable – number of employees

β<sub>6</sub>-represents the beta coefficient of the independent variable - average age of the employees

X<sub>6</sub>-is the independent variable – average age of the employees

β<sub>7</sub>-represents the beta coefficient of the independent variable - training needs analysis

X<sub>7</sub>-is the independent variable – training needs analysis

β<sub>8</sub>-represents the beta coefficient of the independent variable - appraisal mechanisms

X<sub>8</sub>-is the independent variable – appraisal mechanisms

ε -is standard error which takes into account the values of other variables that affect the dependent variable but are not included in the model.

The R-Square value is 0.213, which means that the variables included in this model explain and support one another with statistically significant empirical values. All these values are presented in details in the tables 15, 16, 17, 18 and 19.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.461 <sup>a</sup>	.213	.160	.63678

Table 15. Model summary – testing of hypothesis #3

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	13.052	8	1.631	4.024	.000 <sup>b</sup>
1 Residual	48.253	119	.405		
Total	61.305	127			

a. Dependent Variable: Availability of Strategic Human Resource Development Plan

Table 16. ANOVA analysis: Approach staff development and training systematically and in alignment to business development strategies

As seen above, the regression analysis shows a sum of squares of 13.052, a df<sub>0</sub> value (n-8) of 119 (127-8=119), while the F test value is 4.024 and the significance value is 0.000.

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.055	.432		.128	.898
Establishment year	.024	.045	.047	.530	.597
Type of ownership of SMEs	.083	.066	.110	1.259	.210
Sector of operations	.005	.058	.008	.089	.929
1 Availability of a business plan	.205	.138	.141	1.484	.141
Number of Employees	.148	.097	.144	1.522	.131
Average age employees	.093	.083	.098	1.121	.265
Training needs analysis	.288	.087	.296	3.294	.001
Appraisal mechanisms	.143	.084	.153	1.702	.091

a. Dependent Variable: Availability of Strategic Human Resource Development Plan

Table 17. Coefficients of approach staff development and training systematically and in alignment to business development strategies

The analysis in table 17 shows that several independent variables are statistically significant and influence the dependent variable, as follows: type of ownership of SMEs, sector of operations, availability of a business plan, number of employees, average age of employees, training needs analysis and availability of performance appraisal mechanisms in the enterprise. The only variable that is not positively related to the dependent variable is the year of establishment of the SME.

Training needs analysis		N	Mean	Std. Deviation	Std. Error Mean
Appraisal mechanisms	Yes	78	1.8590	.84859	.09608
	No	63	1.9683	.50699	.06387

Table 18. Descriptive data of companies' perception on employing training needs analysis and appraisal mechanisms

		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
Appraisal mechanisms	Equal variances assumed	47.328	.000	-.900	139	.370	-.10928	.12139	-.34929	.13073
	Equal variances not assumed			-.947	128.844	.345	-.10928	.11538	-.33756	.11900

Table 19. t-test of independent variables: appraisal mechanisms and training needs analysis

Based on the analysis in table 18, we can derive that the average of 78 companies that engage in training needs analysis is 1.8590, whereas the average of 63 companies that do not engage in training needs analysis is 1.9683. Therefore, we can conclude that the companies that engage in training needs analysis also employ more advanced performance appraisal mechanisms and conversely, the companies that don't engage in training needs analysis rather do not employ performance appraisal mechanisms.

Moreover, the t-test of independent variables in table 19 shows confirms a relation between the employment of performance appraisal mechanisms and training needs analysis. This is confirmed also by the significance results (p=0,000) which confirms that the variables performance appraisal mechanisms and training needs analysis are mutually statistically significant.

***In view of the above statistically significant results of analysis, we can conclude that the Hypothesis # 3 'Kosovo SMEs approach staff development and training systematically and in alignment to business development strategies' is accurate and herewith confirmed.***



#### 5.2.4 Testing of Hypothesis #4

**Hypothesis 4:** Non-Formal Education can serve as an incentive to improve the performance of employees.

In order to test **Hypothesis #4**, we have conducted a multiple linear regression analysis, which tests the relation between NFE considered as motivation for employees, as a dependent variable, and a number of related independent variables, such as type of ownership of SMEs, sector of operations, present performance of business activity, number of employees, average age of employees, level of satisfaction with the performance of employees after trainings, willingness to engage employees in NFE.

The relations between the dependent and independent variables derive the following equation of linear regression. All results derived from this equation are presented in table 22.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \varepsilon$$

NFE is a motivation for employees = 0.524 - 0.062 (type of ownership of SMEs) + 0.036 (sector of operations) + 0.195 (present performance of the businesses) + 0.108 (number of employees) + 0.315 (satisfaction with the employees after the training) + 0.354 (average age of employees) + 0.23 (NFE as motivation for employees)

Y-represents the dependent variable,

$\beta_0$ -represents the beta coefficient – constant,

$\beta_1$ -represents the beta coefficient of the independent variable - type of ownership of SMEs

$X_1$ -is the independent variable – type of ownership of SMEs

$\beta_2$ -represents the beta coefficient of the independent variable - sector of operations

$X_2$ -is the independent variable – sector of operations

$\beta_3$ -represents the beta coefficient of the independent variable – present performance of the businesses

$X_3$ -is the independent variable – present performance of the businesses

$\beta_4$ -represents the beta coefficient of the independent variable - number of employees

$X_4$ -is the independent variable – number of employees

$\beta_5$ -represents the beta coefficient of the independent variable - satisfaction with the employees after the training

$X_5$ -is the independent variable – satisfaction with the employees after the training

$\beta_6$ -represents the beta coefficient of the independent variable Satisfaction with the employees after training

$X_6$ -is the independent variable – Satisfaction with the employees after training

$\beta_7$ -represents the beta coefficient of the independent variable NFE as motivation for employees

$X_7$ -is the independent variable – NFE as motivation for employees

$\epsilon$  -is standard error which takes into account the values of other variables that affect the dependent variable but are not included in the model.

The R-Square value is 0.231, which means that the variables included in this model explain and support one another with statistically significant empirical values. All these values are presented in details in the tables 20, 21, 22, 23 and 24.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.481 <sup>a</sup>	.231	.133	.83603

Table 20. Model summary - testing of hypothesis #4

In table 21, the regression analysis shows a sum of squares of 11.558, a  $df_0$  value (n-7) of 55 (62-7=55), while the F test value is 2.362 and the significance value is 0.035. According to the F-test, the entire model is statistically significant.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.558	7	1.651	2.362	.035 <sup>b</sup>
	Residual	38.442	55	.699		
	Total	50.000	62			

a. Dependent Variable: NFE as motivation for employees

Table 21. ANOVA analysis: NFE can serve as an incentive to improve the performance of employees

Model		Coefficients <sup>a</sup>				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.577	.851		-.678	.501
	Type of Ownership of SMEs	-.062	.106	-.073	-.582	.563
	Sector of operations	.036	.121	.037	.295	.769
	Present performance of the businesses	.195	.175	.140	1.120	.268
	Number of Employees	.108	.173	.078	.623	.536
	Satisfaction	.315	.169	.233	1.864	.068
	Average age of employees	.354	.177	.250	2.000	.050
	Willingness to engage employees in NFE	.223	.104	.256	2.136	.037

a. Dependent Variable: NFE as motivation for employees

Table 22. Coefficients of NFE as an incentive to improve the performance of employees

The analysis in table 22 shows that several independent variables are statistically significant and influence the dependent variable, as follows: sector of operations, present performance of business activity, number of employees, average age of employees, level of satisfaction with the performance of employees after trainings, willingness to engage employees in NFE. The only variable that is not positively related to the dependent variable is the type of ownership of SMEs.

	Willingness to engage employees in NFE			
	N	Mean	Std. Deviation	Std. Error Mean
Average age of the employees Yes	99	1.9293	.50005	.05026
No	42	2.9524	.98655	.15223

Table 23. Descriptive data on companies' perception of willingness to engage employees in NFE and the average age of employees

Based on the analysis in table 23, we can derive that the average of 99 companies that are willing to engage their employees in NFE is 1.9293, whereas the average of 42 companies that are not willing to engage their employees in NFE is 2.9524.

		Independent Samples Test								
		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Average age of the employees	Equal variances assumed	23.917	.000	-8.162	139	.000	-1.02309	.12535	-1.27093	-.77524
	Equal variances not assumed			-6.382	50.175	.000	-1.02309	.16031	-1.34505	-.70112

Table 24. t-test of independent variables: Willingness to engage employees in NFE and the average age of employees

Moreover, the t-test of independent variables in table 24 confirms that in companies that are willing to engage their employees in NFE, the average age of employees is younger, and conversely, the average age of employees is older in companies that are not willing to engage their employees in NFE. This is confirmed also by the significance results (p=0,000) which confirms that the variables willingness of companies to engage their employees in NFE and average age of employees are mutually statistically significant.

***In view of the above statistically significant results of analysis, we can conclude that the Hypothesis #4 ‘Non-Formal Education can serve as an incentive to improve the performance of employees’ is accurate and herewith confirmed.***

## **Chapter 6. Conclusions and Recommendations**

### **6.1. Conclusions**

In today's world of rapidly evolving technology, education and training is crucial in advancing productivity. Nafukho (2010) concludes that investment in people leads to changes manifested at the individual level in the form of improved performance, at the organizational level in the form of improved productivity and at the level of society in the form of returns that benefit the entire society (Nafukho, F; Hairston, & Brooks, K, 2010).

This study is conducted with the aim of understanding the role of non-formal education on employee' performance of SMEs in Kosovo. The literature review builds on a solid conceptual framework, supporting the premise that human resources are the most strategic asset of any organization and need to be managed as a key element of the business development strategy. This premise is backed by abundant research, which explores the rationale for companies investing in HR development, non-formal education as a means to this end as well as the positive effect this has on improving staff and organizational performance.

The rationale for investing in HR development certainly stands also in the context of Kosovo. In principle given the unsatisfactory quality of the formal education sector as well as the mismatch between profiles produced by the education sector versus the ones required by the private sector, HR development through non-formal education ought to be a key priority of SMEs in Kosovo. This study concludes that while the importance of the potential role of non-formal education on enhancing the performance of employees is well recognized by SMEs in Kosovo, HR development is not approached systematically nor following a clear strategy as an integral part of the business development strategy.

The conclusions of this study are best summarized in the following statement by Truss et al (2012)

*In many settings strategies can be 'emergent', therefore not clearly articulated, but rather develop over time through multiple incremental changes that can perhaps only be understood as a strategy with the benefit of hindsight (Truss et al, 2012).*

Building on the set of questions leading the research, specifically presenting the perception of the managing owners of SMEs, this section summarizes some of the main conclusions of this study:

- The whole private sector in Kosovo is nascent, with companies just new in the market, growing step by step, as they learn from experience rather than some long-standing tradition or sophisticated business acumen. The findings of the survey on the structure of companies, showing mostly single owner structures and operating without the guidance of business plans, validate the premise that the companies are young and inexperienced. Following the same approach, in the case of human resources, there is no clear human resource strategy, leading the selection, recruitment, management and development of this important asset for the enterprises.
- Small and medium enterprises (SMEs) in Kosovo are well aware of the potential that NFE holds to improve the knowledge, skills and abilities of their employees, respectively enhance the performance of staff and productivity of the organization;
- Despite knowing this potential of NFE, SMEs in Kosovo engage only to a limited extent in HR development, respectively through NFE activities. Survey results show that a significant share of companies, a staggering 49.6% did not organize any training or invest in any HR development activity in the last three years!
- HR development happens sporadically, following imminent opportunities made available, often in an ad-hoc fashion, without following a clear strategy or rationale;
- The limited investment in HR development is mostly due to financial restraints the companies face. Access to finance isn't easy, and ultimately not cheap, access to markets, likewise. Amid a range of structural constraints the SMEs are exposed in their efforts to do business, emphasis on HR, naturally comes further down their list of priorities in terms of imminent investments.
- Another important structural element that constraints the potential of NFE being utilized towards HR development in the private sector concerns the offer and quality of NFE in the market. While efforts have been extensive in establishing processes and procedures for the regulation, recognition and certification of NFE modules, the range of options available in the market is limited, as is the quality. Moreover, the modules

on offer are often similar among service-providers, address issues of a general character, not necessarily useful for the development of specific skills required by the companies. This is made clear by the fact that SMEs are very keen to use the potential of some specific courses-often developed with the support of international development agencies and projects- which target strategic and specific skills required by the companies, often resulting with internationally-recognised certification.

- There is no systematic needs assessment preceding decisions about staff training, be it in terms of which category of staff to be addressed with the trainings or which specific training shall be attended. Survey data show that companies mostly chose to invest in the training of their managerial, rather than professional staff, with 31.2% of SMEs in the sample confirming this finding. In terms of the training options selected, firm-specific training seems to be valued over trainings of a more general nature.
- There is no clear strategic thinking in relation to the development and management of human resources as an integral part of the respective business plans. Indeed, even the business plans as such are sketchy, not utterly thorough and not systematically used to guide the development of the business. In general, business plans seem to be developed only to satisfy some requirement in relation to access to finance or access to business development instruments and not so much for guiding the actual development of the business. The data from our survey actually show that the availability of the business plans differs from sector to sector. It is astonishing to note that survey SMEs in trade & construction mostly operate without a business plans, namely a staggering 71.4% of the companies do not possess such a strategic document! On a positive note, survey SMEs in the production sector mostly operate on the basis of the business plan, as much as 84.4%. A similar high share, 60% of the survey SMEs in the services sector likewise are led in their operations by business plans. The data confirm the initial conclusion that the private sector in Kosovo is nascent and the companies stand to learn a lot on how to strategically develop their business operations.
- Amid alternatives of NFE modalities, SMEs in Kosovo seem to favour firm-specific versus general training. This could be explained by the fact that such modalities equip employees with firm-relevant specific skills and competence of immediate use, instead

of longer-term developmental goals which could be met through trainings of a more general and formal nature.

- The prevailing modality seem to be training a professional as trainer and utilize their training skills for further inhouse training. This is seen as a way to contain costs but at the same time control 'futile' investment in resources that might flee to the competition.
- In general, SMEs in Kosovo have not yet set in place strategic human resource practices as concerns selection, recruitment, performance appraisal nor development of their staff;
- As is often the case in developing countries, Kosovo is characterized with a loose labour market, in which a large number of job-seekers compete for a limited number of positions. Given the abundant candidates for specific positions, SMEs generally conduct selection through informal channels, based on personal acquaintance, family ties and recommendations.
- A universal challenge pertinent to loose labour markets concerns the identification of candidates with the right skills and competence for the specific positions. SMEs informal selection and recruitment methodologies mentioned above seem to be failing to ensure the companies the required profiles and skills to meet their business development needs. This mismatch between the offer and demand, becoming pretty obvious in recent years, gave rise to a set of job-matching initiatives, which act as intermediaries between job-providers and job-seekers. The services of such companies are increasingly used by the private and non-governmental sector and seem to be effective in identifying suitable resources;
- The abundancy of job-seekers in the market, gives the managers of SMEs the confidence that they constantly have an advantage over employees. This seems to be the reason why the enterprises generally don't consider HR as strategic assets. As a consequence, investment in HR development is limited and not so systematic, resulting with constant turnover and limited improvement on staff and organizational performance. It is indeed the turnover factor that mostly acts as a restrainer to the companies engaging in HR development. The survey shows that 50.4% of the SMEs



hesitate to invest in NFE activities of their employees, concerned that their investment would be futile as the employees might flee to the competition.

- Yet, recently the SMEs are starting to realize the importance of HR, in particular the effect and cost of staff turnover on the stability and long-term performance and prospects of the enterprise. This awareness will certainly require companies to develop and implement staff-retention strategies, particularly targeting the so called ‘talents’, the professionals of key importance for business development. Indeed, survey results show that around 61% of the companies in the sample consider long-term contracts as a key retention strategy.
- Long-term contracts seem to be acting as a motivational factor to employees of SMEs, as it gives them assurance their contribution is recognized as well as provides them with financial sustainability in the long term.
- Owners of SMEs in Kosovo are not very clear as to what works as a motivational factor to boost the performance of their employees. Yet, they engage in some measures, mostly relating to monetary benefits as a strategy to foster the performance of their employees. Thus, a good share of companies, 53.2% have introduced higher pays – higher than the average remuneration of similar positions in the market – for staff positions that are considered critical to the development of the business.
- In addition, monetary bonuses to reward outstanding performance seems to be an additional motivational strategy employed by a vast majority of companies in the sample, a sheer 62.4% of the companies seem to be applying bonuses. This finding though is surprising in view of the understanding that performance appraisal isn’t systematically introduced and conducted by the companies. Thus, survey findings indicate that only 30.5% of the companies in the sample have put in place some form of performance appraisal mechanism that assesses the performance of employees towards initially defined performance goals , while another 21.3% of the companies were in the process of introducing such processes. The above contrasting figures lead us to the conclusion that that the motivational strategies of SMEs in Kosovo are not thought strategically, as it seems to a great extent SMEs award bonuses on basis other than goal-oriented performance.

- Participation in training and development activities often acts as a motivational booster to improve the performance of employees. Yet, the perception of owners of SMEs in the survey only to some extent validates this assumption. Thus, only 24.1% of SMEs seem to be convinced that participation of employees on non-formal education acts as a motivational booster to improve performance.
- Overall, the SMEs in Kosovo are not very satisfied with the performance of their employees. Thus, only 32.6% of the SMEs in the sample seem to be very much satisfied with the performance of their employees, while a good majority of the companies in the sample, respectively 64. 5% are only to some extent satisfied with the performance of their employees. These findings indicate that overall the skills and capacities resulting from the education sector, both formal and non-formal, aren't exemplary and indicate the need to address the bottlenecks respectively.
- The above elements stand evidence that presently non-formal education is utilised to a limited extent as a human resource development strategy. Yet, the abundant research evidence presented in this study shows the great potential this developmental strategy holds. A potential worth exploring also in the context of Kosovo. Awareness of this potential is noticed in the Kosovo SMEs, however it will take some time and further development of the private sector operations and strategies as such, for the companies to start making use of this potential. Of critical importance in this regards is the further development of NFE service providers ensuring the availability of profiles and modules required by the private sector.

## **6.2. Recommendations**

As the previous chapter concluded presently non-formal education is utilised only to a limited extent as a human resource development strategy. This derives from a number of factors that relate initially with the internal dynamics and constraints the companies face in their business development, but likewise with the environment in which they operate and the structural constraints they face. Considering various stakeholders and elements of the context are critical to the aims of this study and concerned with the findings, the recommendations will be clustered around three main categories: SMEs in Kosovo, policy-makers and researchers.

### **6.2.1 Recommendations to the Kosovo SMEs**

- ✓ Develop long-term strategies of their business development, by establishing comprehensive business plans which are consistently used to guide investment and business expansion;
- ✓ Such business-development strategies shall include HR requirements and development needs as inherent elements.
- ✓ SMEs in Kosovo shall start considering their workforce as strategic assets for the further development of their businesses. In line with this they shall introduce strategic HR practices with regards to selection, recruitment, performance management, development and motivation of their workforce. Such strategic considerations shall be in line with the general business development approaches aspired by the companies.
- ✓ Such HR management approaches ideally would be articulated in respective Human Resource Strategy documents, which are developed in a participatory and transparent manner, ensuring ownership and commitment from all the staff concerned.
- ✓ In view of the mismatch between the offer of the labour market in terms of skills required by the private sector, as well as the generally poor outcomes of the formal and non-formal education sector, SMEs shall revise their selection strategies, channels and mechanisms, further utilising the services of intermediating, job-matching services that have recently become present in the market. Such an approach ensures they recruit staff with suitable skills and experience, which could shortly become operational and doesn't need extensive development.

- ✓ Considering the strategic importance of HR as assets, SMEs in Kosovo shall develop well-thought motivation and retention strategies, ensuring they gain the trust and commitment of specifically skilled employees, that are critical to the development of the business.
- ✓ HR development shall be a very important component of the Human Resource Strategy, clarifying the approaches, needs and modalities of addressing this on the long-term. Respective budgets need to be allocated to enable the companies to undertake these activities systematically and as planned.
- ✓ SMEs in Kosovo shall recognize the importance of NFE as an important modality in HR development and engage systematically in identifying suitable offers that benefit the performance of the staff and the organisation.

#### **6.2.2 Recommendations to the Kosovo policy-makers**

- ✓ Policy-makers need to ensure that the policies developed match the rapidly evolving changes in technology, education and economy;
- ✓ Policy-makers need to ensure a conducive framework is put in place to foster the development of NFE in Kosovo, ensuring that service-providers of NFE further develop the range and quality of their offer; They need to ensure that NFEs are strengthened in the process of introducing more innovative and flexible offers, which are in line with similar developments internationally and lead increasingly to internationally-recognised certification.
- ✓ Policy-makers need to make sure that the policy and regulatory framework in place is conducive to the development of private sector in general, but specifically in relation to access to finance and addressing the structural bottlenecks SMEs in Kosovo are faced with during their operations and development.
- ✓ Policy-makers in Kosovo shall incentivise SMEs in Kosovo to engage in HR development, through establishing appropriate fiscal incentives and instruments, e.g. reducing tax requirements commensurate to the SME's investment in HR development.

- ✓ Policy-makers in Kosovo shall invest and support a better coordination between the education and private sector towards reducing the mismatch, the gap between skills produced by the education sector, both formal and non-formal, and the skills and competence required by the private sector.
- ✓ Policy-makers in Kosovo shall create a conducive framework and support the further development of intermediary, job-matching services, which act as a bridge between the offer and demand in the labour market.

### **6.2.3 Recommendations to the Kosovo research community**

- ✓ Engage in research that identifies modalities of closing the gap between skills offered by the formal education sector and the skills and competence required by the private sector;
- ✓ Engage in research that helps identify skills and competence required for private sector development, which could inform the offer, quality and expansion of the NFE service providers;
- ✓ Engage in research which quantitatively shows the impact of NFE in the performance of SMEs in Kosovo, primarily on turnover and profitability;
- ✓ Engage in research to understand the role and impact of NFE and HR development in general from the perspective of employees, primarily on how that impacts their motivation and performance;
- ✓ Engage in research which identifies elements and arguments showing SME managers the importance of linking HR development to their strategic business development plans.

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**Appendix 1: List of tables**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Feminine	10	7.1	7.1	7.1
	Masculine	131	92.9	92.9	100.0
	Total	141	100.0	100.0	

*Table 1. Gender statistics*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	First generation (I)	89	63.1	63.6	63.6
	Second Generation (II)	47	33.3	33.6	97.1
	Third Generation (III)	4	2.8	2.9	100.0
	Total	140	99.3	100.0	
Missing	System	1	.7		
Total		141	100.0		

*Table 2. Business generation statistics*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Before 1989	19	13.5	13.5	13.5
	1990- 1999	20	14.2	14.2	27.7
	2000-2004	39	27.7	27.7	55.3
	2005-2009	27	19.1	19.1	74.5
	2010-2016	36	25.5	25.5	100.0
	Total	141	100.0	100.0	

*Table 3. Statistical details of the time the business has been established*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	sole owner	94	66.7	66.7	66.7
	co-ownership	16	11.3	11.3	78.0
	Limited Liability companies	26	18.4	18.4	96.5
	co-ownership with foreign investor	4	2.8	2.8	99.3
	others (specify)	1	.7	.7	100.0
	Total	141	100.0	100.0	

*Table 4. Statistical details on the type of business' ownership*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Production	66	46.8	46.8	46.8
Service	36	25.5	25.5	72.3
Construction	14	9.9	9.9	82.3
Trade	24	17.0	17.0	99.3
Others (Specify)	1	.7	.7	100.0
Total	141	100.0	100.0	

*Table 5. Statistical details on the business sectors of the enterprises*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Extraordinary	9	6.4	6.4	6.4
Very good	43	30.5	30.5	36.9
Good	83	58.9	58.9	95.7
Bad	6	4.3	4.3	100.0
Total	141	100.0	100.0	

*Table 6. Statistical details on the satisfaction of businesses with their progress*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Increase	117	83.0	84.2	84.2
	Same	18	12.8	12.9	97.1
	Decrease	4	2.8	2.9	100.0
	Total	139	98.6	100.0	
Missing	System	2	1.4		
Total		141	100.0		

Table 7. Statistical details on the expectations of enterprises for growth in the coming years

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-9	53	37.6	37.6	37.6
	10-49	68	48.2	48.2	85.8
	50-249	20	14.2	14.2	100.0
	Total	141	100.0	100.0	

Table 8. Statistical details on the number of employees in the enterprises

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	86	61.0	63.2	63.2
	No	50	35.5	36.8	100.0
	Total	136	96.5	100.0	
Missing	System	5	3.5		



Total	141	100.0		
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Table 9. Statistical details on the availability of business plans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	till 3 years	40	28.4	47.1	47.1
	till 5 years	34	24.1	40.0	87.1
	till 10 years	9	6.4	10.6	97.6
	Over 10 years	2	1.4	2.4	100.0
	Total		60.3	100.0	
		85			
Missing	System	56	39.7		
Total		141	100.0		

Table 10. Statistical details of the periods covered by business plans, when available

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	48	34.0	34.8	34.8
	No	70	49.6	50.7	85.5
	In developing process	20	14.2	14.5	100.0
	Total	138	97.9	100.0	
Missing	System	3	2.1		
Total		141	100.0		

Table 11. Statistical details on the availability of a strategic plan on human resource development

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	12	8.5	8.5
	1- 5	67	47.5	56.0
	6- 9	19	13.5	69.5
	11- 20	25	17.7	87.2
	over 20	18	12.8	100.0
	Total	141	100.0	100.0

*Table 12. Statistical details on the number of employees employed by the enterprises in the last three years*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	up to 25	20	14.2	14.2
	up to 35	77	54.6	68.8
	up to 45	38	27.0	95.7
	others (specify)	6	4.3	100.0
	Total	141	100.0	100.0

*Table 13. Statistical details on the age of employees in the enterprises*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very difficult	38	27.0	27.3	27.3
	Difficult	58	41.1	41.7	69.1
	On the average	40	28.4	28.8	97.8
	Easy	2	1.4	1.4	99.3
	Without any difficulties	1	.7	.7	100.0
Total		139	98.6	100.0	
Missing	System	2	1.4		
Total		141	100.0		

Table 14. Statistical details on the difficulty of identifying adequately skilled employees matching the needs and requirement of the companies in Kosovo

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	up to 3 months	75	53.2	54.0	54.0
	up to 6 months	46	32.6	33.1	87.1
	more than 6 months	18	12.8	12.9	100.0
	Total	139	98.6	100.0	
Mis sing	System	2	1.4		
Total		141	100.0		

Table 15. Statistical details on the duration of the induction training, enabling new employees to perform independently

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	56	39.7	40.6	40.6
	No	60	42.6	43.5	84.1
	in process	22	15.6	15.9	100.0
	Total	138	97.9	100.0	
Missing	System	3	2.1		
Total		141	100.0		

Table 16. Statistical details on training needs' analysis conducted by enterprises

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	47	33.3	34.3	34.3
	No	70	49.6	51.1	85.4
	Work based learning	20	14.2	14.6	100.0
	Total	137	97.2	100.0	
Missing	System	4	2.8		
Total		141	100.0		

Table 17. Statistical details of the participation of employees in training sessions during the last three years

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	47	33.3	34.3	34.3
	No	70	49.6	51.1	85.4
	Work based learning	20	14.2	14.6	100.0
	Total	137	97.2	100.0	
Missing	System	4	2.8		
Total		141	100.0		

Table 18. Statistical details of employees participating in training sessions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Up to 5	43	30.5	68.3	68.3
	Up to 10	14	9.9	22.2	90.5
	Up to 20	2	1.4	3.2	93.7
	Over 20	4	2.8	6.3	100.0
	Total	63	44.7	100.0	
Missing	System	78	55.3		
Total		141	100.0		

Table 19. Statistical details on the training sessions attended by employees in the last three years

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Extraordinary	7	5.0	10.8	10.8
	Very	24	17.0	36.9	47.7
	Average	34	24.1	52.3	100.0
	Total	65	46.1	100.0	
Missing	System	76	53.9		
Total		141	100.0		

Table 20. Statistical details on the satisfaction with the performance of employees upon completion of trainings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	47	33.3	34.3	34.3
	No	70	49.6	51.1	85.4
	Work based learning	20	14.2	14.6	100.0
	Total	137	97.2	100.0	
Missing	System	4	2.8		
Total		141	100.0		

Table 21. Statistical details of the quality of formation and training services offered in Kosovo

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	0 €	30	21.3	21.4	21.4
	Up to 500 €	47	33.3	33.6	55.0
	Up to 1000 €	30	21.3	21.4	76.4
	Up to 3000 €	21	14.9	15.0	91.4
	Up to 5 000 €	6	4.3	4.3	95.7
	Over 5 000 €	6	4.3	4.3	100.0
	Total	140	99.3	100.0	
Missing	System	1	.7		
Total		141	100.0		

*Table 22. Statistical details on the willingness of enterprises to invest on HR professional development*

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	within one year	68	48.2	50.4	50.4
	within two years	37	26.2	27.4	77.8
	More than two years	30	21.3	22.2	100.0
	Total	135	95.7	100.0	
Missing	System	6	4.3		
Total		141	100.0		

*Table 23. Statistical presentation of the expectations of enterprises for the return of their investment on HR professional development*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very expensive	39	27.7	28.5	28.5
	Expensive	45	31.9	32.8	61.3
	Average	52	36.9	38.0	99.3
	Little	1	.7	.7	100.0
	Total	137	97.2	100.0	
Missing	System	4	2.8		
Total		141	100.0		

*Table 24. Statistical details on the enterprises' perception of prices for the training services offered in Kosovo*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Projects	8	5.7	5.7	5.7
	Donors/grants	15	10.6	10.6	16.3
	Government/Scheme	2	1.4	1.4	17.7
	None	113	80.1	80.1	97.9
	Others (Specify)	3	2.1	2.1	100.0
	Total	141	100.0	100.0	

*Table 25. Statistical details of the type of support businesses received in the professional development of their employees*



	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	77	54.6	54.6	54.6
Valid No	64	45.4	45.4	100.0
Total	141	100.0	100.0	

Table 26. Statistical details on the enterprises' awareness to deduct investments in employee' development from the tax on profit

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid None	73	51.8	79.3	79.3
Valid up to 5 times	10	7.1	10.9	90.2
Valid up to 10 times	4	2.8	4.3	94.6
Valid more than 10 times	5	3.5	5.4	100.0
Total	92	65.2	100.0	
Missing System	49	34.8		
Total	141	100.0		

Table 27. Statistical details on utilisation of this entitlement

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Faculties	6	4.3	4.3	4.3
Valid VET schools	20	14.2	14.2	18.4
Valid Training centers	27	19.1	19.1	37.6
Valid Outside( representation)	16	11.3	11.3	48.9
Valid None	72	51.1	51.1	100.0
Total	141	100.0	100.0	

Table 28. Statistical details of the cooperation of enterprises with education and training institutions

		Frequency	Percent	Valid Percent	Cumulative Percent
	Yes	67	47.5	48.2	48.2
	No	10	7.1	7.2	55.4
Valid	Work based training	32	22.7	23.0	78.4
	Maybe	30	21.3	21.6	100.0
	Total	139	98.6	100.0	
Missing	System	2	1.4		
Total		141	100.0		

Table 29. Statistical presentation of the willingness of enterprises to send their employees to training and non-formal education in the future

		Frequency	Percent	Valid Percent	Cumulative Percent
	Completely agree	34	24.1	24.6	24.6
	Agree	56	39.7	40.6	65.2
Valid	Average	37	26.2	26.8	92.0
	Don't agree	11	7.8	8.0	100.0
	Total	138	97.9	100.0	
Missing	System	3	2.1		
Total		141	100.0		

Table 30. Statistical presentation of the perception of enterprises about non-formal education and trainings as an efficient motivation strategy

		Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	Completely agree	37	26.2	26.8	26.8
	Agree	53	37.6	38.4	65.2
	Average	37	26.2	26.8	92.0
	Don't agree	10	7.1	7.2	99.3
	Don't agree at all	1	.7	.7	100.0
	Total	138	97.9	100.0	
Missing	System	3	2.1		
Total		141	100.0		

Table 31. Statistical presentation of enterprises' perceptions on wage increase being the single most important factor for enhancing employee' motivation and productivity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very stressful	2	1.4	1.4	1.4
	Stressful	13	9.2	9.3	10.7
	Average	47	33.3	33.6	44.3
	Not stressful	51	36.2	36.4	80.7
	Relaxed	27	19.1	19.3	100.0
	Total	140	99.3	100.0	
Missing	System	1	.7		
Total		141	100.0		

Table 32. Statistical presentation of enterprises' perceptions on how stressful is considered work in their companies

	Frequency	Percent	Valid Percent	Cumulative Percent
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	Extraordinary	3	2.1	2.1	2.1
	Very much	43	30.5	30.7	32.9
Valid	Average	91	64.5	65.0	97.9
	Little	3	2.1	2.1	100.0
	Total	140	99.3	100.0	
Missing	System	1	.7		
Total		141	100.0		

*Table 33. Statistical presentation of the enterprises' satisfaction with the performance of their actual employees*

		Frequency	Percent	Valid Percent	Cumulative Percent
	Extraordinary	2	1.4	1.4	1.4
	Very much	29	20.6	20.7	22.1
Valid	Average	74	52.5	52.9	75.0
	Little	29	20.6	20.7	95.7
	Not at all	6	4.3	4.3	100.0
	Total	140	99.3	100.0	
Missing	System	1	.7		
Total		141	100.0		

*Table 34. Statistical details on the perceived creativity of employees*

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Extraordinary	3	2.1	2.1	2.1
	Very much	29	20.6	20.7	22.9
	Average	86	61.0	61.4	84.3
	Little	19	13.5	13.6	97.9
	Not at all	3	2.1	2.1	100.0
	Total	140	99.3	100.0	
Missing	System	1	.7		
Total		141	100.0		

Table 35. Statistical details of the readiness of employees to solve problems independently

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Yes	43	30.5	31.4	31.4
	No	64	45.4	46.7	78.1
	In the process	30	21.3	21.9	100.0
	Total	137	97.2	100.0	
Missing	System	4	2.8		
Total		141	100.0		

Table 36. Statistical details of the availability of performance appraisal mechanisms of employees based on job descriptions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	53	37.6	37.9	37.9
	1 - 3	62	44.0	44.3	82.1
	4 - 6	16	11.3	11.4	93.6
	7 - 10	4	2.8	2.9	96.4
	Over 10	5	3.5	3.6	100.0
	Total	140	99.3	100.0	
Missing	System	1	.7		
Total		141	100.0		

*Table 37. Statistical details of employees dismissed during the last three years due to poor performance*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	88	62.4	64.2	64.2
	1 - 3	39	27.7	28.5	92.7
	4 - 7	7	5.0	5.1	97.8
	Over 10	3	2.1	2.2	100.0
	Total	137	97.2	100.0	
Missing	System	4	2.8		
Total		141	100.0		

*Table 38. Statistical details of enterprises engaging employees/experts from abroad due to the unavailability of skilled employees in their enterprises or the local labor market*

		Frequency	Percent	Valid Percent	Cumulative Percent
	0	11	7.8	8.0	8.0
	1 - 5	67	47.5	48.9	56.9
	6 - 10	25	17.7	18.2	75.2
Valid	11 - 20	14	9.9	10.2	85.4
	21 - 49	9	6.4	6.6	92.0
	Over 50	11	7.8	8.0	100.0
	Total	137	97.2	100.0	
Missing	System	4	2.8		
Total		141	100.0		

*Table 39. Statistical presentation of the enterprises' intended new employments envisaged in the coming 3 years*