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Determinants of SMEs growth: Experience from Kosova SMEs with a particular focus on the application of Information Technology

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Dedications

To my mother, husband and my children that supported, understood and encouraged me throughout the period of study.

To my Father - an entrepreneur; my motivation to study Entrepreneurship and SME Management.
More than anything, I would like for him to be among us today.

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Abstract

The main purpose of this doctoral thesis is to identify determinants of SMEs growth and performance, followed by SMEs intentions to adopt Information Technology and, the impact of Information Technology on SMEs performance. The research objectives of present doctoral thesis are to investigate the determinants of SMEs growth in Kosovo to identify the fundamental obstacles faced by SMEs in Kosovo; to determine the level of Information Technology application in SMEs in Kosovo and their impact on SMEs performance and to propose strategies and measures to maximize Information Technology adoption in SMEs in Kosovo. The existing literature is reviewed, and a conceptual framework was developed to capture elements from extant SMEs growth and Information Technology and e-business adoption literature that are defined in the research questions. The data gathered from face-to-face interviews conducted with the key people in each enterprise, mainly owner/managers or financial managers from 500 SMEs in Kosovo carried out in December 2012 is used for the empirical purpose of this doctoral thesis. This survey includes these sectors: service, trade, and manufacturing. The combination of the variables related to entrepreneur, firm, business environment and IT adoption in a logit regression model suggest that entrepreneurs age, business age, introduction of any new method of marketing other than existing in the market for products/services during last three years from the firm are significant, whereas Internet use from SMEs resulted from the most significant variable for SMEs profitability. A single case study approach was employed aiming to explore and gain preliminary understanding of the e-banking adoption in Kosovo as well as to explore the factors affecting the adoption of e-banking among the SMEs. The data gathered from a face-to-face questionnaire with 106 SMEs owners analysed using multiple regression analysis and frequency counts suggest Internet usage period is the most influential factor towards e-banking usage.

This thesis discusses banking system in Kosovo and provides information about the e-services those banks offer to their clients with particular focus on SME client and the commercial bank lending conditions. Findings indicate that E-banking services are used more from private person accounts than from businesses accounts.

This doctoral thesis by drawing the research from Kosova provides a contextualised view of determinants of SMEs growth and IT adoption enabling the understanding of the context in this field. Discussions and Implications of the research findings are concluded, as well as limitations and future research are provided.

Table of Contents

LIST OF FIGURES

LIST OF TABLES

Abbreviations

ABRK	Agency for Business Registration Agency
ABS	Australian Bureau of Statistics
ASEAN	Association of Southeast Asian Nations
BSCK	Business Support Centre Kosovo;
CBK	Central Bank of Kosovo
CEO	Chief Executive Officer
CPI	Consumer Price Index
CRM	Customer Relationship Management
DOI	Diffusion of Innovation
ECIKS	Economic Initiative for Kosovo
EU	European Union
FDI	Foreign Direct Investment
FRY	Former Republic of Yugoslavia
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GVA	Gross Value Added
ICT	Information and communication technologies
IMF	International Monetary Fund
IT	Information Technology
ITOL	Information Technology Online
KAS	Kosova Agency of Statistics
KBRA	Kosovo Business Registration Agency
KFOR	Kosovo Force
KM	Knowledge Management
KOSME	Kosovo SME Promotion Program
LFS	Labour Force Survey

MBOs	Management by Objectives
MEF	Ministry of Economy and Finance
MTI	Ministry of Trade and Industry
NGOs	Non-Government Organisation
OECD	Organisation for Economic Co-operation and Development
RBT	Resource Based Theory
SBR	Statistical Business Register
SMEs	Small and medium-sized enterprises
SOEs	State-Owned Enterprises
TAK	Tax Administration of Kosova
TAM	Technology Acceptance Model
TFP	Total Factor Productivity
TOE	Technology-Organisation-Environment
UK	United Kingdom
UKAid DFID	United Kingdom Action Aid International Department for International Development
UNCTAD	United Nations Conference on Trade and Development
UNMIK	United Nations Interim Administration Mission in Kosova
URL	Uniform Resource Locator
USA	United State of America
VAT	Value-Added Tax
WBES	World Business Environment Survey

CHAPTER I

INTRODUCTION

1.1. Problem Statement

The idea to develop this study came as a result of my concern and curiosity to find answers that can explain SMEs growth. The primary concern of this study is to identify determinants of SMEs growth, followed by SMEs intentions to adopt Information Technology and, the impact of Information Technology on SMEs performance. Prior studies have explored in this area in developed countries, developing countries as well as those in transition. Most of them focused on the business environment and its impact on SMEs growth. Some studies focus on SMEs intention to adopt Information Technology. The lack of combinations of different factors such as business environment, entrepreneur's resources, firm and, strategy (IT adoption) and their influence on SMEs performance in transition economies raised my concern and curiosity to develop this research.

In the framework of economic development, significant importance has been given to SMEs in developed countries and those in transition. Many authors argue that the role of small and medium firms is significant and crucial to economic development (Jones & Beynon 2011; Bharati & Chaudhury, 2006). SMEs contribute by facilitating regional development and innovation, and thus impacting on the overall economy.

SMEs contribute to the creation of wealth, employment, poverty alleviation and income generation in both rural and urban areas all over the world. Because of their economic adjustment toward market economies SMEs, in particular, contribute in transition countries. However, SMEs operating in transition economies in comparison to those in Western economies face different formal and informal barriers. Considering these differences, exploring the growth of the firm in this kind of environment will highlight an important facet of the diversity among organizations that operate in different institutional environments (Carroll, 1993; Hannan & Freeman, 1989; Lammers & Hickson, 1979). The business environment has crucial importance

on SMEs growth. In addition firm's growth is influenced by many other complex external and internal factors. According to Peng and Heath (1996), the theory of the growth of the firm will be almost complete if more research was direct to firm growth in planned economies and transitional countries.

Growth can occur in many different aspects of a firm's operations, such as its cash flow, net income, customer base, sales, employment, and market share (Murphy et al. 1996).

According to Hofer and Sandberg (1987) the new venture performance is a function of the entrepreneur, industry structure, and strategy. This model was extended by Chrisman et al. (1998) by including resources, organizational structure, processes, and systems. The extension of theory presents relationship between the five factors that determine the performance of new ventures. According to Chrisman et al. (1998) the strategy in spites its importance is as good as the resources it deploys and the structure processes, and systems the venture uses to implement it. If the venture is resource-poor or structurally weak, its probability to prevent, failure is low. If it lacks the resources and organizational structure, processes, and systems needed to develop competitive advantage, its probability of successfully exploiting economic opportunity is nil.

The new venture performance is a function of the decisions and behaviours of entrepreneurs in recognizing environmental opportunity, gathering all the resources needed to pursue opportunity, developing a strategy to adjust resources to exploit opportunity, and designing an organization to put the strategy into action.

The most important determinants of new venture growth include the entrepreneur characteristics, resources, strategy, industry, organizational structure, and systems.

Cliff (1998) rightly stressed that all firms do not experience the same growth. Therefore, limited growth is not always associated with the inability to grow. It may be reflective of rather objective of the entrepreneur to grow the firm–i.e., short-term view.

Baum & Locke (2004) argued that significant factors that influence the growth are goals the entrepreneurs set, the vision they communicate to their employees and their belief in themselves to effectively execute the growth of new firms.

Based on the review of the literature it can be suggested that the most important measures of new venture growth are in terms of sales, employment, and market share. Therefore, Penrose (1959)

claimed that growth can be defined as the change in amount or quantities (e.g. market share or sales) and positive alteration of internal firm characteristics (e.g. employment).

The growth of the firm will occur if resources, strategy, structure and systems, and contextual circumstances favour it (Gilbert et al. 2006).

Strategic decisions "how the ventures are growing" (i.e., via internal or external growth) and "where that growth is occurring" (i.e., domestically or internationally) were considered to advance knowledge of new venture growth. Growth through mechanisms internal to the firm means that the enterprise uses innovative product development or marketing practices to identify and develop products. (Gilbert et al. 2006).

The innovations a firm creates will either be highly novel, where a new category or product/service is offered, or incremental, where an existing product / service is improved upon or refined (Amason et al., 2006).

By acquiring firms that compete in the same or a complementary market, enterprises pursue external growth. In this case as Banbury & Mitchell (1995) pointed out, a firm benefits from the reputation that it has established in the market and increases its share of the market.

According to Penrose (1959) the growth that results from internal growth mechanisms may be more constant but also slower than the growth that results from external growth mechanisms.

McKelvie & Wiklund (2010), claimed "different modes of growth (internal, acquisitive, or hybrid) depend on the product market strategy of the firm". This way, growing organically involves the use of innovative product development to capture prospective audiences (Gilbert et. al., 2006), and a hybrid mode would require the establishment of collaborations to overcome firm's limited capacities (McKelvie & Wiklund, 2010).

D'Souza & McDougall (1989) have argued that internationalization activities may be essential for a venture's ultimate survival and growth. Therefore, where to compete at the time that the firm is founded is a concerning issue of today's entrepreneurs.

Whether growing domestically or internationally, a firm is likely to pursue one of the two marketing expansion strategies. With market penetration strategies, a firm purports to sell larger volumes of products within its intended target market.

According to Cheng (2006) “Determinants of Growth” is a term that represents a range of possible positive or negative elements that in isolation or in combination with other identifiable elements, may lead to the growth of a firm.

Information Technology and Internet use have a positive influence on firm performance and growth. Pflughoeft et al., (2003) stressed that the sophistication of small businesses with information technology is a critical factor in the level of e-business deployment. Information technology matters to business success, since it affects directly the mechanisms through which they create and capture value to earn a profit: IT is thus integral to a firm’s business-level strategy (Drnevich & Croson, 2013). Pratt (2002) argued that the findings of his study support the hypothesis that e-business affords new opportunities for success for small firms and particularly for niche businesses. He also concluded that the Internet and IT adoption stimulates business owners to rethink their business strategy.

Small and medium-sized enterprises (SMEs) have shown considerable evolutionary change. The initiating innovations foretell a structural change in the industrial organization for both small and large firms. With the increasing business potency of the Internet and Information, Technology adoption, global challenges and opportunities are being interconnected.

When discussing for e-commerce and e-business in most cases the definition of these two terms is confusing, and there are times when we use these terms incorrectly and mix them. According to Mesenbourg, (1999) e-business presents any process that a business conducts over a computer-mediated network. He also outlined the e-business processes as follows:

- Production focused processes including ordering, automated stock replenishment, procurement, payment, and other electronic links with production control, suppliers, as well as all processes directly related to the production process.
- Customer focused processes including marketing, electronic selling, processing of customers’ orders and payments, and customer management and support.
- Internal or management focused processes include automated employee services, training, information sharing, video conferencing, and recruiting.

E-commerce present buying and selling goods and services via computers or mobiles through an electronic medium (Kalakota & Robinson, 2002). It represents accepting credit and payments

over the net, banking transactions using the Internet, selling commodities or information using the World Wide Web modes such as electronic funds transfers and so on.

E-business is not just buying and selling on the Internet; it is about offering services to both customers and suppliers and collaborating. E-business is about utilizing business entirely online. An e-business company offers to the costumer's online access to their orders, to the employee's online access to the procedures and possibility to check their performance and vacation time online.

Most of the business leaders have realised that their business must become e-business in order to maintain their competitive advantages. E-business presents the integration of a company's activities including products, procedures, and services with the Internet. A firm is modified from a business into an e-business by integrating marketing, sales, accounting, manufacturing, operations and, procedures with their website activities. Today, a business is an e-business as it uses the Internet as the fully integrated channel for all business activities. In general e-business presents a broad field, and its supplements are e-marketing, e-commerce, e-procurement, e-auction, e-banking, e-learning, etc.

All the businesses cannot be e-business users, the owners' realising of the business value of the Internet and their attitude toward growth presents the main commitment to e-business adoption. Many authors claim that Website adoption for most SMEs represents the e-commerce (Simmons et al. 2008). According to Thomas et al., (2011) SMEs initially are using the Internet only for business issues, as a tool for communications and for surfing the World Wide Web. Afterwards, this adoption is followed by a higher level requiring the SME to register a URL and develop a Website, which can be viewed and accessed globally (Simmons et al., 2008). The proliferation of online Websites is making it more difficult for SMEs compare to larger firms, to seduce web-visitors and transform them into clients. According to Auger (2005) this can be due a lack of brand recognition, lack of advertising resources for their products and services, and limited Website development and maintenance budgets.

1.2. The context of research

Developing countries face different barriers and singularities of the business environment that mainly derive from the political situation, transitional phase and that affect economic

development. According to Meyer & Peng (2005a) Central and Eastern European (CEE) countries provide an interesting laboratory for developing and testing theories because the transition processes provide a series of unique societal quasi-experiments. The social context inherited from the former socialist period appears to affect both the attitudes and behaviour of entrepreneurs and the attitudes of society at large towards entrepreneurship (Smallbone & Welter, 2001).

Private enterprise development in Kosovo begins during the decade of the 90 were the first elements of entrepreneurship in Kosovo began to emerge. Those enterprises were not a result of the favorable business environment. The developed enterprises were necessity driven as a result of several political developments, as most of the employed population in state industries were dismissed from their working place by the Serbian regime.

During the transition phase, Kosovo has experienced radical changes. Moreover, because of its particular political conditions, the country has been subjected to extreme business environment conditions. Those conditions were affecting entrepreneurship development during various stages, making Kosovo a unique case of transition in its economic and political transformation path (Krasniqi et al., 2011). The experiences of many countries that were very successful in transition process such as Slovenia, Czech Republic, Hungary and Poland scenarios, led to conclusion that particular attention had to the development of a dominant SMEs sector in order to change the economic structure and initiate economic development (Džafić et al., 2008). SMEs can contribute to the transformation of command into market-based economies. Whereas, it involves a shift from public to private sector ownership at the firm level that can be achieved through direct privatisation of former state-owned enterprises or the creation of completely new businesses (Smallbone et al., 2002). The difficult economic situation in Kosovo limits the government's ability to increase employment. Hence, one of the main preconditions for economic development in Kosova and many countries in the region remains the development of entrepreneurship and small and medium enterprises as the primary source of income, employment and, poverty alleviation.

According to KBRA, at the MTI, on December 31st, 2010, there were more than 100,000 registered SMEs. Those SMEs employed 216,799 employees, or 79.59 percent of total employees in the private sector, and 62.24 percent of the total number of employees in Kosovo.

From a total of 103,755 enterprises: 102,070 (or 98.37 percent) are microenterprises; 1,406 (1.35 percent) are small; 221 (0.22 percent) are medium; and, only 58 (0.06 percent) are classified as large. As shown on the above figures it can be concluded that entrepreneurship and SMEs development seems promising in Kosovo economic development, employment and poverty reduction.

Based on data from the Tax Administration of Kosovo, the total turnover of SMEs in 2010 was €1,693,926,734.31 or 43.30 percent of GDP. The total turnover of all businesses was €2,222,485,094.15 or 56.81 percent of GDP.

Given the importance that SMEs have on economic development, many countries and nations around the world have positioned the development of SMEs on their agenda.

Having in consideration the fact that e-business affords new opportunities for success for small and medium firms. SMEs have to invest in Internet technologies as an infrastructure for e-business application in order to increase their services and collaborate with business partners. The more innovative are entrepreneurs - they are the early adopters and find the Internet as a way to market niche products and reach distant clients in ways that were not available in the past. Their initiating innovations foretell a structural change in the industrial organization for both small and large firms. In today's knowledge-based economy, the use of information technology by companies adds to their competitive advantage. Most of the companies in Kosovo use computers for financial record keeping while some of them for planning and market research. Therefore, adoption of Information Technology and e-business in Kosovo SMEs remains a critical area of investigation.

1.3 General Purpose of the Study and Main Research Questions

Given the shortcomings in terms of research on the determinants of SMEs growth from transition developing countries, the overall purpose of this doctoral thesis is to contribute to existing theory with empirical evidence from a unique transitional country – Kosova. More specifically it investigates barriers to doing business. Considering the particular context of the research, the main purpose of this thesis is to pay special attention to the application of Information Technology in small and medium enterprises in Kosovo and its impact on their performance.

It is not aimed to showcase only the best-practice in IT adoption cases from the developing country context. The further present doctoral thesis aims also to depict the natural environment in which SMEs exist in a developing country such as Kosovo scenario, how they started the business, barriers and the dynamics of spread of SMEs.

Initially, this research will discuss the theories of Small and Medium Enterprises (SMEs) growth in Kosovo.

According to the dynamics of the spread of SMEs in Kosovo, can be viewed in 3 phases:

- The first phase from 1991 until 1993,
- Second phase from 1994 to 2000,
- The Third phase from 2001.

This research focuses mainly on the last phase starting from 2001.

It will discuss the fundamental problems faced by SMEs during the economic development in the Kosovo region.

The emphasis is, therefore, to explore the internal and external environment of SMEs and, discuss how the phenomena of Information Technology has been understood and applied in a developing country context.

The present doctoral thesis focuses on IT adoption from Kosovo SMEs and how they grapple with pertinent issues regarding Information Technology and its development in the firm.

Having in consideration that the use of Information Technology by companies adds to their competitive advantage, particular focus will be on SMEs use of Internet and application of e-banking.

This thesis will discuss banking system in Kosovo. It aims to provide information about the e-services those banks offer to their clients with particular focus on SME client and the lending conditions of commercial banks whether they are considered to be favourable for SMEs development.

The research objectives of present doctoral thesis are the following:

- To investigate the determinants of SMEs growth in Kosovo to identify the fundamental obstacles faced by SMEs in Kosovo,

- To identify the level of Information Technology application in SMEs in Kosovo and their impact on SMEs performance,
- To propose strategies and measures to maximize Information Technology adoption in SMEs in Kosovo.

The conceptual framework in the next section will elaborate the path taken to answer the following research questions.

The main research questions addressed in this doctoral thesis are:

- Which are the determinants of SMEs growth in Kosovo?
- What are the problems faced by the SMEs in Kosovo?
- Is Information Technology adopted from SMEs in Kosovo and to which level?
- Does Information Technology adoption influence in SMEs performance?
- What strategies must be put in place to improve Information Technology adoption practices in Kosovo SMEs?

CHAPTER II

THEORY AND EVIDENCE ON DETERMINANTS OF SMEs GROWTH

2.1. Theoretical framework

This section reviews the most commonly used theories employed in SMEs growth and technology adoption, especially IT adoption research in small and medium-sized enterprises. The firm growth and IT adoption were based upon several different theories. We will review the following: Gibrat Law, Institutional Theory, Human Capital Theory, the Technology Acceptance Model (TAM), the Technology-Organisation-Environment (TOE) and the Resource Based Theory (RBT).

2.1.1. Gibrat Law

Gibrat Law (1931) remains the most elaborated framework for policy makers in the context of the firm size and growth. According to Gibrat's Law the probability of given proportionate change in size during a particular period is the same for all firms in a given industry regardless of their size at the beginning of the period. This theory implies that both growths mean, and growth variance do not show any relationship with the size of the firm.

The Gibrat's Law, mainly was confirmed from the very early articles in 50s and 60s of the last century. The vast majority of the literature, reviewed for the purpose of this research work, has rejected as well the Gibrat's Law such as for example Almus and Nerlinger (1999), Harabi (2003), Yasuda (2005). Gibrat's Law has not been found to hold systematically for new ventures because they were characterized by a higher variance in growth rates.

2.1.2. Institutional Theory

The economic perspective on the institutional theory that is presented by North (1990) focuses mainly on the role that political, social and economic systems play in shaping social and organizational behavior. Institutional forces affect managerial behavior and firm strategy. Whereas they provide constraints and establish rules of the game by which enterprise managers must operate and also serve to legitimize certain forms of managerial and enterprise behaviour relative to others (DiMaggio & Powell, 1983; North,1990).

Therefore, Institutional theory is adopted to understand the impact of external forces on organizational behavior when adoption is considered (DiMaggio & Powell, 1983). The economic development of a particular country was discussed by Institutional factors within a framework of Institutional Theory (North, 1990). Institutions consist of formal and informal constraints. Laws and regulation represent formal constraints; whereas conventions, codes of behavior, norms and culture represent informal constraints. According to North (1990) the goals and beliefs of individuals and organizations are strongly influenced by formal and informal elements. According to Meyer & Peng (2005a) the ownership of resources and the method by which a competitor can gain supervision over those resources will be subject to considerable risk when market supporting institutions are weak. It was argued whereas the less sophisticated systems to support the market mechanism, the more economic, political and social uncertainties are likely to affect firm's strategies (Peng, 2003; Meyer & Nguyen, 2005). Especially in transition countries the business environment is heavily characterized by institutional barriers both formal and informal. Barriers such as tax burdens (Kontorovich, 1999) and high levels of bureaucracy (Bartlett & Bukvic, 2001) have been shown to be significant for firm growth in transitional countries. Corruption among some officials in the state administration in transition economies leads to further costs and delays (Barlett et al., 2002).

2.1.3. Human Capital Theory

For an entrepreneur to execute a strategic decision it is necessary for him or her to allocate resources to that endeavor (Arthurs & Busenitz, 2006).Human Capital presents the framework

that explains the performance of the firm with the attention toward internal capabilities of the firm, more specifically in the direction of entrepreneur and employees.

Becker (1964) distinguishes between general and specific human capital. General human capital refers to overall education and practical experience that is useful to the current employer and elsewhere. Specific human capital refers to education, experience and potentially that can lead to the increases in the productivity of the worker only with respect to the tasks that he is performing on his current job.

2.1.4. Technology Acceptance Model (TAM)

Technology Acceptance Model (TAM) developed by Davis (1986) presents the key theory that was widely used in information technology adoption literature. According to Chuttur, (2009) many models have been proposed to explain and predict the use of a system. TAM Model has been the only one that has captured the most attention of the Information Systems community. TAM Model developed by Davis (1989), posits that two factors, perceived usefulness and perceived ease of use, are the two primary determinants of system usage in organizations.

The dispute that TAM is a highly cited model, researchers shares different opinions regarding TAM's theoretical assumptions and practical effectiveness. Bagozzi (2007) concluded that research in TAM Model lacks sufficient rigor and relevance that would make it a well-established theory for the IS community.

2.1.5. The Technology-Organisation-Environment (TOE) Framework

Technology, Organisation and Environment (TOE) theory provides a framework for analysing IT adoption at the firm level. First, it was presented in 1990 by Tornatzky and Fleischer and since then experienced widespread adoption. The TOE framework states that the process of technological innovations in organisations is influenced by three dimensions: the organisation context, the technological context and the external task environment (industry). They thus argue that for any organisation to adopt and implement technological innovations, the decision-making process involves consideration of these three areas.

The external environment is the place where the organisation operates and faces different socio-political pressures (Tornatzky & Fleischer 1990). The organisation context relates to its internal characteristics such as size, structure, processes, etc. And finally, the technological context includes all the internal and external technologies that are associated with the organisation. According to Thong (1999) the role of the CEO as the main decision maker presents an extension of TOE framework in the application in the SME environment. Robertson (2010) suggested that TOE may be useful in the SME context if it can integrate the whole range of the stakeholder.

2.1.6. The Resource-Based Theory (RBT)

The Resource-Based Theory (RBT) presents one of the most important theories in the field of strategic management (Galbreath, 2005). According to Rivard et al., (2006), the original work on RBT originated in studies by Penrose (1959) who describes the firm as a 'bundle of resources'. It presents a broader overview to Porter's market-based theories (1990) and later Narayanan's theory (2001). The theory attempts to define fundamental factors that create sustainable competitive advantage (Capelleras et al., 2010).

According to RBT (Barney, 1991), a firm's resources must possess the following characteristics for them to contribute towards competitive advantage:

- Valuable: the resource must have strategic value to the firm;
- Rare: the resource must be unique and rare to find;
- Perfect limitability: it must not be possible to imitate perfectly or copy the resource.

2.2. Literature reviews

The conclusive importance of Small and Medium Enterprises for economic development is recognised worldwide. The role of small and medium firms is significant and crucial to economic development (Jones & Beynon 2011; Bharati & Chaudhury, 2006) as SMEs contribute to employment since they are recognized as job generator (Carree & Klomp, 1996).

Earlier it was supposed that economic development will take place with large investments made by large enterprises and creating scale economies. Many factors such as changes in the industrial

structure, efficiency improvements and development of new markets reinstated focus in the SMEs as an instrument of economic growth and employment. Although, the international community channels a huge amount of aid into supporting SMEs (Biggs, 2002), still some authors highlight the advantages of large firms and challenge the presumptions underlying the pro SME view (Kunt et.al., 2003). Since large enterprises may exploit economies of scale and more easily undertake the fixed costs associated with research and development (R&D) with positive productivity effects (Pack & Larry, 1986; Pagano & Schivardi, 2001; Beck Demirgüç-Kunt, 2005).

Growth is considered as one of the key performance measures in any industry (Salojärvi et al., 2005) and also tends to be one of the key criteria upon which SMEs have been evaluated (Goold, 1996; Storey, 1994).

The sustainable growth of sales is seen as the most important and reliable success criteria of SMEs (Laurence, 2001; O'Gorman, 2001; Watson et al., 1998) and as the key to prosperity in the modern society (Charan and Tichy, 2000).

Maintaining stable growth has proven to be difficult, in the long run (Goold, 1996; Salojärvi et al., 2005). Therefore, a prominent indicator of success in so-called ''mature'' businesses is considered to be sustainable growth, i.e. the growth in the long run (O'Gorman, 2001).

Nelson & Winter (1982) pointed out that growth is an organizational outcome resulting from the combination of firm-specific resources, capabilities, and routines. Growth can occur in many different aspects of a firm's operations, such as its cash flow, net income, customer base (Venkatesh & Muthiah, 2012), profit, sales, employment, and market share (Murphy et al., 1996).

Many authors argue that ''growth and financial value creation may not be the only possible objective for the management of the future, in the contemporary world, this is often the case'' (Mouritsen, 1998; & Salojärvi et al., 2005)

SME development is not an isolated process because it depends on a number of factors. In broad terms, they can be outlined as Macroeconomic factors, Business Environment, Growth opportunities and Historical determinants. In addition firm's growth is influenced by many other complex external and internal factors.

The management characteristics, firm characteristics, and business strategy represents the main determinants of firm growth. Legislation and competition are two particular business environmental influences on SME performance.

Term Strategy arises from the Greek word strategia that means generalship. Strategy refers to the general's plan for grouping and maneuvering his forces with the aim to defeat the enemy army. The military analogy has been linked and utilized for the change of strategy by business people. Hence, the concept of strategy has been adapted from the military by business people and utilized in business. With time strategy became a plan for monitoring and employing companies' resources, such as human, physical, as well as financial.

Andrews (1980) defined strategy as: "the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities" (Mensah, 2012).

Porter (1980) defined competitive strategy as "a broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals"(Pantea et al., 2008).

According to Nickols (2011) Strategy refers to a general plan of action for achieving one's goals and objectives and strategic means "of great significance or import" and so strategic plans, at all levels, are intended to address matters of great importance (Nickols, 2011). In addition, Nickols (2011) explains that strategy refers to the direction and destination of the firm, where it headed and what is it to become?

SMEs usually lack resources such as land, labour, and capital, therefore; SMEs must do more with less (Desouza &Awazu, 2006). SMEs need to be creative in working so they can manage knowledge with limited resources (Zanjani et al., 2008).

According to Samuel, (1775) there are two kinds of knowledge: knowing a subject by ourselves, or knowing where to find information upon it. In addition, argued that knowledge can be divided into two categories: tacit and explicit. Explicit knowledge refers to the knowledge that can

articulate in the formal language such as grammatical statements, mathematical expressions, specifications, manuals. Therefore can be transmitted across individuals formally and easily (Boyd et al., 2004). Whereas, tacit knowledge refers to the knowledge that is hard to articulate with formal language, presents personal knowledge embedded in individual experience and involves intangible factors such as personal belief, perspective, and value systems (David, 2006; Nonaka & Takeuchi, 1995; Hussain et al., 2010).

In regard to intangible assets, Sveiby (1997) explain that they consist of three groups or ‘‘families’’: human capital (employees’ competencies and commitment), external capital (image, customer relations, and other external relationships), and organizational capital (internal processes and management of the company).

Nowadays, there is a shift in tangible and intangible assets value of SMEs especially in developed countries. As for instance, the Vice President of Raisio Chemicals Ltd, Finland Jaakko Paatero (2003), in a recent seminar mentioned that in the late 1970s, 80 percent of the value of Raisio Chemicals consisted of the tangible assets. Today the intangible assets explain nearly 80 percent of the value of the company. Therefore, Jaakko Paatero (2003) recommends focusing on the management and development of the intangible assets as the only way to increase growth in commodity industries (Salojärvi et al., 2005). Based on his estimates, the ratio financial assets and tangible equipment contributes max 2 per cent of growth, while improved management of intangible assets could add 10 percent or more per year (Salojärvi et al., 2005).

The business environment presents an important and crucial factor on SMEs growth. As Charles Darwin quote: “*It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change*”. Therefore, competing in today’s business environment is challenging, and knowledge is thought to be the primary resource (Iftikhar et al., 2010). Organization’s success relies on its ability to create, utilize, and develop its knowledge-based assets (Hill et al., 2002; Morrison, 2001; Sveiby, 1997a; Teece, 2000; Salojärvi et al., 2005).

The traditional factors of production have become secondary. SMEs need to further their innovative skills. By doing that firms, can maintain and develop their understanding of knowledge management (KM). Therefore, KM presents key business driver rather than as a resource-intensive additional initiative (Zanjani et al., 2008; Hussain et al., 2010). Therefore, it can be concluded that KM has become the latest strategy in increasing organizational

competitiveness" (DeTienne & Jackson, 2001). In addition to that Sveiby (1997) stress that KM is the art of creating value by leveraging intangible assets.

Firms that better manage organizational and individual knowledge, deal more successfully with the challenges of the new business environment. Whereas KM is seen as a vital factor in realizing and sustaining organizational success for improved efficiency and innovation (Iftikhar et al., 2010).

Borghoff & Pareschi (1997) pointed out the knowledge movement in organizational thinking is about refining rules of thumb used by investors as techniques and methodologies for the knowledge auditing of organizations.

It is believed that if an organization can increase its effective knowledge utilization by only a small percentage, significant benefits will result. SMEs must be very innovative in order to overcome difficulties and constraints that they face and grow into large corporate entities.(Cannarella and Piccioni,2003).

According to Christensen (2002), Innovation presents the use of improved products, processes, services, technologies or ideas accepted by markets, governments, and society. Innovation also is referred as a driver of organisations and nations as it leads to entrepreneurship and hence economic prosperity (Schumpeter, 1911). SMEs do not need to create a new method but to adopt the new methods in order to make it beneficial to their particular operations. Innovation is not the same as invention. Innovation refers to the use of a new ideas or methods, whereas invention refers more directly to the creation of the idea or method itself (Davila et al., 2006).

By adopting the information technology (IT), SMEs can achieve a higher level of productivity, efficiency and quality. ICT innovations are driver and support for deep transformations in our society. New technologies and applications are arising, presenting the potential to advance cultural comprehension among citizens, seed newness and innovations in institutions and create the competitive advantage for businesses in the future. These innovations include: Internet and cloud computing technologies; Micro- and nano-electronics; advanced interfaces such as touch screens and more intelligent and smart environments.

According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report (2014), and to United Nations Statistical Office, the major country groupings used in their statistics and report follows this classification:

- Developed countries: that are member of the OECD (other than Turkey, Chile,the Republic of Korea, and Mexico), plus the new European Union member countries which are not OECD members (Romania, Croatia, Cyprus, Latvia, Lithuania, Malta and Bulgaria), plus Andorra, Bermuda, Liechtenstein, Monaco and San Marino.
- Transition economies: South-East Europe, the Commonwealth of Independent States and Georgia.
- Developing economies: presents, mainly the rest of the economies not mentioned above.

The SME sector is the backbone of the economy in high-income countries, whereas in low-income countries is less developed.

Although emerging market economies appear to provide the greater potential for growth, developed countries still offer investment targets in particular in small and medium-size enterprises (SMEs), which are crucial to economic recovery and to the absorption of unemployment. In the EU, where one of the dominant concerns for SMEs is access to finance – a concern that was further aggravated by the crisis – private equity funds are an important alternative source of finance.

The importance of SMEs in the economic development (Beck & Demirgüç-Kunt, 2006) are appraised by many country level authors and studies (Snodgrass and Bigs, 1996). The first cross-country evidence on the links between SMEs, economic growth, and poverty alleviation, was provided by Beck et al. (2006) using a new database compiled by Ayyagari et al., (2007). Based on cross-country regressions of GDP per capita growth in SMEs share in manufacturing employment show a strong positive relationship, in general, even the differences in growth across countries were apparent. According to Ayyagari et al., (2007), in high-income countries formal SMEs contribute to 50 percent of GDP on average. In addition to that, many authors, papers and reports testify that SMEs provide the majority of jobs in many economies.

SMEs have crucial importance mainly as they contribute to employment and, in general, are recognized as job generator (Carree & Klomp, 1996). This SMEs impact in employment is also evidenced by Ayyagari et al., (2007) and his estimates by using country-level data. According to

this estimate on average, SMEs account for close to 60 percent of employment in the manufacturing sector (Ardic et. al., 2011). In addition, according to SME Performance Review (EC, 2009), between 2002 and 2008, the number of jobs in SMEs increased at an average annual rate of 1.9 percent. Whereas, the number of jobs in large enterprises increased by only 0.8 percent (Ardic et al., 2011). In absolute numbers, 9.4 million jobs were created in the SME sector in EU-27 between 2002 and 2008 (Ardic et al., 2011).

Ayyagari et al. (2007) claimed that the promotion of the SME sector is a core element to foster employment, since employment in SMEs, consist over 60 percent of total employment in manufacturing in many countries. Beck et al., (2006) found a large SME contribution to employment, and World Bank (2004) stated that this contribution has been increasing particularly in developing countries. Furthermore, Stein et al. (2010) highlighted that SMEs in developing countries represent approximately 45 percent of employment and approximately 33 percent of GDP. Beck & Demirgüç-Kunt, (2006) fail to reject confidently the hypothesis that SMEs do not exert a causal impact on GDP per capita growth.

In addition, they concluded there is substantial evidence that small firms face larger growth obstacles and have less access to formal sources of external finance, potentially explaining the lack of SMEs contribution to growth (Beck & Demirgüç-Kunt 2006).

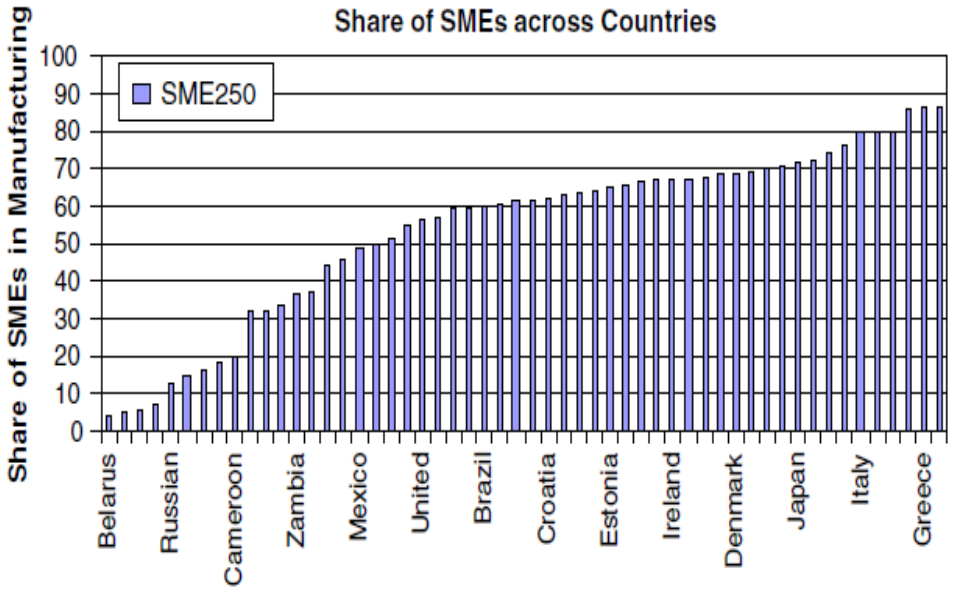


Figure 2.1: The share of SMEs in manufacturing across countries and their importance. (Source: Beck & Demirgüç-Kunt 2006).

The developed countries SMEs do not have that significant impact on economic development and poverty alleviation; they account for a large share of enterprises. In contrast, in case of poor and developing countries the situation differs ‘‘SMEs are the emerging private sector and thus form the base for private sector-led growth’’ (Hallberg, 2001).

Beck & Demirgüç-Kunt (2006) rightly stated that financial and institutional deficiencies might hamper SMEs from growing to their optimal size and thus explain the lack of an empirical causal link between SMEs and economic development. Therefore, it is important to understand obstacles to SMEs’ operation and growth and how they vary with country factors.

In the developing and developed economies SMEs have been found to have less access to external finance and to be more constrained in their operation and growth (Berger & Udell, 1998; Galindo & Schiantarelli, 2003; Beck & Demirgüç-Kunt 2006).

2.2.1. Evidence for the developed countries

Many nations and countries for a long period have positioned SMEs on their agenda considering the importance that SMEs have for economic development and employment. In addition, the Australian government claim, SMEs are a “powerhouse” of economic potential, whose employees account for almost five million members of the workforce (NOIE, 2002; McGrath & Moore, 2003) making them a major source of jobs.

The earlier literature also evidence contribution of small and medium enterprises to employment, as Birch (1979) argued that small firms are crucially important in job creation. Birch (1979) reports that over the 1970s, firms with fewer than 100 employees generated eight out of ten new jobs in America.

Contrariwise to that, a vast array of evidence does not support the standpoint that small firms are the engines of job creation (Dunne et al., 1989; Brown et al., 1990). As Davis et al., (1993) show that while in small firm’s gross rates of job creation and destruction are higher; there is no systematic relationship between net job creation and firm size. Evidence from Biggs et al., (1998) finds that large companies in Sub-Saharan Africa were the dominant source of job creation in the manufacturing sector (Taiwo et al., 2012).

In the context of European countries, approximately 99 percent of all businesses are classified as micro or small in terms of the numbers employed and annual turnover (European Commission, 2010).

SMEs are defined as businesses that employ less than 250 staff and have an annual turnover of less than €50 million and / or their balance sheet total is less than €43 million (Eurostat, 2014). They comprise three categories –micro, small and medium – which are defined as seen in Table 1.

Table 2.1: Definition of SMEs

Company category	Employees	Turnover	or	Balance sheet total
Micro	< 10	< € 2 million		< € 2 million
Small	< 50	< € 10 million		< € 10 million
Medium	< 250	< € 50 million		< € 43 million

(Source: Eurostat, National Statistical Offices and Econ)

According to European Commission Annual Report 2013/2014, Small and Medium-sized Enterprises (SMEs) are the backbone of the EU economy – accounting for 99.8 per cent of non-financial enterprises in 2012, that equates to 20.7 million businesses. The vast majority (92.2 per cent) are micro-enterprises, defined as those with fewer than ten employees. Around 6.5 percent of SMEs in the EU are classified as small enterprises (employing between 10 and 49 people) and 1.1 percent are medium-sized (50-249 employees) large businesses, with more than 250 employees, account for just 0.2 percent of enterprises in the EU's nonfinancial sector (European Commission, 2012). Whereas, in terms of employment SMEs provided an estimated 67.4 percent of jobs in the non-financial business economy in 2012, identical to 2011 (67.4 percent) but up from 66.9 percent in 2011. Although, SMEs provided a slightly smaller share of GVA in the EU in 2011 and 2012 around 58,1 per cent (European Commission, 2012).

Only within the UK there are approximately 4.5 million SMEs providing 13.7 million jobs equating to over half of the private sector workforce in 2011 (Department for Business Innovation and Skills, 2012).

In 2013, across the EU 28, around 21.6 million SMEs in the non-financial business sector employed 88.8 million people and generated € 3,666 trillion in value added which is equivalent to 28 percent of EU 28 GDP (Annual Report on European SMEs 2013/2014).

As shown in Table 2, in 2013 SMEs accounted for 99.8 percent of all enterprises active in the EU 28 non-financial business sector, 66.8 percent of total employment and 58.1 percent of the value added. Micro-enterprises accounted for 92.4 percent of all enterprises in the EU 28 non-financial business sector.

According to Annual Report on European SMEs 2013/2014, the distribution of employment and value added across the three groups of SMEs was more equal. Whereas, micro firms accounted for 29.10 percent, small 20.60 per cent and medium enterprises for 17.20 percent of total employment in EU 28. Regarding value added the distribution is as follows: 21,60 percent micro, 18.20 small and 18.39 medium enterprises of total EU 28 SME value added (Eurostat, National Statistical Offices and Econ, 2014).

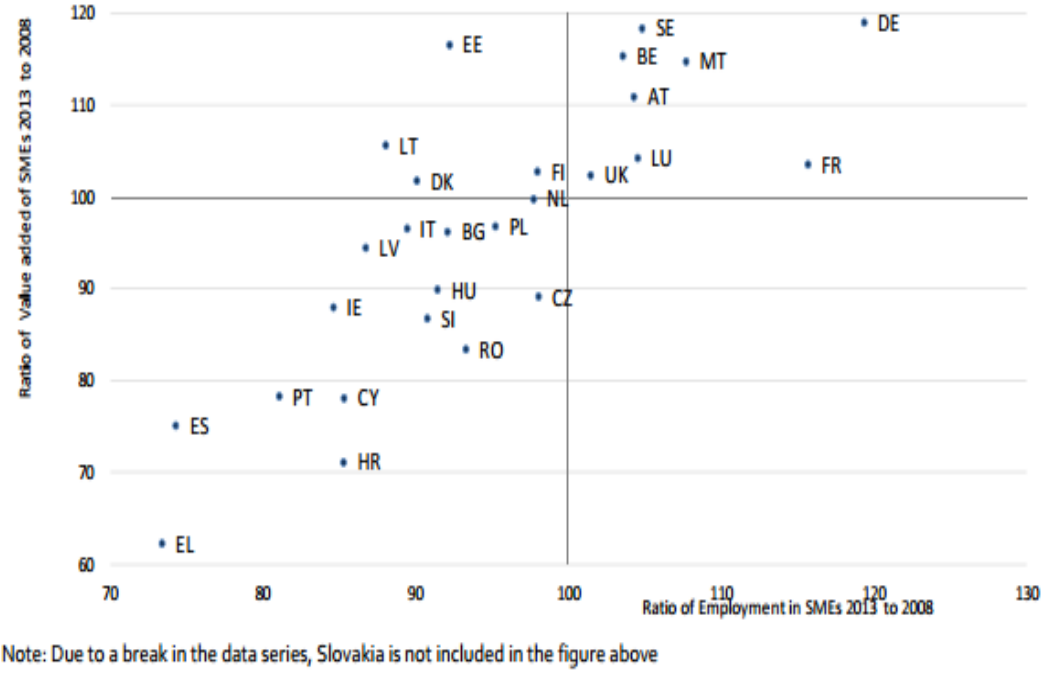
Table 2.2: SMEs and large enterprises: number of enterprises, value added and employment in the EU28 in 2013

	Micro	**Small**	**Medium**	**SMEs**	**Large**	**Total**
Number of enterprises						
Number	19,969,338	1,378,374	223,648	21,571,360	43,517	21,614,409
%	92.40%	6.40%	1.00%	99.80%	0.20%	100%
Employment						
Number	38,629,012	27,353,660	22,860,792	88,843,464	44,053,576	132,897,040
%	29.10%	20.60%	17.20%	66.90%	33.10%	100%
Value added at factor costs						
Million Euros	1,362,336	1,147,885	1,156,558	3,666,779	2,643,795	6,310,557
%	21.60%	18.20%	18.30%	58.10%	41.90%	100%

(Source: Eurostat, National Statistical Offices and Econ)

According to Annual Report on European SMEs 2013/2014, the six largest Member States (Germany, France, Italy, Poland, Spain and United Kingdom) accounted for almost: 66 percent of all SMEs; 74 percent of value added generated by SMEs; 69 percent of total SME employment in the nonfinancial business sector in the EU 28. The share of the micro SMEs in the total number of SME enterprises ranges from 82 percent in Germany to 96 percent in the Czech Republic, Greece, and Slovakia (Eurostat, 2014).

Based on the annual report on European SMEs (2014) the slowdown in value added growth by SMEs can be attributed to weak, if positive, economic growth and falling inflation within the EU economy. Only SMEs of eight countries have been achieved a full value added and employment recovery, including Europe's largest economy Germany; while SME value added and employment in 15 countries have not yet recovered to their 2008 levels as shown in figure 2.2.

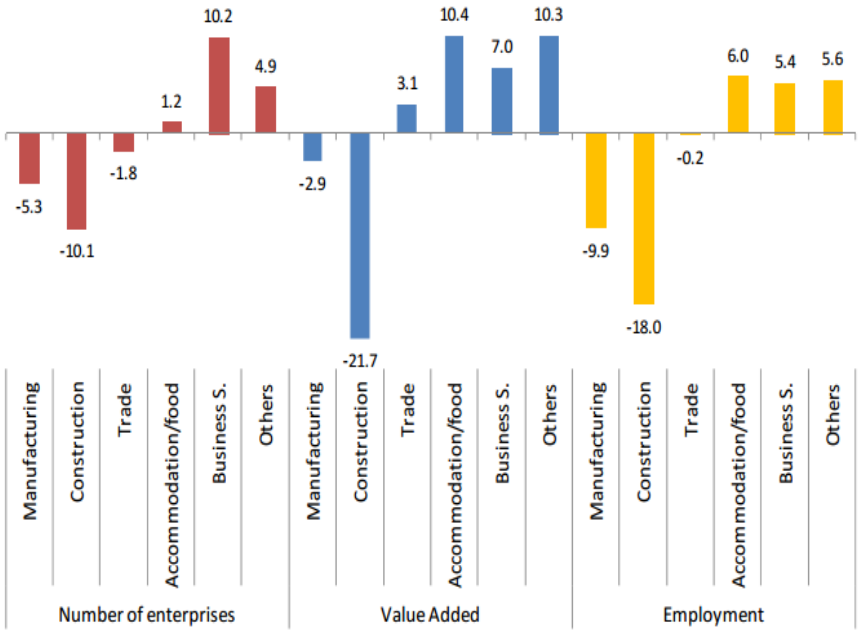


Note: Due to a break in the data series, Slovakia is not included in the figure above

(Source: Eurostat, National Statistical Offices and Econ)

Figure 2.2: SME degree of recovery from 2008 to 2013, value added and employment

As seen in Figure 2.3 among SME in all Member States the most important SME sectors are "wholesale and retail trade sector", "manufacturing", "construction", "professional, scientific and technical activities", and "accommodation and food". All five sectors together, account for almost 4/5 of all SMEs in the EU28 (SMEs Annual Report, 2014).



(Source: Eurostat, National Statistical Offices and Econ)

Figure 2.3: SME indicators 2008-2013 in the EU28 key SME sectors (Change in percent)

According to the SMEs annual report (2014) the performance of medium-sized SMEs of EU 28 SME in terms of the evolution value added and employment in the various sub-sectors of the non-financial business sector differs to a moderate extends from that of micro and small SMEs.

In the EU 28 construction sector, medium-sized SMEs show larger losses in value added and employment between 2008 and 2013 than micro and small SMEs;

- In the EU 28 manufacturing sector, value added generated by medium - sized SMEs was unchanged between 2008 and 2013 while it dropped by 5 percent and 6 percent respectively in the case of micro and small SMEs;
- Medium SMEs benefited more than micro and small SMEs from the upswing in the EU 28 in the demand for trade (retail and wholesale) services, business services and goods and services produced by the "other" sector.
- This was mirrored by a somewhat larger increase in employment in the EU 28 by medium - sized SMEs followed by micro and small SMEs over the period 2008 to 2013 in the case of trade (retail and wholesale) services and business services.

As a result of the performance trends described in SMEs annual report (2014), in the EU 28 in 2013 there were 354,308 more SMEs than there were in 2008. According to Table 2.3, value added recorded a small net increase of 44,313.75 million Euros. During this period, SMEs have lost 1,962,808 jobs. The overall SME employment losses from 2008 to 2013 in the EU 28 are accounted mainly by micro firms (65 percent), (where 43 percent of SME jobs were located). While to a lesser extent by medium size firms (by 27 percent), while employment levels at small firms fell only slightly.

Table 2.3: Size class contributions to EU28 SME performance (2008 - 2013)

	Number of SMEs, Millions			Value added SMEs, Trillion Euros			Employment of SMEs, Millions		
Size	**2008**	**2013**	**contribution**	**2008**	**2013**	**contribution**	**2008**	**2013**	**contribution**
Micro	19.59	19.97	108%	1.35	1.36	32%	39.90	38.63	65%
Small	1.40	1.38	-7%	1.15	1.15	0%	27.52	27.35	9%
Medium	0.23	0.22	-2%	1.13	1.16	68%	23.38	22.86	27%
All SMEs	21.22	21.57	100%	3.36	3.67	100%	90.81	90.81	100%

(Source: Eurostat, National Statistical Offices and Econ)

These reports illustrate how critical SMEs are, their importance and reflect the value.

Regarding women in entrepreneurship we can say that a substantial gap exists between male and female. In general women lag to follow their entrepreneurial idea and to create their venture. While, in developed economies women are more likely to create their-owned ventures that usually tend to be smaller and mainly focused on the services sector of the economy.

According to a study conducted by the UK Small Business Service, women business owners contribute £50-70 billion in gross value added to the UK economy each year (Carter et al., 2001; Roomi et. al., 2009). Therefore, the UK government is increasingly recognising the importance and contribution of women-owned enterprises to the national economy; therefore in the recent year several initiatives have been taken to raise the number of women entering into self-employment (Carter et al., 2001; Roomi et. al., 2009). As a result, the last two decades have seen a profound rise in the number of women becoming self-employed (Minniti et al., 2005). In

addition, authors argue that the gap between male and female entrepreneurship in the UK has narrowed in the past few years (Minniti et al., 2005).

Garelli (1997) argued that one of the four forces that would dominate the competitiveness environment of any country was the 'economy of globality and proximity (Kuah, 2002). Globality assumes that production does not necessarily need to be close to the end-user (Kuah, 2002). The firms benefit from the comparative markets worldwide, as the customer base increase and especially in efficiency and operational costs. In contrast, again clusters and the economy of proximity provide value-added services close to the end users (Kuah, 2002).

Efficiency presents a fundamental concept that relates to the problem of optimal distribution of resources. In a competitive environment, only the efficient firms will remain, in the long run, while inefficient firms are expected to be driven out for a time of period. Thus, strategic management and the decision makers of companies, needs to know the relative level of efficiency the other firms competing in the market.

According to Bianchi, (2009) Efficacy (Ec) and Efficiency (Ez) presents the main performance evaluation indexes. Bianchi (2009) determine Efficacy and Efficiency whereas Efficiency presents "the capability of an individual, an office or an organization as a whole, to fulfil Objectives or to make Effective Results mostly comparable to expected ones" and Efficiency (Ez) is "the concrete expression of the rational answer to the question: how can I fulfil the maximum of Results with a minimum of Resources?" In addition Bianchi (2009) correctly explain that Efficiency (Ez) is concerning the transformation process and chiefly the ratio between Results and Resources.

$$Efficiency(Ez) = \frac{Resources}{Results}$$

Improving quality is very often regarded as activities that result to the cost increase. It also means, making less defective products with the same amount of effort and resources or cost which contributes to a lower unit cost. According to Henderson & Evans (2000) and also (Antony & Banuelas, 2002; Black & Revere, 2006; Andersson et al., 2006; Pepper & Spedding, 2010) the origins of Six Sigma may be traced back to the 1980's at Motorola.

Arnheiter & Maleyeff (2005) argue that the focus of Lean is on streamlining processes at each level and department of the organization, aiming to minimize or remove wasteful activities from the processes and adding value, while the focus of Six Sigma is on controlling processes i.e. minimizing or ultimately removing process variability and is customer focused on each change for improvement. They also conclude that both Lean and Six Sigma were born out of necessity – Lean out of the necessity to produce more with less, while Six Sigma out of the necessity to increase quality accordance. For any change, the initiative is required a cultural change because an organizational culture is what manages a business, and if the wrong culture is in the organization, the change initiative is considered to fail.

Authors Black & Revere (2006) stressed that Lean is a required addition to Six Sigma. But some of the authors suggest that only a combined or integrated approach to (quality) improvements by deploying both Lean and Six Sigma delivers lasting results e.g. Sharma (2003), and Arnheiter & Maleyeff (2005).

According to Pepper & Spedding (2010), Lean Six Sigma is a mindset for thinking Lean, through the structured methodology and data-driven approach to problem solving of Six Sigma, to continuous improvements for both cultural and operational change, leading to a complete makeover of the supply chain.

By comparing application of quality initiatives in large corporations with small and medium enterprises in particular application of six sigma Wessel & Burcherit (2004) argued it resulted that the vast majority of SMEs or do not know the six sigma approach or find its organisation not suitable to meet their specific requirements.

Ghobadian & Gallear (1997) concluded that the Quality Management systems of large corporations have to go through certain adjustments to be well-fitted for small companies. In addition Wessel & Burcherit (2004) summarized that Six Sigma initiatives for SMEs should strictly focus on those projects that fulfil the first two factors: to ensure optimum value levelling and resource allocation to projects in line with company strategy. In order to implement Six Sigma SMEs should provide complete training for the six sigma project managers in the target group, and an adjusted awareness training programme to be delivered for the rest of the organisation so they can facilitate the cultural implementation element of a six sigma programme and to encourage active support of, and participation in, organisational improvement (Wessel &

Burcherit, 2004). Wessel & Burcherit (2004) suggest that by incorporating both internal and external customers toward a reduction of failures additionally supports higher profitability and market share improvements. Regarding customer satisfaction authors Wessel & Burcherit (2004) claim that customer satisfaction incorporates the knowledge of what the customer wants – a deep customer understanding – as well as verification of the current levels of satisfaction. According to Wessel & Burcherit (2004) process management is essential to identify fields of required action, but based on the need for simplicity, process documentation, and minimal tracking requirements, therefore, the process management should be tailored to SME needs and limited to core processes.

Improving quality aims to reduce cost and increase quality. Usually, this cannot be achieved overnight, but it requires organization culture change and a long run investment in activities that are designed to avoid defective production and waste.

The widespread use and adoption of computers combined with Internet associates with broad changes in society. The rapid Information Technology development enabled changes and improvements in the working environment and everyday life by reshaping communications, learning and celebrating.

Managers should be able to identify the firms strengths and weakness and accordingly set the priorities aiming to increase performance and growth.

Therefore, the knowledge movement has proposed to put knowledge on the statement of the assets in the form of intangible assets that account for organizations' intellectual capital (Khalili et. al., 2011). Those intangibles assets mainly include: employees competences; their administrative system and IT infrastructure; the internal structure of organizations, given by their patents, their own models, concepts and processes; their external structure, their brand names, the relationships they have created with customers and suppliers, image and reputation, trademarks (Borghoff & Pareschi, 1997).

The intellectual capital literature mainly was focussed on studying organizations in the developed countries (Roomi et. al., 2009) such as the Canada, USA, UK, Australia and Sweden (Khalique et al., 2015). Many academic researchers have conducted their studies within developed economies and found that effective management of intellectual capital had a strong

link to the success of organizations (Youndt & Snell, 2004; De Pablos, 2004; Montequín et al., 2006; Kujansivu & Lönnqvist, 2007; Tovstiga & Tulugurova, 2007; St-Pierre & Audet, 2011).

Hall (2003) selected eight organizational case studies on the basis that they were identified as successful large Australian organizations intending to identify if anything, these successful organizations are doing in terms of the management of knowledge. According to the (Hall, 2003) findings, Knowledge Management (KM) is relevant for both SMEs and large firms. KM practices must be easy to use and not be highly complicated and sophisticated or established in complex Information Technology Systems. Evidently, most of the SMEs of the sample achieved considerable success in KM, without investing massively in new technologies and without bringing consultants to develop new highly sophisticated processes. (Hall, 2003).

In addition, by generating data from a questionnaire survey of 108 Finish SMEs from different fields (Salojärvi et al., 2005) found out the higher levels of KM maturity were found to correlate positively with long-term sustainable growth. In other words, the fast-growing companies with higher Knowledge Management maturity are applying Knowledge Management related activities in an inclusive and balanced way. In addition, authors (Salojärvi et al., 2005) claim that although Finnish SMEs display a surprisingly high awareness about Knowledge Management, only a minor proportion of the sample firms can benefit in terms of growth from their Knowledge Management related activities.

According to Borghoff & Pareschi (1997) there was an ongoing lively debate about the role that information technologies play in knowledge management. Information technology is used pervasively in organizations, and thus qualifies as a natural medium for the flow of knowledge (Khalili et. al., 2011).

The organizations embarking in knowledge management efforts for accomplishing their goals rely on the suitable IT infrastructure (AP&QC 1997).

Leading knowledge management theorists (Sveiby, 1997; Borghoff & Pareschi, 1997) have warned about the attitude that drives management towards high investments in IT, possibly at the expense of investments in human capital.

Thus, by adopting and advancing ICT, firms improve the way organizations collect, store, organize, access, apply and communicate information. Hall (2003) claimed while ICT advances,

it changed fundamentally the way in which organizations operate and do business (for example through the installation of computer-based ERPs, CRM technologies, etc.) and are transforming the shape and structure of organizations (through for example e-commerce and B2B applications), they have also multiplied the potential forms of communication that can be exploited within and between organizations. IT-driven knowledge management strategies may end up objectifying and calcifying knowledge into static, inert information, thus disregarding entirely the role of tacit knowledge (Borghoff & Pareschi, 1997). In addition, Borghoff & Pareschi, (1997) stress that KM strategies of this type would bring back the ghost of the infamous, and none too far in time, re-engineering days, when the corporate motto was "More IT, fewer people!"(Khalili et al., 2011) they conjure grim scenarios of organizations with enough memory to remember everything and not enough intelligence to do anything with it.

Considering the advantages and benefits of Knowledge Management King (2009) concluded through Knowledge Management, organizations attempt to obtain or create relevant, useful knowledge. Such knowledge will be available to employees / managers to use it anywhere, anytime that is suitable aiming to achieve maximum practical usage that would positively influence organizational performance. In addition, King (2009) points out that it is expected that if an organization can increase its effective knowledge utilization by only a small percentage, great benefits will result.

Knowledge Management activities are present in small companies, but only few SME managers call them ''knowledge management'' and ICT are considered as a set of tools used to a large degree for solving short-term operating problems rather than long-term strategic plans (Harvey et al., 1992; Malone, 1985; Khan & Khan, 1992). Because of the unpredictability of SMEs strategic future, strategic planning mainly is described as an "emerging version" or "strategic awareness" whereas neither of which lends themselves easily to the explicit definitions required for systematic investment in information technology (Fuller, 1998).

Beijerse (2000) in his study in Netherlands found 79 different knowledge management activities or processes. The most important of those were related to strategic management and supporting open and positive culture.

Lim and Klobas (2000) found that the knowledge management needs and challenges of SMEs are similar to those of bigger companies. They also noticed that many knowledge management

processes are easier to apply in smaller companies since it is much easier to capture tacit knowledge in less formalized environments as SMEs are.

Technological infrastructure - ICT presents the primary enabler that supports knowledge creation, transfer, utilization and advance the development of organizational knowledge. Many researchers have concluded that information technology is a decisive element for knowledge creation and transfer (Alavi and Leidner, 2001; Davenport and Prusak, 1998; Gold et al., 2001).

Information technology facilitates knowledge in many aspects, as it supports collection, storage and exchange of data that enables employees have access to the required knowledge (Ndlela and Toit, 2001), and a well-developed technology integrates fragmented flows of information and knowledge (Gold et al., 2001).

Borghoff & Pareschi (1997) conclude information technology helps the growth and the sustainment of organizational knowledge, whereas nowadays information technologies are about creating direct connections among people through applications as electronic mail, chat rooms, video conferencing and other types of groupware about information storage in databases and other types of repositories. Regarding the information databases, they can also be successfully re-thought, in a knowledge management, as resources for the sharing of best practices and for preserving the intellectual capital of organizations (Borghoff & Pareschi, 1997).

According to Fuller (1998) it is required increased level of technical competence within SMEs staff and greater management commitment toward ICT usage and overcoming SMEs cultural delay.

The efficient application of IT to knowledge management can be achieved with combination of these factors: the awareness of the limits of Information Technology, IT allocation will not fulfill the expectations, if not accompanied by a global cultural change toward knowledge values and the availability of information technologies that have been expressly designed for knowledge management in view (Borghoff & Pareschi, 1997).

Firms through knowledge management effort to achieve and establish useful knowledge available to those who can use it at an appropriate time and place to achieve maximum effective usage aiming to positively influence organizational performance (King, 2009).

Governments worldwide had recognized the importance of ICT and e-commerce, therefore, had created funding schemes and initiatives to facilitate their adoption in SMEs.

Considering the importance that SMEs have, in Sweden the Swedish Business Development Agency (NUTEK) has run a national program that provides skills training in ICT for SMEs. This was concentrated on increasing the use of ICT in small businesses located in regional areas to strengthen their competitiveness on the global market. Special effort has been given the e-commerce, whereas the Swedish Alliance for Electronic Business had set an objective of having 80 percent of small businesses starting to use e-commerce tools by the end of 2004 (MIEC, 2003).

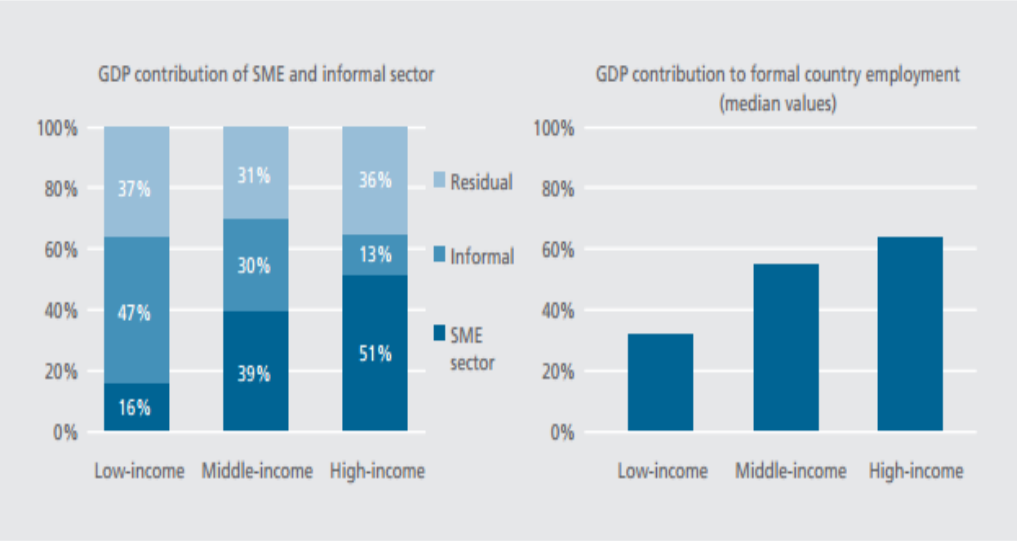
At that time similarly, an initiative of a $6.5 million scheme over two years to accelerate in Australia were announced by the Federal Government aiming the uptake of e-commerce in small businesses (NOIE, 2002). In addition, the Information Technology Online (ITOL) funding program offered up to $200,000 to support the adoption of collaborative e-business by small businesses.

Despite all these programs and initiatives, the rate of e-commerce adoption in small businesses at that time has been reported as being low. The reasons are diverse, and mainly they are classified as barriers or inhibitors to e-commerce adoption. According to MacGregor & Vrazalic, (2005) e-commerce adoption barriers to small businesses can be grouped according to two distinct factors: e-commerce is either “too difficult” or “unsuitable” for the business. The “Too Difficult” factor included barriers such as the complexity of e-commerce implementation techniques, the difficulty in deciding which standard to implement because of the large range of e-commerce options, the difficulty of obtaining funds to implement e-commerce, the lack of technical knowledge and the difficulty of finding time to implement e-commerce. Whereas, the “Unsuitable” factor included barriers such as the unsuitability of e-commerce to the organisation’s products/services, its way of doing business, and its client’s way of doing business, as well as the lack of perceived advantages of e-commerce implementation.

2.2.2. Evidence for the developing countries

Small and Medium Enterprises (SMEs) play a major role in economic development (Calice, 2012) presenting a significant share of employment, particularly in developing countries and thus

form the base for private sector-led growth" (Hallberg, 2001). Other studies indicate that formal SMEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies (IFC: Scaling-Up SME Access to Financial Services in the Developing World 2010); these numbers are significantly higher when taking into account the estimated contributions of SMEs operating in the informal sector. The informal economy presents one of the greatest challenges in the SME in particular in developing countries. In the context of the international development agenda, and given the critical importance of job creation and economic development in the recovery cycle, promoting SME development appears to be an important priority. In high-income countries, SMEs contribute nearly 64 percent to the GDP and 62 percent of employment. Figure 2.4 presents a comparison of SME Sector's contribution to GDP and Employment in low, middle and high-income countries.



Source: *IFC SME Banking Knowledge guide 2010; Ayyagari, Beck, and Demirgüç-Kunt (2003)*

Figure 2.4: SME Sector's contribution to GDP and Employment

SMEs are an essential part of the economic structure in developing countries (Makate, 2014), and they play a fundamental role in facilitating growth, innovation, and progress. The term SME presents a diverse group of businesses in a developing economy, ranging from a single artisan working in a small shop making handicrafts for a village market to sophisticated engineering firms selling in overseas markets (Fischer & Reuber, 2003).

The term SME presents a broad spectrum of definitions. Different countries, nations and organizations mainly based on headcount, sales or assets, set their instructions for defining SMEs. Interestingly, for example as per the report of Dalberg (2011) SMEs in Egypt are defined as an enterprise that is having more than 5 and fewer than 50 employees. Vietnam considers SMEs to have between 10 and 300 employees. The World Bank defines SMEs as those enterprises with a maximum of 300 employees, $15 million in annual revenue, and $15 million in assets. The Inter-American Development Bank, meanwhile, describes SMEs as having a maximum of 100 employees and less than $3 million in revenue (Dalberg, 2011).

United States define SMEs as enterprises with less than 500 employees (Hussey & Eagan, 2007).

We will follow the European Commission (2011) "The category of micro, small and medium-sized enterprises is made up of enterprises that employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. Small and medium enterprises are thus defined as firms with 10 to 250 employees, and more than 10 million euro turnover or annual balance sheet total" (Dalberg, 2011).

Hussain et.al., (2010) have defined SMEs in developing countries as firms that have no more than 250 employees and, in addition, mentioned some important characteristics of SMEs that are as follows:

- The company is characterized by the entrepreneur who very often also is the owner of the company.
- The entrepreneur normally is the "general manager". Thus, he acts on his own risk.
- The entrepreneur has a network of personal contacts to customers, suppliers and the relevant public sector. So the contact is close and rather informal.
- The company usually acts very local.
- The products offered can be very individual to the customer's needs.
- The form of organization is rather informal and flat.
- The company can react quickly to changes in the environment.
- The company is not dominated or ruled by another company, e.g. part of big business concern.
- The market share is normally small.

- The products are little diversified.
- About 36% of the SMEs are not older than 10 years (specific development stage).

Aiming to understand how SMEs in developing countries grow and progress, there are several issues and concerns that must be alert of, and that determine SMEs growth. Entrepreneur's characteristics that mainly include age, gender, education, previous experience, firm characteristics such as age, sector, legal status and number of employees can be seen as main determinants of SMEs growth. According to Tambunan (2006) Small and medium enterprises (SMEs) in developing countries are important socially and economically for a numerous reasons, including mainly: wide dispersion across rural areas and important for rural economies; their ability to employ a significant amount of the labour force in their local economies; and their ability to provide an opportunity for entrepreneurial and business skill development.

It is important to understand that creation and development of Small and Medium Enterprise (SME) depend on the different factors that can help or hinder SME creation and growth (Kuntchev et al., 2012).

Based on the recent research for the developing economies it is evident that SMEs face greater financing obstacles than large firms (Beck et al. 2006). Those results indicate that finance presents the most robust variable affecting venture's growth, whereas, crime and political instability affect directly the rate of growth of firms (Kuntchev et al., 2012). Furthermore, Beck et al., (2008) find that small firms use less external finance, especially bank finance.

Difficulties to access capital present the main obstacle for SMEs in developing countries; furthermore experience, know-how or knowledge is required for firm growth. SMEs are restricted in accessing the capital that they need to grow and develop, whereas nearly half of SMEs in developing countries rate access to finance as a major burden (Dalberg, 2011).

The bureaucratic barriers to the registration of a business and access of an SME to assets like licenses or credits are considered as main barriers for developing countries all around the world. Although, enough effort was given to overcoming these barriers, and there was progress in many countries, still no direct correlation can be found between the degree of regulation and the size of the informal sector.

Still, the main difficulty that SME face remains access to finance from commercial banks, and unfavorable lending conditions, this is evidenced in the numerous studies that used firm-level survey data. SMEs find it difficult to obtain commercial bank financing, in particular, long-term loans, for a number of reasons, mainly as they lack collateral, inadequate credit history, difficulties in proving creditworthiness, small cash flows, underdeveloped bank-borrower relationships and high transaction costs (Scholtens, 1999; Schiffer & Weder, 2001; Galindo & Schiantarelli, 2003; Beck et al., 2006).

Banks in developing countries are hampered by the lack of credit information and regulatory support to engage in SME lending. The gap in properly functioning of SMEs credit market in developing countries hampered SMEs growth, innovation and economic growth. According to analyses of SME lending cross-country estimation, there is no consistent and robust correlations between the levels of SME finance and definition criteria as there are no statistically significant correlations between the value of SME financing and the maximum number of employees used as a criterion to define SME (Ardic et al., 2011).

Based on the data of Indonesian National Agency of Statistics within Southeast Asian or Association of Southeast Asian Nations (ASEAN) countries (i.e. Indonesia, Malaysia, Thailand, Singapore, the Philippines, Brunei Darussalam, Laos PDR, Cambodia, Vietnam, and Myanmar) Indonesia has the largest total number of SMEs counting 488,229,005. In addition to that Tambunan (2011) state that private sector in Indonesia as the largest populated country in the region, is more developed than that in socialist or less free market-oriented member countries like Vietnam, Cambodia, Laos PDR and Myanmar. The majority of Indonesian SMEs are involved in agriculture, followed by the trade sector, hotel and restaurant and manufacturing.

SMEs, also face a variety of obstacles e.g. the difficulty of absorbing large fixed costs, the lack of economies of scale and difficulties in key factors of production, high unit costs, reduced cash flow (Rothwell, 1991; Rammer and Schmiele, 2008; Parker et al., 1995).

Deogratius (2007) argued that many smaller businesses in developing countries end up using the owner’s assets. In addition he stressed that these assets are often needed for other purposes so they can run out quickly leaving the business owner in a great trouble as he cannot pay his bills anymore, his business goes under and sometimes ending up by selling of assets or property in

order to keep the business going or to pay the bills and debts (Deogratius, 2007). Therefore, the main concern of businesses in developing countries is with foreign direct investment (FDI).

According to IMF and OECD, direct investment is a reflection of the aim of obtaining what would be a lasting interest in the economy of an enterprise through money, land, or some other offering to that enterprise.

South Africa has been attracting a considerable number of foreign direct investments, but not much as compared to other emerging economies like Russia, Brazil, India, and China.

These few FDI have not a significant impact on the African economies. Lately, it is marked a new attention due to random foreign investment in the South Africa economy by Chinese businesses (Shimbun, 2007). Therefore, looking at the type of FDI to be attracted in South Africa will be of great importance. According to Deogratius (2007) the growth of Businesses in Developing countries remains very important as they will directly affect developed countries and therefore it is important to understand the trade negotiations that are taking place within these countries. In addition, he stressed that even though these Developing countries often need extra treatment in order to boost their economic abilities and help their growth; Developed countries must also be treated fairly where these agreements are concerned (Deogratius, 2007).

Subsidies and countervailing duties deal with multilateral trade negotiations and are designed to foster economic development in developing countries, have changed much of the structure of international investment and trade (Diaz-Alejandro & Helleiner, 1987).

Analysing these negotiations and looking at the economic effects that they have shown, many of the trade agreements have slowed down the development in Developing countries.

Small and medium enterprises make substantial contributions to national economies and are estimated to account for 80 percent of the global economic growth (Pavic et al., 2007).

Global trade is a significant part of the growing trend of globalization. In terms of understanding and having a clear picture of what globalization is, some of the definitions are given below.

Globalization refers to increasing global integration, connectivity and interdependence in the economic, social, technological, cultural, political, and ecological spheres (Mishra, 2013). In addition, it presents a unitary process inclusive of many such sub-processes, perhaps as best

understood as enhanced economic interdependence, increased cultural influence, rapid advances in information technology, and novel governance and geopolitical challenges (Mishra, 2013).

Globalization - the growth method that is most commonly used by small and medium-sized enterprises is the internationalization of activities (Vida, 2000). The export of products presents the predominant mode of international expansion with this type of firm as opposed to other mechanisms such as investments outside the country or international alliances (Dhanaraj and Beamish, 2003).

According to IFM (1997) "Globalization refers to the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology."

Due to the overwhelming acknowledgment of the positive role intellectual capital plays in the developed world, a burgeoning track of research has started to explore the concept of intellectual capital in small and medium enterprises (SMEs) operating in developing and under-developed economies. For example, Bontis et al. (2000) conducted their study in the Malaysian context and found that intellectual capital can have a positive association with SMEs performance in Pakistan. Bontis et al. (2000) findings of on their study reveal that customer capital, structural capital, social capital, technological capital and spiritual capital have a significant and positive relationship with the organizational performance of SMEs operating in the electrical and electronics manufacturing sector in Pakistan.

Following to the OECD (2012) country Scoreboard that analyses trends in SME and entrepreneurship finance over 2007-2011, the outstanding of SME loans (i.e. stocks) grew between 2010 and 2011 in the majority of the countries, but declined in four countries, including Italy, Portugal, the United Kingdom, and the United States. As shown in table 2.4 this decline continued a negative trend in the UK and the US so that the outstanding of SME loans in 2011 compared to the pre-crisis period was lower.

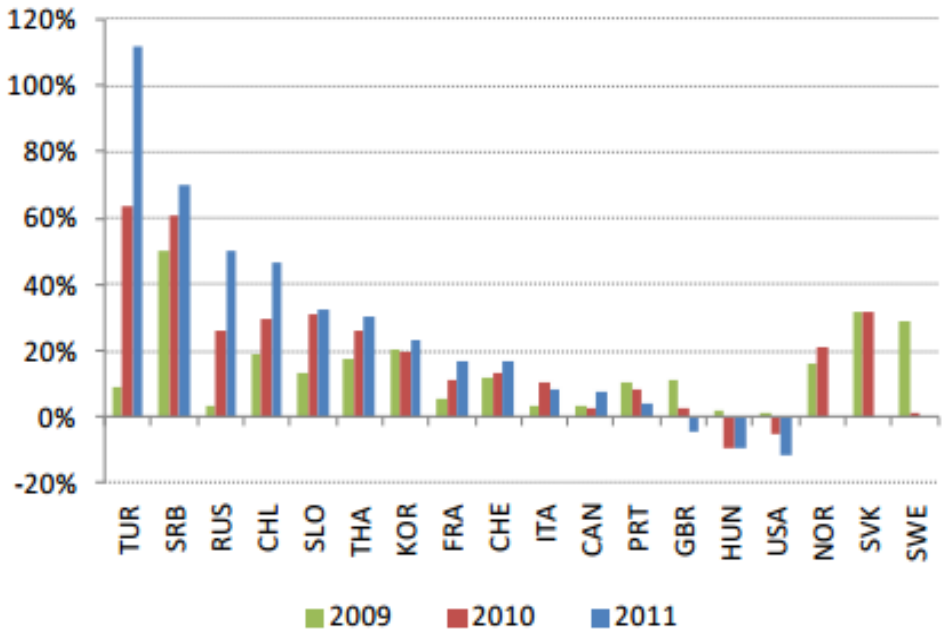


Figure 2.5: Trends in SME loans 2007 – 2011(Relative to 2007, in percentages 2007=0)

According to Table 2.5 SME loans in Italy after a considerable increase in the previous years in 2011 recorded negative growth. Despite the negative trend since 2010 in Portugal, the stock of SME loans remained above the pre-crisis level. Table 2.4 shows year on year growth rates on percentages. Continued growth in SME lending was characterised by business financing in Chile, France, Korea, Russia, Serbia, Slovenia, Switzerland and particular Turkey by experiencing the greatest expansion in SME lending over 2010-2011.

Table 2.4: Growth of SME business loans, 2007-2011

Country	2008	2009	2010	2011
Outstanding SME business loans (stocks)				
Canada	-0.1	3.7	-0.9	5.0
Chile	11.3	6.9	8.8	13.1
France	4.8	0.3	5.4	5.4
Hungary	10.3	-7.6	-11.1	0.3
Ireland	n.a.	n.a.	n.a.	0.9
Italy	2.1	1.2	6.6	-1.9
Korea	14.4	5.0	-0.5	3.2
Norway	25.7	-7.7	4.2	n.a.
Portugal	9.2	0.9	-1.6	-4.0
Russia	n.a.	3.7	21.9	19.1
Serbia	47.0	2.3	7.1	5.5
Slovak Republic	32.4	-0.5	0.1	n.a.
Slovenia	16.6	-2.9	15.4	1.3
Sweden	7.2	20.4	-21.4	n.a.
Switzerland	5.9	5.3	1.3	3.2
Thailand	9.5	7.4	7.2	3.1
Turkey	10.6	-1.6	50.7	29.3
United Kingdom	7.9	3.0	-7.4	-7.4
United States	3.6	-2.3	-6.2	-6.8
New SME business loans (flows)				
Czech Republic	-14.3	-15.0	-14.8	3.6
Denmark	-13.7	-19.2	22.9	-2.4
Finland	2.6	-16.3	-16.5	-4.8
The Netherlands	-5.0	-24.2	5.1	17.6
Spain	-9.5	-26.3	-20.0	-17.2

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Nineteen countries reported outstanding SME loans (stocks), five countries reported new SME loans (flows). The indicator is not available for New Zealand.

Source: National Scoreboards.

Emerging economies are low-income and rapid-growth countries that use economic liberalization as their main engine of growth. Those economies fall into two groups: developing countries in Asia, Latin America, Africa and the Middle East and transition economies in the former Soviet Union and China (Hoskinsson et al., 2000).

The term business cluster, also known as an industry cluster, competitive cluster, or Porters cluster, was introduced by Michael Porter in The Competitive Advantage of Nations in 1990. Two years after Porter (2000) defines clusters as "geographic concentrations of interconnected companies, specialized suppliers, firms in related industries, service providers, and associated institutions (e.g., universities, standards agencies, trade associations) in a particular field that compete but also cooperate". As Porter (2000) explains, the competitive advantage resides in the general area (county or counties) in which the cluster is located, and not within the individual

firms themselves. Furthermore, the geographic scope of a cluster relates to the distance over which informational, transactional, incentive, and other efficiencies occur (Porter, 2000). In addition, many authors stress that the high-tech industry is more likely than any other industry to require services of universities and other higher educational institutions. Therefore, they tend to locate those firms close to centers of research and science (Frenkel 2001, Bade & Nerlinger, 2000). Universities produce human capital in the form of higher skilled labor and create basic research necessary for high-tech firms.

Tell me, and I forget. Teach me, and I remember. Involve me, and I learn.

Benjamin Franklin

A lot of studies discussed the relationship between Universities and entrepreneurs and in general it can be concluded that collaborative learning framework among academics and practitioners can influence sustainable development. As for example De Eyto et al. (2008) and Lukman et al., (2009) have discussed the importance of universities, students, and SME professionals in developing strategies that promote sustainable practices in the UK and Slovenia. After many discussions based on studies conducted with Irish undergraduate students from the Institute of Technology, Carlow, and the University of Limerick, they proposed educational models and network collaboration (De Eyto et al., 2008; Lukman et al., 2009; Natarajan & Wyrick, 2011). Students and the universities collaborated with SMEs in offering services and as a forerunner to this live project experience. Whereas, students were involved in multidisciplinary learning in order to foster the environmental thinking and attitude (Natarajan & Wyrick, 2011). The authors observed the gained sustainability literacy and the experience from the live projects and found it as useful for students since they became initiators of sustainable practices elsewhere. Similarly, the study by Lukman et al. (2009) established the position of the Maribor University in Slovenia aiming to improve the collaboration among various entities in order to promote sustainability initiatives in the region.

They suggested “academic research has an important role to play but only if interdisciplinary, and multidisciplinary thinking and learning are brought into effect…,” (Lukman et al., 2009).

According to them, an open systems model is the ideal setup for better implementation of sustainable practices in SMEs, supported with contribution and participation from universities, local community, local governments, NGOs, and other stakeholders. Authors suggested the collaborative learning as a primary tool for bringing the positive change, based on the case of

local SMEs in Maribor. The results reported good collaboration with the University of Maribor, Municipality of Maribor, NGOs, and other local agencies.

2.2.3. Evidence for the transition and south east European countries

A transition economy is an economy that is transforming from a centrally planned to a market economy. The early phase of transition is distinguished by economic decline, social disturbance and political uncertainty (Meyer & Peng, 2005a). Smallbone & Welter (2001a) pointed out that one of the concerns transition countries face in the transformation path is the need to develop a private business sector, allowing entrepreneurs to create their businesses.

Kornai (1990) and Murrell (1992) were among the first and earliest to highlight the difficulties of restructuring existing enterprises and the crucial importance of new firm growth to economic transition. As authors evaluate (Kornai, 1990; Murrell, 1992), it is not easy to overestimate the contribution of this new private sector toward economic development, especially in a turbulent ex-socialist environment, where the existing enterprises originated from centrally planned economy face difficulties in adapting to the demands of a market economy. Andreff (1992) in debate on the transition of Post-Communist economies stressed: We have to keep in mind that developing a modern capitalist market economy has taken centuries in Europe and North America, and at least four decades in "late comer" countries such as South Korea or Taiwan. Therefore, he emphasises the quicker the transition in the Post-Communist Economies the higher will be the cost, only a "ratchet" transition can be a success, a bumpy road to market capitalism would be a dead end (Andreff, 1992). The main barriers to faster transition of Post-Communist Economies seems to be the insistence on spectacular radical moves which are limited to legal forms and therefore are only capable of facilitating and not bringing about the real marketization and privatization processes (Bajt, et al., 1992). Considering the transformation at the firm level, it can occur through the direct privatisation of former state-owned enterprises that involve the shift from public to private ownership sector or through entrepreneurship and the creation of completely new businesses – start-up. As a consequence, feature such as the pace of new venture creation, the qualitative characteristics of entrepreneurs and the businesses that are created, the types of barrier they experience and the extent to which businesses are able to grow, may be seen as a barometer indicating how quickly the process of market reform is occurring.

Hoti (2004) on his paper explains the countries of South Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosova, Macedonia, Romania, and Serbia and Montenegro, are described as latecomers on the stage of transition and the transition process in these countries is described as a 'retard transition', since it was disrupted by conflicts throughout the 1990s. In addition Hoti (2004) points out these countries have high unemployment rate, and the labour market has been affected substantially by recent conflicts and the resulting movements of people.

The role of SMEs has become increasingly vital for transition economies because of their ability to respond to the systemic shock rapidly and their potential to create jobs and income at the time when the large firm sector was undergoing a rapid decline (Hashi & Krasniqi, 2011). In transition economies the privatisation process of the established state-owned firms had moderate importance in employment and economic development, therefore emerging of new firms in the market was, in particular, significant. Hashi & Krasniqi (2011) by focusing on the differences and similarities between the patterns of SME growth at different stages of transition in two groups of countries: three advanced transition economies and three laggard economies concluded the SME sector has contributed significantly to the economies of the two regions, although the contribution has been much higher in the SEE region, particularly in terms of employment . Apart from their importance, SMEs in Kosovo still face an unfriendly business environment. According to Hoti (2006), despite the achievements in all aspects of economic and institutional reform, the macroeconomic performance faces serious challenges as donor inflows, and diaspora remittances have declined. He was right concluding that this decline needs to be replaced with foreign investment and increased exports. Hoti (2006) also stressed that foreign investments in Kosovo are marginal mainly due to the unclear political status, and exports are at a low level mainly due to various trade-related barriers.

According to Rapacki et al., (2009) the most significant structural changes in transition economies included privatization, liberalization of markets and broadening the scope of economic freedom. Other structural changes comprised support for the development of markets and competition. Some of those structural changes are public finance reform, combined with a comprehensive reform of government institutions designed to upgrade their effectiveness and strengthen functions stimulating economic development and, the development of financial markets (Rapacki et al., 2009). Fighting corruption and removing bureaucratic barriers that hamper the development of entrepreneurship encompass later steps toward supporting the

development of markets and competition. As many authors argue (Nee 1989, 1991; Rona-Tas 1994) entrepreneurship was built on the assumption that it is the heart of private sector development in transition countries. China differs from most other transition countries, and that difference ensues as its transition was not accompanied by a change in its political system. This fundamental difference has had wide-ranging effects on the methods adopted for the restructuring and privatization of state-owned enterprises (SOEs), corporate governance, and capital market development. The resolution of contradictions in the initial transition phase in China's SOEs had enormously affected the future of China's enterprise sector competitiveness (Mako & Zhang, 2007).The former communist countries, as a group have made substantial progress liberalizing and opening their economies, creating market mechanisms and building necessary institutions to ensure the efficient functioning of the market.

As the Institutional, transition evolves; the determinants of the firm performance simultaneously change as well. The early years of transition are typically characterized by economic decline, social upheaval and political uncertainty, resulting in a highly uncertain environment, and SMEs are disproportionately affected by this turbulence (Meyer & Peng, 2005).

Existing research indicates that one can rely on the general manager for data about venture management and performance, particularly for small, specialized or non-diversified firms (Birley & Westhead, 1990; Nayyar, 1992; Powell, 1992; Stearns, Carter, Reynolds, & Williams, 1995; Zahra& Covin, 1993).

Smallbone et al., 2002 aiming to describe the pattern of innovation and use of technology in Ukrainian and Belarussian SMEs pointed out that the nature and extent of innovation in SMEs ultimately depends on the attitudes and behaviour of their owners and managers, it is also affected by characteristics of the external environment, precisely the innovation system.

Clearly, economic stabilization is a must in Transition Economies before any serious restructuring of economic policies, institutions, instruments, and behaviour be contemplated in earnest (Brabant, 1992).

2.2.4. Information technology

> *Information and communication technologies (ICT) are dramatically transforming the world, enabling innovation and productivity increases, connecting people and communities, and improving standards of living and opportunities across the globe.*
> (Greenhill, 2011) Chief Business Officer, World Economic Forum

We live in the "information age" whereas information technology has become a part of our everyday lives. A standard definition of information is that data have been processed so they are meaningful (Oz and Jones, 2008). Usually, data are raw facts in the form of a statement, a number, a date or a measurement.

A business information system is a group of interrelated components that work collectively to carry out input, processing, output, storage and control actions in order to convert data into information products (Laudon & Laudon, 2007). In addition, Laudon & Laudon, (2007) stress these information products that can be used to support forecasting, planning, control, coordination, decision-making and operational activities in an organization.

"Information Technology" pronounced "IT" refers to everything that relates to computing technology such as, hardware, software, networking, the Internet and the people working with these technologies.

Term technology derives from Greek “techne” (τέχνη) which means “art, skill, cunning of hand" and “logia” (λογία) that means “word, talking”. A technology usually has two components: a hardware aspect, consisting of the tool that reify the technology as material or physical objects, and a software aspect, consisting of the information base for the tool (Rogers, 1983).

According to Rogers (1983) "computer hardware," consist of semiconductors, electrical connections, transistors, and the metal frame to protect these electronic components, and "computer software," consist of the coded commands, instructions, and other information aspects of this device that allow us to use it to extend human capabilities in solving particular problems. In this way Rogers (1983) illustrate the close interaction between a tool and the way it is used and explains that the software is usually less visible than its machinery or equipment, and so we often think of technology mainly in hardware terms. Sometimes the hardware side of a

technology is dominant, but there are cases when a technology is almost entirely comprised of information (i.e. a news event, management by objective – MBO, etc.

Rogers (1995) defines an innovation as “an idea, practice, or object that is perceived as new by an individual or another unit of adoption”. In his book Rogers (1983) used terms "innovation" and "technology often as synonyms since almost all of the new ideas analyzed in his book are technological innovations.

We experience massive transformations in institutions and our society, ICT innovations are driver and support to these transformations. According to the Australian Bureau of Statistics (ABS 2008), ICT refers to “the technologies and services that enable information to be accessed, stored, processed, transformed, manipulated and disseminated, including the transmission or communication of voice, image and/or data over a variety of transmission media”. ICT has proven to be a vital precondition for enhanced competitiveness and economic and societal modernization, as well as a significant tool for bridging economic and social divides and reducing poverty (Greenhill, 2011).

New technologies and applications are arising, which have the potential to initiate innovations in institutions, advance relations between citizens and cultural understanding, and create new opportunities for entrepreneurs and enable competitive advantage for businesses in the future. These innovations mainly include The Internet and cloud computing technologies; advanced interfaces such as touch screens and more intelligent and smart environments; Micro and nano-electronics, etc.

Rogers (1983) explains the diffusion as a process that relies heavily on human capital and the innovation must be widely adapted to self-sustain.

Adoption presented the acceptance and continued use of an idea, product or service. As Rogers and Shoemaker (1971) explained before the consumers are ready to adopt a product or service they go through “a process of knowledge, persuasion, decision, and confirmation”.

The technology acceptance process was introduced by Davis (1989), and it was tailored specifically for modeling user acceptance of information system and technology. This model attempts to explain the determinants of computer acceptance such as the external factors impact on internal beliefs, attitudes, and intentions. (Figure 2.6)

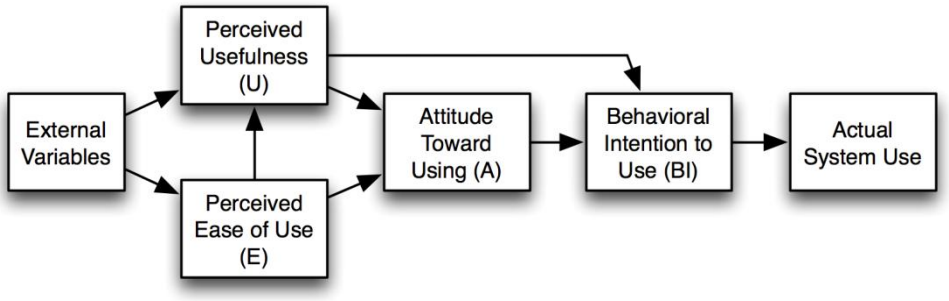


Figure 2.6: The Technology Acceptance Model, version 1. (Davis 1989)

The adoption process was one of the main Rogers (1962) focus. Therefore, he describe the innovation adoption process through which an individual or the decision making unit passes from knowledge or awareness of an innovation to the forming an attitude towards the innovation, to a decision whether to adopt or reject the new idea or innovation, to implementation and to confirmation of this decision (Figure 2.7)

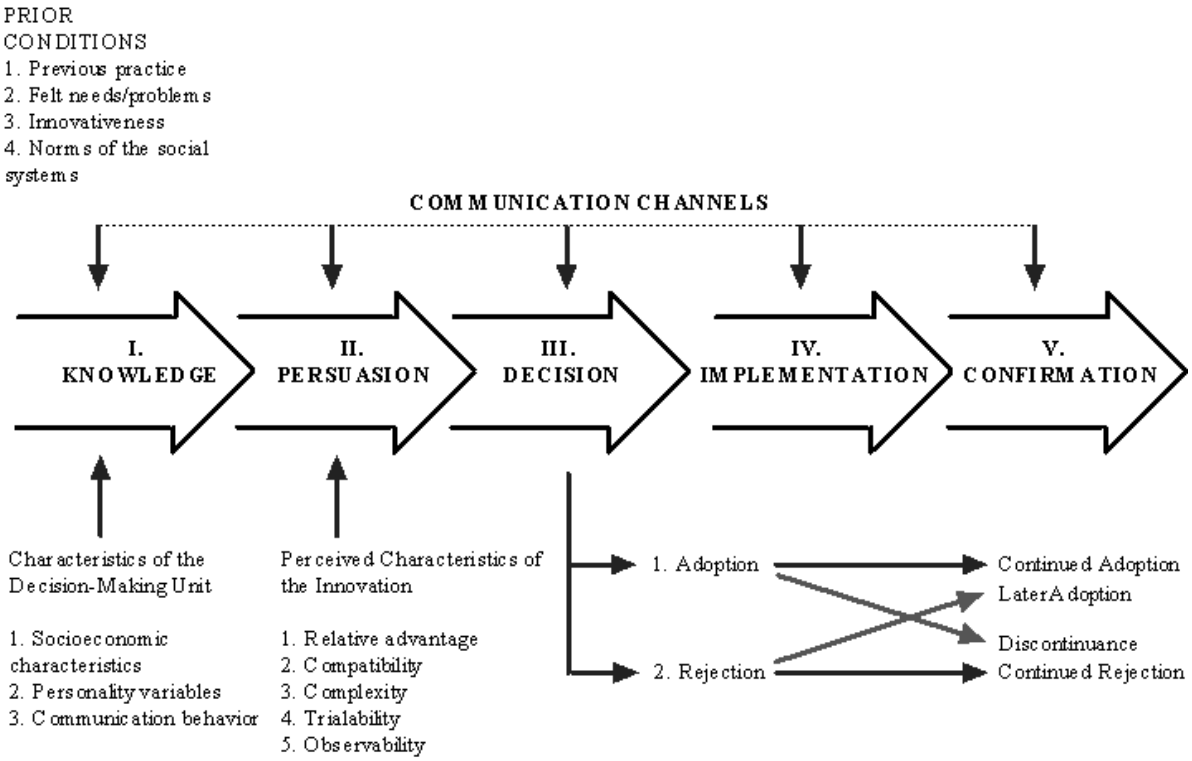


Figure 2.7: A Model of Stages in the Innovation-Decision Process (Rogers, 1995)

There is a level at which an innovation reaches critical mass within the rate of adoption. The Diffusion of Innovation (DOI) theory is originated to explain how, over time, an idea or product gains momentum and spreads through a population or social system (Rogers, 1962), whereas adoption means that a person does something differently than what they had previously (i.e., use or purchase a new product or service, acquire and perform a new behavior, etc.)

Many researchers found that people who adopt an innovation early had different characteristics than people who adopt an innovation later. There are five categories of adopters, and the majority of the overall population tends to fall in the middle categories, in text bellow, are shown the characteristics of the target population according to Rogers (1962) classification (Figure 2.8).

Innovators - This classification presents those people who want to be the first to try the innovation, they are the risk taker, develop new ideas, and they are venturesome.

Early Adopters - Are that group of people that represents opinion leaders. They are already conscious of the need to change and so are very comfortable adopting new ideas.

Early Majority - These people are seldom leaders, but they do adopt new ideas before the average person. Before they are willing to adopt evidence, they typically need to see that the innovation works it.

Late Majority - These people are skeptical of change. Therefore, they adopt an innovation only after it has been tried by the majority.

Laggards - These people are related to tradition, very conservative and very skeptical of change and are the hardest group to adopt newness.

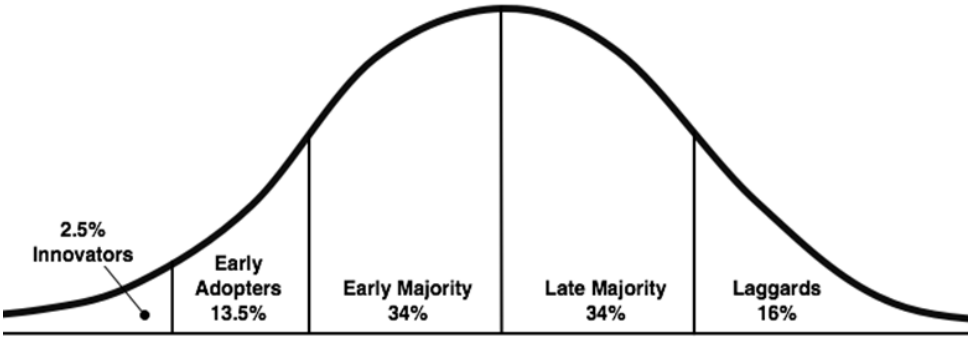


Figure 2.8: The diffusion of innovations according to Rogers (1962)

The fact that investments in R&D and Technology enhance development and economic growth is testified earlier by significant and remarkable economic growth of the Japanese economy in the period after World War II. According to an assessment by Nishimizu and Hulten (1978), as much as 30 % of Japan's economic growth in the period 1955-1971 was attributable to technological progress as measured by growth in total factor productivity, TFP. The contribution of technological progress increased after the mid-1970s, estimating for more than 50 % of economic growth from 1975 to 1985 (Kawai, 1999; Urata & Kawai, 2001).

Keogh et al (2000) findings from a two-year project of European Social Fund (ESF) aiming to identify skill requirements in innovative SMEs in the Aberdeen area, resulted that these companies are seen to be capable of contributing to local and national economies through the employment of skilled labour and they effect on the supply chain, international chain, and international sales. In addition, authors stressed that these innovative firms went through rapid industrial and technological changes, and it is important for them to identify the impact of industrial change on their skill requirements (Keogh et. al., 2000).

High-tech firms receive widespread attention as potential engines of local economic development. These firms are not only expected to pay higher wages and demand greater skills of their workers, but also to grow more rapidly than other types of businesses (Barkley et al., 1988; Glasmeier, 1991).

For the successful technology adoption, it is required the employee's readiness, understanding and commitment toward adoption. Therefore Bushnell (1998) correctly concluded: "There is nothing worse than trying to train for a technology when employees do not understand or fear the concept that it supports." In addition Bushnell, (1998) emphasizes that managers have to understand clearly the importance of technology and difficulties related to the technology on which the concept depends on.

Small and medium businesses generate newness as they contribute to the development of the technological industry and innovation. As President and CEO of Canadian Manufacturers and Exporters Ezell & Atkinson (2011), emphasize: "*Years ago it was all about lean, efficiency, quality, Six Sigma and process improvement, now it is all about innovation and new product development, finding new customers and new markets*." Innovation is a long run process and requires investment in new technology and R&D. In addition Ezell & Atkinson (2011) also states

"*A lot of small companies can perceive process improvements, but performing R&D, retooling, designing new products for new markets and understanding standards requirements in global markets are the new challenges*."

Thomas and Rhisiart define innovation as the successful exploitation of new ideas (2000). Innovations enable the organizations to transform ideas into new or improved products or services, in order to advance and differentiate themselves and to successfully compete in the marketplace (Baregheh et al. 2009).

The technological innovations in materials, production, and business processes apply not only to large companies, but also to smaller enterprises.

Many authors accept that Governments today regard technology diffusion as an important route to increase competitiveness. In particular attention is addressed to the technology diffusion into small and medium businesses considering their advantage of flexibility, dynamism and responsiveness (La Rovere, 1998; Tran and Kocaoglu, 2009). Despite this small and medium enterprises due to lack of financial and technical resources have disadvantages that can lead to problems related to their capability to source technology, absorb it into their organization and diffuse it among industrial sectors (Jones-Evans, 1998).

The Centre Periphery Theoretical Model, (Schon, 1971) of technology diffusion, rests on three basic assumptions:

1. The technology to be diffused exists prior to its diffusion (Thong, 1999),
2. Technology diffusion takes place from the source outwards to small businesses, and
3. The support of technology diffusion involves incentives, provisions of resources and training.

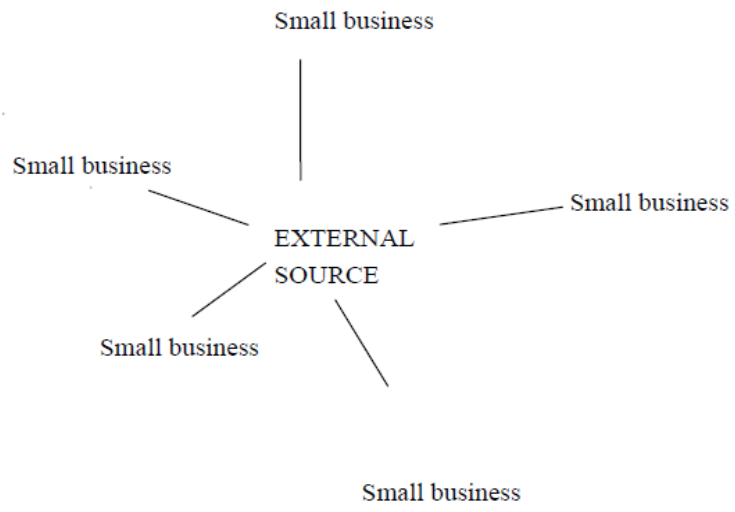


Figure 2.9: Centre - Periphery Model

Application of Centre - Periphery Model to Technology Transfer Network Theory (Figure 2.9) can be described as Star Network, whereas the diffusion will take place from the source of the technology through channels by a diffuser using the transfer mechanism, to the small firm (Thomas et.al, 2011). In addition, the effectiveness of the systems depends on the available resources to the external source to enable the transfer, the efficiency of the diffuser and the mechanism involved, as well as the ability of the companies, to acquire technology (Thomas et al, 2011).

The speed at which SMEs adopt new techniques differs and therefore it is called the rate of diffusion or imitation. In addition to this, Roy & Cross (1975) argued that the faster rate of diffusion is followed by more improvements over the existing technology and, the cost increase of the technology in general.

Identification of technology adoption factors and the technology diffusion level can be estimated by diffusion theory model. According to Rogers (1983) these factors include: characteristics of adopters; characteristics of the technology; and learning and adapting mechanism by which adopters are convinced to adopt the technology.

SMEs differ from larger companies in relation to IT projects, as they have scarcity in finance, have lower IT expertise, their employees need to be multi-skilled and multitasking, their CEOs

are more involved in operational decisions than in strategic, and they often have a “production mode” focus at the of strategic planning (Fink, 1998; Utomo & Dodgson, 2001; Thong, 1999; Forsman, 2008; Huin, 2004; Andersson & Tell, 2009). Most of the literature suggests that information system theories and practices aimed at large companies may not be suitable for smaller firms (Farhoomand & Hrycyk, 1985; Lee & Runge, 2001; Premkumar, 2003).

In literature are reported numerous drivers and barriers related to IT implementation in SMEs, for instance Haug et al., (2011) suggested that SMEs should take into account both the strategic importance of IT project as well as the company’s IT readiness when adopting IT.

Management may influence on IT adoption by encouraging (Leonard-Barton and Deschamps 1988) or even mandating it (Moore and Benbasat 1991). Adopters may determine to modify levels of IT use, rather than deciding to adopt or reject (Bayer and Melone 1989). IT adoption from individuals or organizations may depend on community-wide levels of adoption whether "critical mass" has been established (Katz and Shapiro 1986; Markus 1987).

2.2.5. Electronic banking

Payment is the crown of any type of work, starting with payment in its most primitive form that involved barter: the direct exchange of goods and services for other goods and services, payment of so-called commodity money (physical commodities such as: corn, salt, gold or silver), cash payment, payment by transfer of funds from one bank account to other and even if the transactions are conducted electronically. Traditional trade has developed numerous ways of payment for goods and services, and the e-business supports all of them, but also opens new opportunities (Beqiri, 2005). Consequently, the banking industry has changed rapidly over the years. A wave of new technology in the e-commerce has provided the customers of the banking world with new and more convenient ways to do their banking. There are different definitions of the e-banking phenomenon: Daniel (1999, p.72) argued “The term electronic banking is used to describe the provision of information or services by a bank to its customers, via a computer or television.”Sathye’s (1999) study highlighted that many consumers were simply unaware of Internet banking and its unique benefits; he argued that lack of awareness is the most important factor that negatively affects the Internet banking adoption. Researchers have focused on the existing relationship between customers and their bank. Building a long term banking

relationship is of mutual interest for the bank and its clients, which in our case are the SMEs. To take advantage of the e-banking services "computer literacy, as stated by Heeks (2002), is essential." Technology has aided businesses to reduce successfully costs by substantial improvement of efficiency. Hornby et al., (2002) argued that SMEs have increasingly enjoyed the benefits of e-commerce, as it is a low-cost and effective marketing tool that has the proficiency to reach out to a global audience. From the banks' point of view, technology, including e-banking, is vital in six areas: profitability, operational efficiency, customer management, distribution, product innovation and payments settlement (Kamakodi et al., 2008). The convenience of conducting banking outside the branch's official working hours is significant to the adoption of e-banking services. The fundamental shift that involves the customer in the financial services with help of technology and especially Internet has enabled clients to virtually use the financial services at any time and from anywhere with access to an Internet connection (Veneeva, 2006). By enabling e-banking banks provide convenient, inexpensive access to their accounts seven days a week and 24 hours a day. Gerrard and Cunningham (2003) concluded that there is a positive correlation between convenience and online banking. They found that a primary benefit for the bank is the cost reduction, while for the customers the primary benefit is convenience. E-banking reduces the transaction costs of banking for both SMEs and banks. SMEs do not have to visit the branch for transactions and banks can benefit from lower transaction costs as e-banking requires less paperwork, less staff and no physical branches (Cheng, 2006).

The application of information technology has a favorable impact on SMEs finances. However there are many disadvantages such as: security of the Internet banking account users (high number of fraudulent bank websites, fake emails that claim to be sent from banks), e-banking complexity and lack of computer literacy.

There are other important concerns and these cover issues such as unauthorized access by hackers'. Financial institutions offering Internet-based products and services should have reliable and secure methods to authenticate their customers. The level of authentication used by the financial institution should be appropriate to the risks associated with those products and services. According to Black et al., (2001) there are other risks associated with electronic banking, such as: job losses (bank staff reduction), lack of opportunities to socialize and development of a lazy society.

CHAPTER III

3. SME SECTOR IN KOSOVA

The Republic of Kosova is located in Southeast Europe. Kosova is land-locked, and it borders Albania to the west, Serbia to the north and east, Montenegro to the northwest, and Macedonia to the south (figure 3.1). With an area of 10,908 km2, the Republic of Kosova is one of the smallest countries in Europe.

Figure 3.1: Map of Kosova

According to Kosova Agency of Statistics, the number of Population was 1,820, 631 (estimated December 2013), and over 800,000 people living abroad. Population density in 2013 was 166.9 inhabitants per km square. With 70 percent of the population younger than 35 years, Kosova is known as the country with the youngest population in Europe. Kosova's capital city Prishtina is the biggest city with estimated population 205,133 and other major cities are Prizren, Peja, Mitrovica, Gjilan, Ferizaj, and Gjakova. Even though, Kosova is not part of EU it still uses EURO because it has not yet been able to establish own currency. There are five ethnics groups in Kosova, the major of inhabitants are Albanian with 90 percent of the population, Serbian 5 percent, Muslim Slavs (Bosnian, Gorani) 2 percent, Roma 2 percent and 1 percent Turks.

For many years, Kosova has been part of Yugoslavia and have enjoyed considerable political and cultural autonomy as one of two autonomous provinces (the other being Vojvodina) within Serbia during the period of Yugoslavia's President Josip Broz Tito rule (ruled 1953-1980). Slobodan Milosevic proposed at the end of the 1980's that the autonomy of Kosova and Vojvodina be suspended (Buckley, 2000). In 1989, however, that autonomy of Kosova was stripped away by Yugoslav President Slobodan Milosevic, causing further tensions between ethnic Albanians and the federal government. Kosova was always the poorest province of the Socialist Federal Republic of Yugoslavia (SFRY). According to Kodderitzsch & Veillerette (1999), GDP had reportedly fallen to less than US $400 per capita by 1995, with unemployment estimated to be as high as 70 percent. Migration from Kosova to neighbouring countries has been a common survival strategy for many households over the decade under "enforced measures" (Kodderitzsch & Veillerette, 1999). Kosova, on that period, was subject to national and labour market discrimination, occupation, and finally war in 1999. Following the NATO intervention of 1999, and the subsequent separation of the Former Republic of Yugoslavia (FRY) into distinct nation states, Kosova has undergone some significant changes. On the 17th of February 2008, Kosova declared its independence, becoming the latest state to emerge following the disintegration of Yugoslavia. The declaration of independence established Kosova as a democratic, secular and multi-ethnic Republic promoting the rights of all communities. In April 2008 the Assembly of the Republic of Kosova adopted the country's constitution, which entered into force in June 2008.

Kosova is very rich in natural resources: lead, zinc, nickel, magnesium, lignite, kaolin, chrome, bauxite. The mining sector was considered for a long time as a significant segment and of crucial

importance for economic growth of Kosova and Yugoslavia during the communism era. Despite the favourable soil and weather conditions, agricultural land has also been underutilized. Around a quarter of the total output was accounted from agriculture, which indicates the traditional importance of this sector in the economy of Kosova.

3.1. Economic environment in Kosova after 1999

In the last sixteen years since the liberation in 1999, Kosova has attained remarkable progress in establishing of a democratic society and market-oriented economy. Numerous human and material damages were caused as a result of the war. Around seventy percent of Kosova's citizens were displaced, and most of the private property, including homes and businesses, was destroyed. More than 50 percent of agriculture assets were reportedly damaged or lost, around 30 percent of the urban and rural housing units became unusable; and main parts of the telecommunications system were demolished (World Bank report, 1999). Damages were wide ranging and except human damages, infrastructure, housing, agriculture, and telecommunications (World Bank report, 1999). The decade of enforced measures and later armed conflict caused the human damage that affected mainly the younger generation since they didn't have proper access to secondary and higher education (World Bank report, 1999). Reconstruction was the main sector on which the economic boom was based on the post-war economy in Kosova. The international community provided substantial support in order to stabilize the country. A significant growth appeared immediately after the war in 1999, whereas economy has experienced high GDP growth. Estimates for 2000-01 arrived at double-digit growth rates 11 percent for 2001while projections for 2002 and 2003 had foreseen growth rates of 7 percent and 4.5 percent, respectively (Holzner, 2003). This growth lasted until 2002 and emerged mainly due to international supports and humanitarian aid, remittances and reconstruction of destroyed houses and infrastructure. Regarding purchasing power parities, the GDP per capita amounted to not more than some 2700 USD in 2001, this was about 90 percent of the level of Serbia and Montenegro, approximately 70 percent of the Albanian level and only some 40 percent compared to Macedonia (Holzner, 2003). This phase has been rather short-lived since housing and infrastructure reconstruction for a short period has ended, which means that only a small part of these businesses are still in operation. In post-war Kosova, poverty was widespread but not very deep. In absolute terms, half of the population was poor; with about 12 percent of the population

living in extreme poverty in 2000.The unemployment rate in Kosova is one of the highest in the region, amounting to an estimated 50 percent (Table 3.1). Remittances from relatives in Western Europe present one of the main sources of income for a Kosova household. In 1999 households in Kosova received about EUR 2500 cash remittances per year. Beside the remittances (about 30 percent of GDP), large official transfers in the magnitude of around 70 percent of GDP fuelled the high economic growth in 2001 through consumption and investment (Holzner, 2003). The substantial international aid in recent years was necessary in order to meet the enormous post-war humanitarian and reconstruction needs, thus making Kosova an aid-dependent economy.

Table 3.1: Kosova: selected economic indicators

	Preliminary 2000	Estimate 2001	Projection 2002	2003
Population, the pers. [1]	1899	1939	1980	2022
Gross domestic product, EUR mn, nom.[2]	1414	21747	1990	2163
annual change in % (real) [2]	-	11.0	7.0	4.5
GDP/capita (EUR at exchange rate) [2]	745	901	1005	1070
GDP/capita (PPP USD) [3]	-	2712	-	-
Consumption, EUR mn [2]	2317	2572	2809	2834
Households, EUR mn	1589	1722	1934	2008
Government, EUR mn	729	851	875	827
Investment, EUR mn [2]	959	946	871	706
Public Investment Program (PIP), EUR mn	628	588	411	280
Other, EUR mn	331	357	460	426
Change in inventories, EUR mn [2]	40	48	40	40
Net exports of goods and non-factor services, EUR mn [2]	-1903	-1819	-1730	-1418
Employment total, the pers., average [4]	588.0	-	-	-
Unemployed, the, end of period [4]	612.0	-	-	-
Unemployment rate in %, end of period [4]	51.0	-	-	-
Consumer prices, % p.a. 5)	-	11.1	6.5	-
Kosova Integrated Budget, EUR mn [2]				
Revenues	128.8	301.7	414.9	468.2
Expenditures	849.6	866.7	947.4	773.2
Balance	-720.8	-565.0	-532.5	-305.0
Balance, % GDP	-51.0	-32.3	-26.8	-14.1
Balance (incl. Grants)	19.1	85.1	-111.5	0.0
Balance (incl. Grants), % GDP	1.4	4.9	-5.6	0.0
Current account, EUR mn [2]	83.0	159.0	-40.0	-10.0
% of GDP	5.9	9.1	-2.0	-0.5
Exports, merchandise, EUR mn [2]	148	231	246	243
annual change in %	-	56.1	6.5	-1.2
Imports, merchandise, EUR mn [2]	1116	1058	1246	1121
annual change in %	-	-5.2	17.8	-10.0
Trade balance, EUR mn [2]	-968	-827	-1000	-878

% of GDP	-68.5	-47.3	-50.3	-40.6
Average exchange rate EUR/USD [6)]	1.0827	1.1166	1.0638	-

After the war, when KFOR and UNMIK created a safer environment and after that essential and emergency assistance was provided to the population. In 1999, a civilian administration was set up with the technical assistance of the international community. Later, was created a Central Fiscal Authority, responsible for budget formulation, implementation and, taxation. The Banking and Payments Authority of Kosova were established to provide a payments system, to license and supervise banks, to develop an inter-bank clearing and settlement system and to supervise insurance companies. Unemployment was unlikely to decrease or at a low level. In order to achieve long-term development and improve the domestic investment climate Kosova must establish an appropriate legal framework and to ensure proper enforcement of the law; focus on Government borrowing and access to foreign credit. Although the fall in international aid flows has depressed imports, the trade deficit was still projected (by the IMF) to reach exceptionally high levels of about 50 percent of GDP in 2002, 40 percent in 2003 and 30 percent in 2004. The current account was supposed to be financed by growing remittances in later years, as immigration was assumed to increase (Holzner, 2003).

As the emergency phase has passed, and the situation in Kosova became to some extent stabilising, the donor's transfers started to decline in 2002, and most of the International Humanitarian organizations began to leave. As a result of that, it was evident the loss of consumption revenues from the reductions of Non-Governmental Organizations and UNMIK staff, KFOR soldiers and also numerous local staff losing their jobs as local staff working for those International organisations. However, in that period the first signs of economic recovery have emerged. The private services sector thrived, and the 2001 harvest was significantly higher than in the previous year. Besides those positive changes, the industrial production lagged on the recovering, with the exception of some processing of soft beverages, agricultural goods and machine parts.

The emerged necessity driven private sector has been dominated by small-scale, low capital-intensive ventures in trade and construction, without any real local manufacturing. Moreover, the fact that economic growth has been transfer-driven, especially by transfers from the international donor community and the remittances from Kosovar Diaspora, means that the excepted withdrawal of those sources and the reduction of external funding automatically indicate the lack

of capacity of the Kosovar government to contract and ultimately led to a two-year period of economic stagnation. According to the Ministry of Economy and Finance (MEF) indicative of the situation was the fact that, the average Kosovar household has received more cash income from relatives abroad than they did with working in Kosova. Furthermore, as the Kosovar budget was heavily dependent on taxing imports at the border, a potential decrease in imports, due to the diminishing development of the post-war reconstruction sector, automatically have led to the reduction of those income sources.

Kosova experienced moderate growth after that reconstruction period has ended. According to ECIKS (2013) the emerged growth during the post-reconstruction period (2005-current) was not result of technological change, innovations, and private sector development.

Economic growth presents the most commonly used economic indicator as it gives information how much more the economy is producing now compare to how it produced before. When an economy produces more, businesses are more profitable, and as a result of that stock prices rise. As a result of economic growth companies will have more capital to invest in their businesses and will employ more people. As employment rate increase, the incomes increases, and consumers will have more money to buy products and services. Therefore, all economies are striving for positive economic growth.

During 2011, the Economy of Kosova continued to be one of with the highest growth rate in the region. During the first part of the year, the main sources of financing the economic activity have marked a better performance, thus contributing positively to the overall performance of the country's economy. In this context, the improvement of performance of the global economy supported the exports growth, and a positive growth rate was also recorded in the inflow of remittances.

Main macroeconomic indicators suggest that the economic activity in Kosova in 2013 marked an increase as, the Gross Domestic Product (GDP) in Kosova was valued 6.96 billion US dollars.

The GDP value of Kosova represented 0.01 percent of the world economy. Figure 3.2 shows the trends of GDP from 2000 until 2013. GDP in Kosova averaged 4.55 USD Billion, reaching an all-time high of 6.96 USD Billion in 2013 and a record low of 1.85 USD Billion in 2000 (Trading Economics & World Bank Group, 2015).

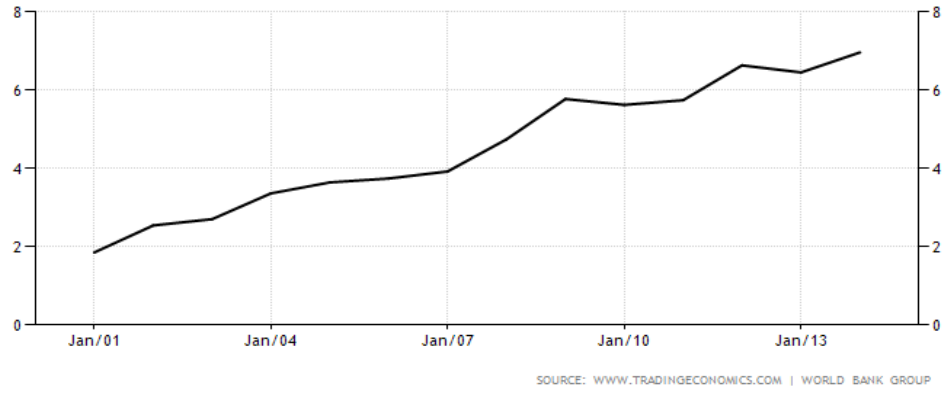


Figure 3.2: Kosova GDP (2001-2013)

The Gross Domestic Product (GDP) in Kosova increased 3.40 percent in 2013 from the previous year. GDP Annual Growth Rate in Kosova averaged 4.49 percent from 2006 until 2013, reaching an all-time high of 8.30 percent in 2007 and a record low of 2.50 Percent in 2012 (Trading Economics & World Bank Group, 2015).

GDP Constant Prices in Kosova increased to 5326.60 EUR Million in 2013 from 5058.70 EUR Million in 2012. GDP Constant Prices in Kosova averaged 4005 EUR Million from 2004 until 2013, reaching an all-time high of 5326.60 EUR Million in 2013 and a record low of 2911.80 EUR Million in 2004 (Trading Economics & Kosova Agency of Statistics, 2015).

The Gross Domestic Product per capita in Kosova was last recorded at 8461.32 US dollars in 2013. The GDP per Capita, in Kosova, when adjusted by Purchasing Power Parity is estimated to 48 percent of the world's average. From 2000 until 2013 GDP Per Capita PPP in Kosova averaged 6828.02 USD, reaching an all-time high of 8461.32 USD in 2013 and a record low of 4426.71 USD in 2000 (Trading Economics & World Bank Group, 2015).

Gross Fixed Capital Formation in Kosova increased to 1322.60 EUR Million in 2013 from 1316.80 EUR Million in 2012. Gross Fixed Capital Formation in Kosova averaged 1017.68 EUR Million from 2004 until 2013, reaching an all-time high of 1475.90 EUR Million in 2011 and a record low of 583.60 EUR Million in 2004 (Trading Economics & Kosova Agency of Statistics, 2015).

During this period, it has been recorded a continuous increase of public expenditures and especially the capital expenditures. The country economy is highly dependent on the export of goods from abroad, therefore; Kosova continues to be distinguished by a high trade deficit (Kosova Agency of Statistics, 2011). According to CBK (2011) the continuous growth of imports has a significant weight in Kosova's trade as they caused an increase in the current account deficit, even though exports grew during 2011.

In 2013, Gross Fixed Capital Formation in Kosova expanded to 1322.60 EUR Million from 1316.80 EUR Million in 2012. Gross Fixed Capital Formation in Kosova averaged 1017.68 EUR Million from 2004 until 2013, reaching an all-time high of 1475.90 EUR Million in 2011 and a record low of 583.60 EUR Million in 2004 (Trading Economics &Kosova Agency of Statistics, 2015).

In Kosova, international capital flows are measured using the Capital and Financial Account Balance of the Balance of Payments. In 2012, Capital Flows in Kosova decreased to 140 EUR Million from 419.60 EUR Million in 2011. Capital Flows in Kosova averaged 211.22 EUR Million from 2004 until 2012, reaching an all-time high of 419.60 EUR Million in 2011 and a record low of -14.90 EUR Million in 2006 (Trading Economics & Cental Bank of Kosova, 2015).

Current Account presents the sum of the balance of trade (exports subtract imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid). In the third quarter of 2014, Kosova recorded a Current Account deficit of 91.80 EUR Million, while in 2013, the current account deficit narrowed to 6.4 percent of GDP, 1.1 percent points lower than in 2012. According to (CBK, 2014) the decline in the current account deficit was mainly attributed to the reduction of the trade deficit that derived from an increase in exports and a decline in imports in 2013. According to figure 3.3 from 2004 until 2014 Current Account in Kosova averaged -139.87 EUR Million, reaching an all-time high of -13.40 EUR Million in the first quarter (Q1) of 2013 and a record low of -460.90 EUR Million in the fourth quarter (Q4) of 2008 (Trading Economics & Central Bank of Kosova, 2014). The current account deficit decreased since worker remittances increased by 6.4 percent together with higher current transfers to the non-government sector. Net foreign direct investment contributed to the financing

of the current account deficit, which reached 4.5 percent of GDP, up from 4.2 percent of GDP in 2012.

In 2013 was marked the trade deficit brought down to 31.6 percent of GDP (2.5 percentage points lower than in 2012) as a result of contracting imports due to low domestic demand, lower energy prices and to a moderate extent by rising goods exports. Issue that the decreasing of the trade deficit was only temporary rather than of structural nature was strengthened in 2014 as goods exports decreased 0.4 percent and imports inched up 1.2 percent thus increasing the trade deficit by1.4 percent in the first seven months of the year (Kosova progress report, 2014).

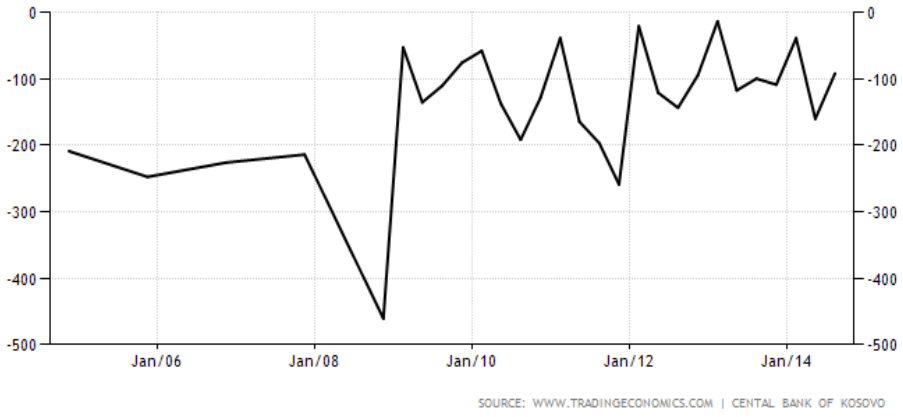


Figure 3.3: Kosova Current Account (2004-2014)

Kosova mainly imports mineral products, machinery, appliances and electric materials, prepared food, beverages and tobacco, metals and chemical products. Kosova's main import partners are Macedonia, Germany, Serbia, Italy, China and Turkey. Imports in Kosova increased to 224869 thousand EUR in December of 2014 from 211232 thousand EUR in November of 2014. Figure 3.4 depicts imports in Kosova that averaged 153367.43 thousand EUR from 2003 until 2014, reaching an all-time high of 257619 thousand EUR in September of 2012 and a record low of 48559 thousand EUR in January of 2003 (Trading Economics & Kosova Agency of Statistics, 2015).

Figure 3.4: Kosova imports (2003-2014)

Kosova mainly exports metals (47 percent of total exports) and mineral products (30 percent of total exports). Other exports include prepared food, machinery, plastics and rubber, appliances and electric materials and textiles. Kosova's main export partners are Italy, Albania, Macedonia, Switzerland, Montenegro and Germany. Exports in Kosova decreased to 26433 thousand EUR in December of 2014 from 30809 thousand EUR in November of 2014. Exports in Kosova averaged 15956.71 thousand EUR from 2003 until 2014, reaching an all-time high of 34045 thousand EUR in July of 2014 and a record low of 1562 thousand EUR in February of 2003 (figure 3.5). Exports in Kosova are reported by the Kosova Agency of Statistics (Trading Economics &Kosova Agency of Statistics, 2015).

Figure 3.5: Export in Kosova (2003-2014)

Kosova's economy has faced inflationary pressures, which were more pronounced, compared to the previous year. Inflation in Kosova was quite expansive in the recent years, reflecting a large extent the developments of global prices. The high correlation between prices in Kosova and the external sector primarily results from the high dependence of Kosova's economy on imported goods (CBK, 2011).

Inflation presents the rate at which the general level of prices of goods and services is rising, and, subsequently, purchasing power is falling. In Kosova, the inflation rate measures a broad rise or fall in prices that consumers pay for a standard basket of goods. The domestic inflation is relatively stable following mainly import prices for oil, commodities, and food (ECIKS, 2013). The inflation rate in Kosova was recorded at -0.60 percent in January of 2015. According to figure 3.6 Inflation Rate in Kosova averaged 2.52 percent from 2003 until 2015, reaching an all-time high of 14.20 percent in May of 2008 and a record low of -4.40 percent in May of 2009 (Trading Economics & Kosova Agency of Statistics, 2015).

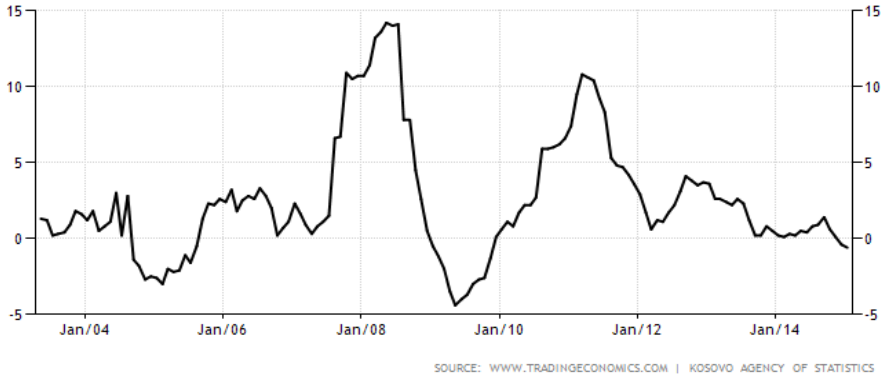


Figure 3.6: Inflation rate in Kosova (2003-2015)

The consumer price index (CPI) presents the most widely used measure of consumer price inflation. The CPI measures the average change over time in the prices paid by urban consumers for goods and services. CPI is calculated each month by the Bureau of Labor Statistics using a bundle that is meant to represent the "market basket" that the typical urban consumer purchased monthly. In Kosova, the Consumer Price Index or CPI measures change in the prices paid by consumers for a basket of goods and services and is reported by the Kosova Agency of Statistics.

Consumer Price Index CPI in Kosova increased to 127.30 Index Points in January of 2015 from 127.10 Index Points in December of 2014. As seen in figure 3.7 Consumer Price Index (CPI) in Kosova averaged 110.75 Index Points from 2002 until 2015, reaching an all-time high of 128.30 Index Points in March of 2014 and a record low of 96.40 Index Points in August of 2003 (Trading Economics & Kosova Agency of Statistics, 2015).

Figure 3.7: Kosovo Consumer Price Index (CPI) 2002-2015

The macroeconomic stability in Kosova constantly is being challenged by the high unemployment rate; that presents the main problem of the country's economy. Even the current economic growth rates were not able to decrease and alleviate the unemployment in Kosova.

In Kosova, the unemployment rate measures the number of people actively looking for a job as a percentage of the labour force. According to (2015) in 2013, the Unemployment Rate in Kosova decreased to 30 percent from 30.90 percent in 2012. Unemployment Rate in Kosova shown in figure 3.8 averaged 44.10 percent from 2001 until 2013, reaching an all-time high of 57 percent in 2001 and a record low of 30 Percent in 2013 (Trading Economics & Kosova Agency of Statistics, 2015).

Figure 3.8: Kosova unemployment rate (2001-2014)

Unemployment is not a problem that only exacerbates the Kosovar economy; it is a significant problem that numerous countries all around the world are dealing with. According to World Bank South East Europe, Regular Economic Report No.5 the average unemployment rate for the SEE6 was 23.6 percent as of mid-2013. As seen in figure 3.9, only in Macedonia unemployment rate declined substantially, although from very high levels. The unemployment rate of Albania remained the lowest (12.8 percent) among the SEE6 (Albania, Bosnia and Hercegovina, Kosova, Macedonia, Montenegro and Serbia) while Kosova's, at 30.9 percent, remained the highest. The country is plagued by a high rate of unemployment, it's assumed that the informal economy employs a considerable number of the registered unemployed (Trading Economics & Kosova Agency of Statistics, 2015).

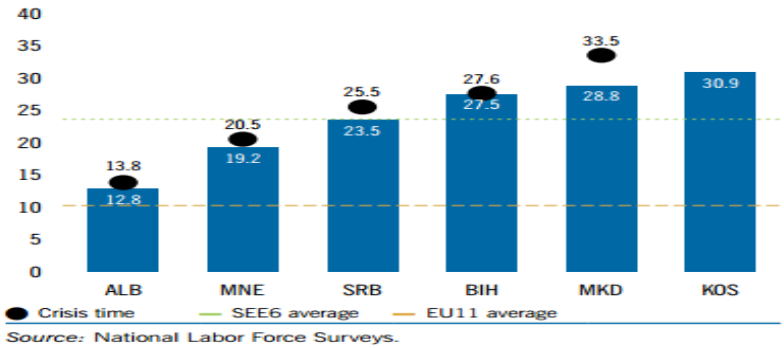
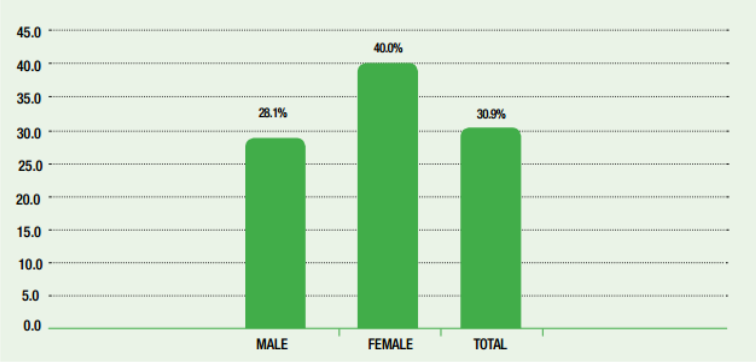


Figure 3.9: Unemployment rates 2013

According to Labour Force Survey (LSF) developed in January 2012 by the Kosova Agency of Statistics, with support by UKAid DFID, whereas 4,800 households were interviewed from 600 enumeration areas throughout the territory of Kosova the unemployment rate is higher among young people and the unemployment rate is higher among women than men (see figure 3.10).In addition, this survey found that a significant share of the youth population is unemployed with 55.3 percent, and the share of the female population is higher with 63.8 percent than that of male population 52.0 percent.



(Source: Labour force survey 2012)

Figure 3.10: Unemployment and unemployment rate by gender

In Kosova, an unemployed person is an individual 16 years old or older who are available for work, but is without a job and actively is seeking to work. According to KAS, (2015) the number of unemployed persons in Kosova increased to 273,934 in December of 2014 from 273,443 in November of 2014. As shown in figure 3.11 the unemployed persons in Kosova averaged 302,920.81 from 2001 until 2014, reaching an all-time high of 339,591 in February of 2010 and a record low of 237,958 in December of 2001 (Trading Economics & Kosova Agency of Statistics, 2015).

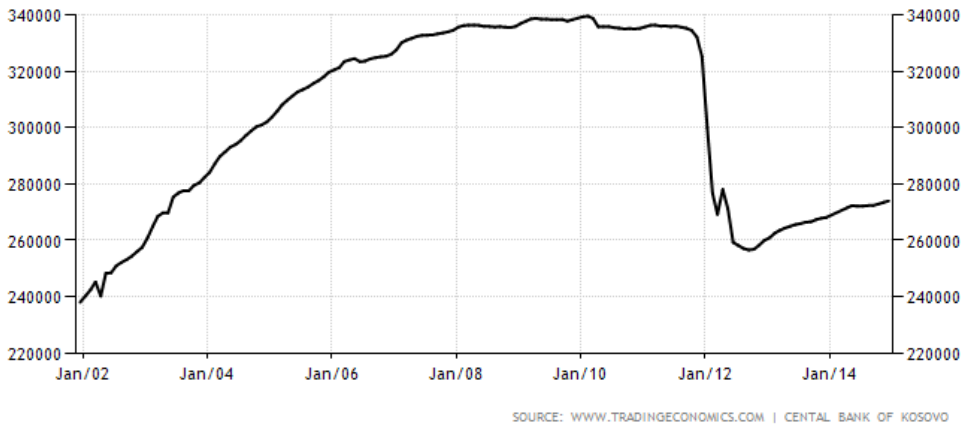


Figure 3.11: Kosova unemployed persons (2001-2014)

Wages in Kosova are benchmarked using average monthly earnings. According to KAS, (2015) wages in Kosova increased to 429 EUR in December of 2014 from 427 EUR in November of 2014. Wages in Kosova, as shown in figure 3.12 averaged 278.48 EUR from 2005 until 2014, reaching an all-time high of 443 EUR in April of 2014 and a record low of 168 EUR in November of 2006 (Trading Economics & Kosova Agency of Statistics, 2015).

Figure 3.12: Kosova average monthly wages (2005-2014).

According to the latest Labour Force Survey (LSF, 2012), Kosova continues to face an unemployment high rate of around 30 percent, very low labour market participation and

employment rates, in particular among women. Nearly 70 percent of the unemployed are long-term unemployed that raise concerns for stress related illness since, the longer people remained unemployed, the more deskilled and depressed they tend to become. The unemployment rate among young people aged 15-24 was very high about 56 percent. The number of unemployed persons registered at the Ministry of Labour and Social Welfare remained unchanged at around 270 000 in the first half of 2014, a number significantly higher than that measured by the LFS. Even the number of unemployed university graduates remains high, representing 2.4 percent of the total number of registered job seekers, raising a context on substantial skills mismatch. The Public Employment Service helped to find 4729 jobs for job seekers, among them 1 590 were women.

According to the Kosova Progress Report (2014), the Public Employment Service continued its reforms throughout 2013, whereas the employment management information system is now complete and operational in all employment offices. The system is also integrated into the Kosova Tax Administration. This upgrade allows for improved monitoring of people's labour market status, administration of social assistance payments and positioning of those in needs in the relevant schemes (Kosova Progress Report, 2014).

Kosova's economic growth is mainly driven by the private sector. The private sector activity continues to be supported by the banking system loans, and during this period continued to increase with a faster trend, also giving a good sign for the stability of the country's economy. The public sector presents a significant participant in the economy of Kosova.

The privatization of the Socially Owned Enterprises had modest effects, with only a very limited number of success stories (ECIKS, 2013).

3.2. Business environment

The business environment has an important role in economic development, employment and poverty alleviation. A favorable business environment can enhance the development of small and medium enterprises and can facilitate their sustainable growth. Meanwhile, turbulent and unfavorable business environments followed by numerous obstacles will disfavor and harm small and medium enterprise growth. Business environment mainly depends on and derives from political, social, economic, legal and institutional circumstances and conditions and it relays

upon whether these circumstances are favourable or not, then business environment will support or exacerbate the sustainable growth of small and medium enterprises. Many authors argue the business environment presents a multidimensional concept reifying the prevailing institutional framework, the regulatory mechanism, macroeconomic stability, price stability, technological opportunities, and industry growth, including the rising demand for new products (Tsai et al., 1991; Lumpkin and Dess, 1996; Hashi, 2001; Smallbone and Welter, 2001a, b; McMillan and Woodruff, 2002; Pissarides et al., 2003; Clement et al., 2004; Hashi & Krasniqi, 2011).

Institutional barriers to doing business, including perceived corruption in government, are critical determinants of private sector development and prospects for sustainable growth. A business friendly environment is of particular relevance to Kosova given its heavy reliance on remittances and foreign aid.

The government and donors have done a great deal to improve the legal and regulatory framework, a key to expanded private sector-led growth. A structure is in place for streamlined business registration, including one-stop shop facilities. Tax rates are low, with personal income tax rates at 0-20 percent, VAT at 15 percent, and corporate income tax at 20 percent (ECIKS, 2013). Implementation and enforcement of laws and regulations, however, are problems due to low capacity, inadequate resources, and corruption in Kosovar institutions.

The European Commission Kosova Progress Report (2010) identified three main barriers encountered by businesses in Kosova. The first relates to the unreliable electricity and water supplies that are especially serious for manufacturing SMEs. Limited access to finance is also identified as one of the main barriers to faster SME development. The third barrier is the insufficient rule of law, which affects businesses and all the citizens of Kosova.

Strengthening the business environment in Kosova is a mechanism that would support an increase of foreign direct investments and would accelerate the institutionalization of competitive conditions for both domestic business growth and external businesses' investments in Kosova (Loxha & Rogova, 2012). Development of clear and effective legislation, provision of easy access to finance, development of entrepreneurial culture, greater support for businesses (Hashani & Badivuku, 2014); fighting corruption and crime are some of the main indicators of a favourable business environment.

The extant findings explain that the dynamic growth of the new private sector, particularly of Small and Medium Enterprises has been one of the key driving forces behind the economic recovery in transition economies.

Furthermore, the existent research on the experience of other Transition Economies asserts that the promotion of entrepreneurship and small firms remains the single solution to promote economic development. The education system in Kosova is slowly adapting to the free market, so the skills of unemployed are outdated to say at least.

Some improvements were noted in terms of business registration and licensing procedures in Kosova. In 2012, the ranking in the World Bank indicator of doing business had improved from 128 to 98. Establishment of one-stop shops in municipalities contributed to faster start-up procedures. The business registration can be done at no cost. Work permits are no longer needed, making start-ups easier.

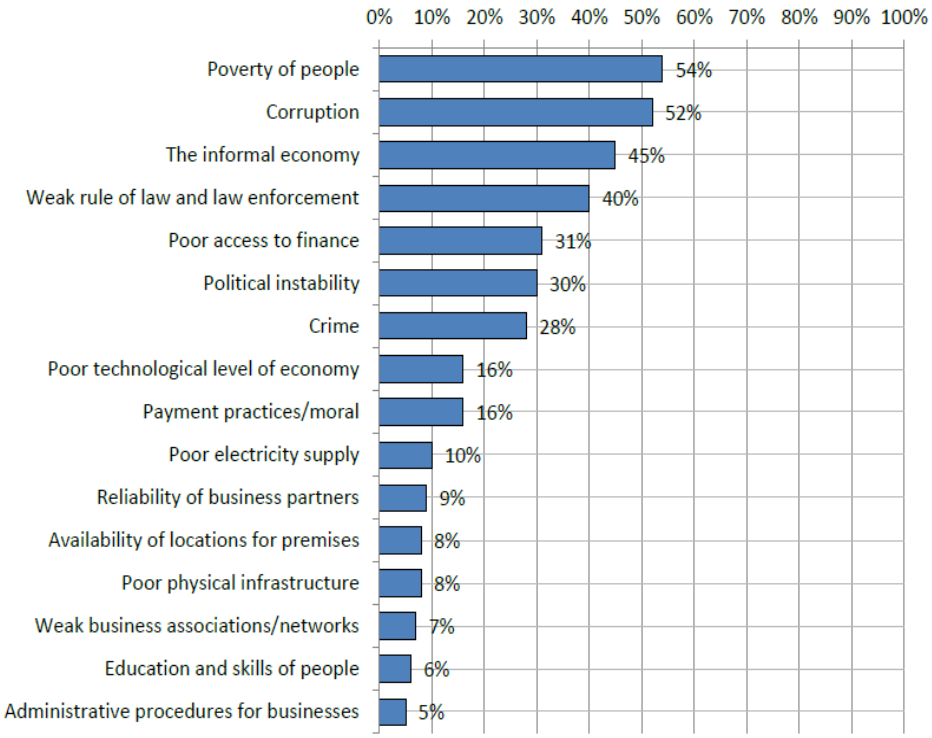
The extant findings explain that the dynamic growth of the new private sector, particularly of Small and Medium Enterprises has been one of the key driving forces behind the economic recovery in transition economies. Furthermore, the existent research on the experience of other Transition Economies asserts that the promotion of entrepreneurship and small firms remains the single solution to promote economic development. Unlike the majority of the Transition Economies, Kosova has not been very suitable for SMEs, and it continues to face an unfriendly environment. Kosova continues to face issues in creating new institutions and a favourable business environment coming primarily as of the war consequences, difficulties of transition process along with privatization, quality of institutions, etc.

SME strategies and policies are not only about dedicated support programmes but considering that those firms will develop their activities within a particular economy; they must contribute toward creating an environment where businesses can flourish and are not impeded by their economic activities. According to KOSME (2014) it is therefore of interest to understand what SMEs regarded as the major constraints to their business operations.

KOSME (2014) ranks the business constraints according to how often they were assessed as significant by the SMEs in the survey Chart in figure 3.12 as follows:

On the top of the list are Poverty of people (low income) and corruption that were mentioned by more than 50 percent of enterprises, followed by the informal economy that constitutes another major concern for SMEs and in particular for those in the construction sector (KOSME SME Survey, 2014).

Poor availability of finance possibilities is in fifth position. Nevertheless, this was mainly mentioned by solo-entrepreneurs and to a lesser extent by small and medium-sized companies. In addition, around one-quarter of the SMEs says that their financial resources were weak. Almost at the end of the list stands 'education and skills of people'. However, this is partly because the share of businesses with no employees is high in the economy and the survey. SMEs employing personnel are somewhat more critical of this aspect. Finally, administrative procedures for businesses such as registrations, etc. obviously do not constitute a barrier for SMEs in Kosova (KOSME SME Survey, 2014).



(Source: KOSME SME Survey 2014)

Figure 3.13: Major problems/constrains for doing business (% SMEs)

World Bank Group Doing Business Report (2011) in the second sub national report in South East Europe deals with comparing the ease of doing business in 22 cities from: Albania, Bosnia and

Herzegovina, Kosova, FYR Macedonia, Serbia, Moldova, and Montenegro in the series 2008-2011. In this report, national and local regulations are covered. Those regulations mainly influence these stages of domestic SMEs: starting a business, dealing with construction permits, registering property and enforcing contracts (Doing Business in South East Europe, 2011).

According to this report, in all cities it was easier to do business in 2011, as compared to 2008. It is so, since national and local governments carried out 48 reforms aimed at making it easier to start a business, strengthening property rights, rendering the process of dealing with construction permits more efficient, and improving the efficiency of commercial dispute resolution (Doing Business in South East Europe Report, 2011). As a result of these endeavors, the average cost to start a business across the region decreased from 23 percent to 13 percent of the average income per capita. There was a significant decrease in the average time to dealing with construction permits and to register property whereas it decreased by more than one month. Skopje (FYR Macedonia) and Banja Luka (Bosnia and Herzegovina) had implemented business reforms in all 4 regulatory areas; as result of these efforts these two cities took top honours with the most improved business regulation for period 2008-2011.

Based on Doing Business in South East Europe comparing data across the region report, (2011), Skopje (FYR Macedonia) was the city where it was easiest to start a business, Niksic (Montenegro) resulted as city where it was the easiest to deal with construction permits, the transfer of a property title resulted easier to be done in Balti and Chisinau (Moldova), and it was found that in Zrenjanin (Serbia) is easier to resolve a commercial dispute through the courts compare to other 22 cities in data of report. In addition, Doing Business in South East Europe Report, (2011) found as the most difficult to start a business in Pristina (Kosova), register property in Mostar (Bosnia and Herzegovina), and enforce a contract in Prizren (Kosova). Regarding construction permits is most burdensome in Belgrade (Serbia), while no permit has been issued since 2009in Tirana (Albania).

There are differences and wide variation in business regulation across the region, and there is enough space for improvement as well. For example, according to this report (see Table 3.2) a construction company would spend 110 percent of income per capita (the equivalent of US$ 1,852) in Balti (Moldova) in order to comply with all requirements to construct a warehouse. In Podgorica (Montenegro) the situation is more obstructive as it is required 2,132 percent of

income per capita. While, in Skopje (FYR Macedonia) an entrepreneur can start a business in only three days. In Prishtina, (Kosova) and Sarajevo (Bosnia and Herzegovina) business start-up time is almost two months. The property transfer taxes vary significantly among the 22 cities measured - from a fixed fee of EUR 150 (US$ 220) in Pristina (Kosova) to 5percent of the underlying property value in Mostar and Sarajevo (Bosnia and Herzegovina). Entrepreneurs in Zrenjanin (Serbia) to resolve a commercial dispute have to wait only ten months. Whereas, it will take more than four years to enforce a contract in court in Mostar (Bosnia and Herzegovina).

In general it can be concluded that Doing Business in South East Europe, (2011) surveys of 22 cities in seven economies have marked the following results: Cities in Macedonia, FYR, ranked highly for starting a business, dealing with construction permits was generally difficult in Serbia while enforcing contracts and starting a business was challenging in Kosova. Cities in Bosnia and Herzegovina ranked poorly for registering property.

Table 3.2: Best practices in South East Europe, compared internationally

	Best-performing city in South East Europe (SEE)	**Performance**	**Global rank** (183 economies) How SEE cities would compare globally
Days to start business	Skopje (FYR Macedonia)	3 days	3
Number of procedures to start a business	Skopje (FYR Macedonia)	3 procedures	8
Days to register property	Balti and Chisinau (Moldova)	5 days	10
Days to enforce a contact	Tetovo (FYR Macedonia)	290 days	18
Cost to start a business	Niksic, Pljevlja (Montenegro)	1.5% of income per capital	18
Cost to register property	Prizren (Kosova)	0.59% of the property	19
Days to deal with construction permits	Bitola (FYR Macedonia)	96 days	27
Cost of enforce a contact	Chisinau (Moldova)	20.99% of the claim value	48
Cost to enforce a contact	Balti and Chisinau (Moldova) Bitola, Skopje and Tetovo (FYR Macedonia)	5procedures	50
Number of procedures to deal with construction permits	Skopje (FYR Macedonia) Pljevla (Montenegro)	15 procedures	67
Cost to deal with construction permits	Balti (Moldova)	110.2% of income per capital	74
Best practices for the 4 indicators measured			6
Hypothetical city in South East Europe			

(Source: Doing Business database)

In Doing Business report, (2014) economies are ranked on their ease of doing business, from 1–189. A high ease of doing business ranking indicates the regulatory environment is more favorable to the starting and operation of a local business. The rankings are determined by sorting the aggregate distance to frontier scores on ten topics. The rankings for all economies are benchmarked to June 2014. Table 3.3 shows that Kosova is ranked 75 among 189 countries on the ease of doing business rank (Doing Business report, 2014).

Table 3.3: Easy of doing business rank in South East Europe

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Macedonia, FYR	30	3	89	88	74	36	21	7	85	87	35
Montenegro	36	56	138	63	87	4	43	98	52	136	33
Albania	68	41	157	152	118	36	7	131	95	102	44
Kosova	75	42	135	112	34	23	62	63	118	138	164
Serbia	91	66	186	84	72	52	32	165	96	96	48
Bosnia and Herzegovina	107	147	182	163	88	36	83	151	104	95	34

The biggest progress in Kosova was made by introducing a private bailiff system (Figure 3.14). It was a necessity driven initiative since only less than 4 percent of civil enforcement cases on court dockets were completed in 2009. As described in the Doing Business report (2014), it started in 2010 when the local judiciary was short of resources and faced a massive arrearage.

The legal framework was analyzed aiming to identify the main reasons for the delay. Assisted by U.S. Agency for International Development, the Kosova Judicial Council found the following: the inadequacy of the regulatory framework for execution officers, the lack of penalties for filing unfounded appeals and, the impossibility of seizing the most kinds of assets contributed significantly to growing arrearage. It was tackled a work plan to provide more suitable ways to

treat business contests. Three years after, in 2013 Kosova's initiative for privatizing its judicial enforcement process has finished. The private bailiff services were created, convenient execution procedures and penalties for noncompliant debtors (Doing Business report, 2014). Hashani & Badivuku (2014) by analysing Business environment in Kosova concluded that creating a favourable business environment doesn't merely mean improvement of business growth potential, instead a favourable business environment should transform a country into a desirable place to invest and work.

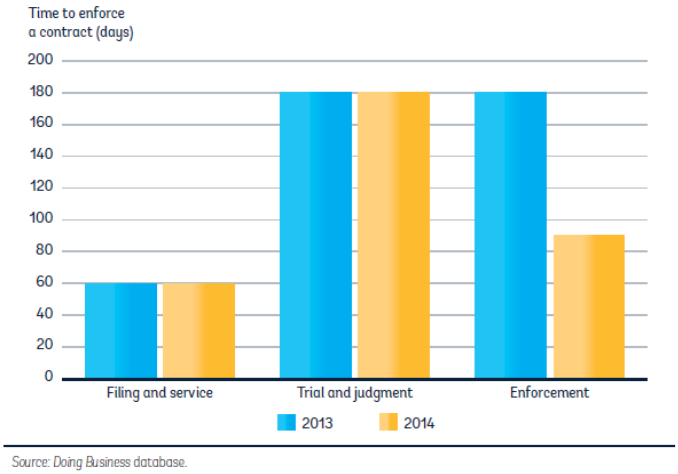


Figure 3.14: Kosova cut the time for enforcing judgements in half by introducing a private bailiff service

Progress was also achieved by establishing a new phase inspection scheme and substantially reducing the building permit fee; Kosova made dealing with construction permits easier. While by increasing the fee for the registration of property transactions Kosova made transferring property more difficult (Doing Business report, 2014).

On July 2002 a major lightning strike hit Kosova B power plant, causing a devastating fire. Frequently power cuts varied up to 16 hours a day that made Kosovars suffers as some 60 percent of Kosova population use electric power for heating and cooking. As a result, the demand for generators has been increased, and thousands of generators were sold in Kosova.

According to Kosova progress report, (2014) Grey economy and mafia structures are widespread. In the light of further reductions in international aid, the tax base has to be broadened. At present, the consolidated budget covers mainly current spending. Expected revenues amounted to some 20 percent of GDP in 2002. Overall budget expenditures, including

the aid-financed public investment programme, total close to 50 percent of GDP. Thus far, most of the revenues have been collected at the border, including customs duties, excise taxes on fuel, alcohol and tobacco and a large share of VAT. Although the introduction of wage, profit and income taxes will be critical for the broadening of the tax base, there is still much to be done to improve the border tax collection.

3.3. The role of SMEs in the economy of Kosova

Based on existing evidence and literature entrepreneurship and private enterprises in Kosova can be found in ancient times (Krasniqi, et al., 2012; Riinvest, 1998). The private sector consisted mainly of family businesses, and most of it was concentrated in agriculture, cattle-raising and handicrafts. These enterprises have operated with very primitive tools and technology and under poor conditions. The production activities were dominated mostly by producers of essential consumption goods, traditional artisans and small manufacturers, while the service sector consisted of traditional services such as carpenters, leather craftsman, and blacksmiths (Riinvest, 1998). The development of entrepreneurship in Kosova can be divided into three main phases. The first phase captures the period from late 80s until 1998 when the war began. The second phase covers the period from the end of the war 1999 till the UN institutions and local government bodies were established. The last stage – the third phase represents the period after the declaration of independence in 2008 (Hoxha, 2009).

According to (Mustafa et al., 2006) the dynamics of the spread of SMEs in Kosova can be viewed in 3 phases: The first phase from 1991 until 1993; Second phase from 1994 to 2000 and Third phase from 2001.

The post-war economy was mainly focused on the construction sector that experienced rapid growth because of the need to rebuild the destroyed houses. Nevertheless, trading was found appealing as the response to the numerous demands of Kosova inhabitants. Many entrepreneurs started their businesses as micro enterprises mainly operating in construction and trade sector with a very low entry cost.

Financial resources presented a significant barrier that the post-war entrepreneurs faced. Most of the firms were created with support from family members or remittances from abroad since the banking system was not developed (Hoxha, 2013).

Entrepreneurs in Kosova faced numerous barriers to doing business other than financial resources. Legislation and formal institutions were non-existence that resulted with significant illegal activities followed by the unfair competition, corruption, fiscal evasion (Riinvest, 2003; Hoxha, 2009). Despite all this barriers and obstacles to doing business most of the post-war start-ups and micro-enterprises survived, and some of them nowadays are large firms.

After that the emergency phase passed, Kosova started to establish government institutions, Ministries and agencies. Statistical Business Register (SBR) is part of the Kosova Agency of Statistics (KAS) sector for business statistics including all businesses that exercise economic activity in the territory of Kosova and as such serves for the preparation, coordination and enhance of the results at the country level for all surveys conducted with businesses. SRB also serves as a source of data for statistics and analysis of business demography. SBR is built and continuously updated based on both administrative data sources (ABRK and Tax Administration) and regular statistical surveys carried by the KAS.

According to KAS (2010) and as seen in Table 3.4 most of the registered firms from 2005 until 2010 were wholesale & retail trade; repair of vehicles and household equipment, reaching maximum in 2007 with 22.185 and minimum in 2006 with 18.985 businesses. A numerous companies were in Industry, Hotel and Restaurants, and Business services that have shown a significant increase in 2010 and especially in 2009 with 4, 1957 businesses.

Table 3.4: Number of business according to economic activates according TAK

Sectors	Descriptions	2005	2006	2007	2008	2009	2010
C	Mining	144	152	154	207	200	205
D	Industry	3.914	3.698	3.794	4,313	4,353	4,356
E	Productions, distribution of electricity, gas and water	13	17	18	50	56	68
F	Construction	1.894	1.648	1.658	2,297	2,390	2,474
G	Wholesale and retail trade, repair of vehicles and household equipment	20.281	18.985	22.185	20,795	21,105	19,755
H	Hotel and restaurants	3.226	2.990	3.325	3,498	3,559	3,364
I	Transport, post and telecommunication	3.676	3.110	3.185	3,610	3,655	3,377
K	Businesses services	1.297	1.330	1.430	3,846	4,197	4,112
O	Other services	2.180	2.095	2.090	2,501	2,564	3,345
	TOTAL	**36.625**	**34.025**	**37.839**	**41.117**	**42.079**	**41.056**

(Source: KAS, Results of Structural Business Survey)

Small and medium-sized enterprises (SMEs) are of high importance to Kosova's private sector economy and account for approximately 80 percent of employment in the market economy. Regardless of SMEs importance, the country's SME sector as well as the wider business environment shows some significant vulnerability that prevent this sector from developing its full potential in terms of employment, productivity, newness and value added.

According to the TAK register, there were around 46,032 enterprises in the private sector in 2013. These enterprises employed approximately 190,000 people. As seen in Table 3.5 firms with one person employed, so-called 'solo entrepreneurs' accounted for about 56.3 percent (or 25,936) of all businesses and contributed to employment with 13.7 percent (KOSME, 2014). Micro-enterprises with 2-9 persons employed constitute the most significant size category in terms of employment as they account for almost one-third of jobs in the private sector businesses with 60.422 (KOSME, 2014). The employment share of the small companies with 10-49 is 18.7 percent; the share of medium-sized ones with 50-249 employees is 16.4 percent and large ones

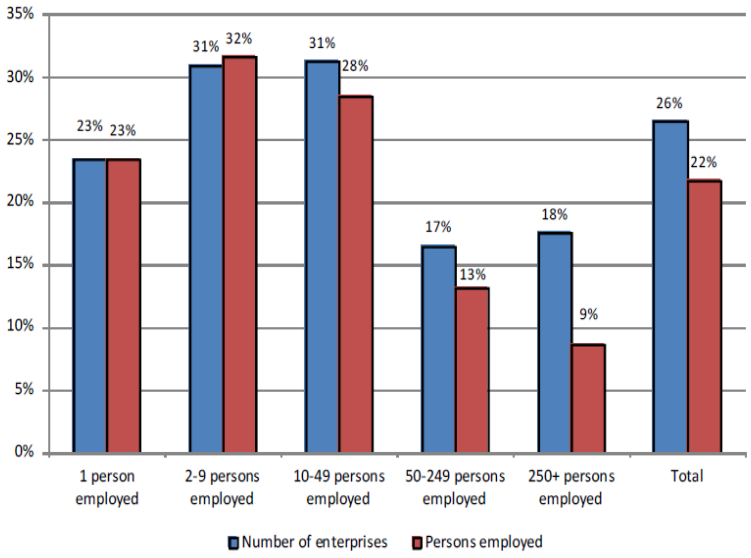
with 250 or more workers consist 19.3 percent of employment (KOSME, 2014). Micro Small and Medium-sized enterprises are consisting together around 80.7 percent of employment while the share of large firms is around 19.3 percent.

Table 3.5: Number of private sector enterprises and persons employed by size categories in 2013

	Enterprises		Persons	
	Number	**Share**	**Number**	**Share**
1 person employed	25.936	56.3%	25.938	13.7%
2-9 person employed	17.797	38.7%	60.422	31.9%
10-49 person employed	1.940	4.2%	35.546	18.7%
50-249 person employed	310	0.7%	31.094	16.4%
250+ person employed	47	0.1%	36.623	19.3%
Total	**46.032**	**100.0%**	**189.623**	**100.0%**

(Source: KOSME calculation based at ATK register)

According to TAK statistics, private sector enterprises developed very dynamically in the period 2010-2013. As shown in the chart below in figure 3.15, the total number of private sector enterprises increased 26 percent, and the number of persons employed grew by 22 percent (KOSME, 2014). The highest growth occurred in the micro (2-9 employed) whereas the number of persons employed by this segment increased 32 percent, followed by the small (10-49) enterprise with 28 percent increase. Regarding the number of the firms both categories micro (2-9 employed) and small (10-49) experienced increase with 31 percent in the number of firms in the period between 2010 and 2013. These business segments thus have gained in importance over the last few years. Micro firms with only one person employed during this period were expanded by 23 percent in both the number of the firms and persons employed. In the medium and large size categories growth was clearly below average (KOSME, 2014). This chart presents the high importance that SMEs have in Kosova economy based on the increasing number of enterprises and the number of the persons employed that contributes to the unemployment alleviation and job creation in Kosova.



(Source: KOSME calculation based at ATK register)

Figure 3.15: Development of private sector enterprises 2010-2013, by size categories, % change

According to Table 3.6 as in the period of years 2005 – 2010 and in 2013 we have similar ranking, whereas most of the private enterprises around 42 percent were in wholesale & retail trade; repair of vehicles and household equipment sector, followed by transport, storage and communication sector with around 12 percent. All the rest sectors had a share with less than 10 percent.

Table 3.6: Private enterprise percentage share by sector activities

Economic sector activities by Ministry of Trade and Industry	Percentage of Enterprises by Sector until December 2013
Agriculture, hunting and forestry	3.17%
Fishing	0.04%
Mining and quarrying	0.72%
Manufacture of food, beverages and tobacco products	9.49%
Electricity, gas and water supply	0.19%
Construction	7.30%
Wholesale and retail trade; repair of motor vehicles motorcycles and personal and household goods	42.08 %
Hotels and restaurants	9.66%
Transport, storage and communication	12.16%
Financial intermediation	0.49%
Real estate, renting and business activities	6.01%
Public administration and defense, compulsory social security	0.22%
Education	0.87%
Health and social care	1.64%
Other social and personal activities	5.95%
Private households with employed persons	0.01%
Total	**100.00**%

(Source: Ministry of Trade and Industry, Kosova)

More detailed sector analysis were provided by KOSME calculation based to TAK register (2014), bringing insights into the private business landscape of Kosova presenting the number of private sector enterprises and the number of persons employed by each sector. When comparing the figures reported by MTI with those by KOSME, we can notice minor discrepancies in the percentage of firms share by each sector. According to Table 3.7, retail and wholesale trade constitutes by far the dominant sector, accounting for almost 43 percent of enterprises and 33 percent of employment. Manufacturing comes second with more than 16 percent of persons employed and more than 10 percent 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 percent and more than 7 percent of companies. Finally, accommodation & food services

(hotels, restaurants and similar), the transport industry, and personal services each have a proportion of around 6 percent of persons employed in the private enterprise sector (KOSME, 2014).

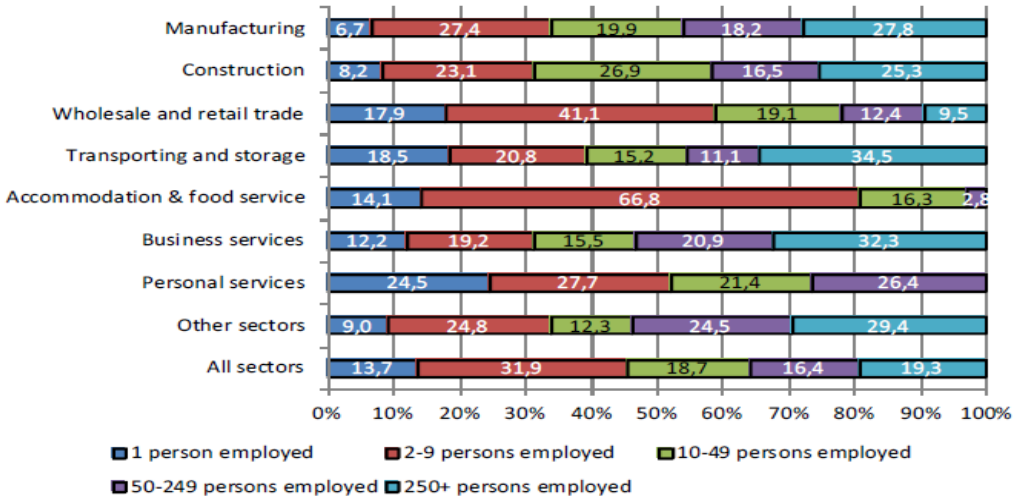
Table 3.7: Number of private sector enterprises and persons employed by sector in 2013

	Enterprises		**Persons**	
	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[4]	3.053	6.6%	17.805	9.4%
Total	**46.032**	**100.0%**	**189.623**	**100.0%**

[4] E.g. mining; agriculture; health and social services; educational services; water supply, sewerage and waste management. (Source: KOSME calculation based at TAK register)

Figures in Table 3.7 provide general information on the number of private sector enterprises and persons employed by sectors without any classification of the firm's size contribution by each sector in terms of employment. The chart in figure 3.16 shows for each of the sectors, how important the different size categories are in terms of the sector's employment. Most flaring is the high significance of micro enterprises with 2-9 persons employed in accommodation and food services, where businesses of that size stand for 66.8 percent of the sector's jobs, as well as in retailing and wholesale (41.1 percent of total sector employment). Based on this figures we can conclude so far that the 2-9 workers category presents the strongest employer within the private enterprise sector overall; as was pointed out above on the chart in figure 3.17. Large enterprises with more than 250 persons employed in transport and business services sectors have enough significant employment shares of more than 30 percent. In business services, this mainly relates to corporations in the financial industry (KOSME, 2014). Firms with only one person employed - 'solo entrepreneurs' are present in the very large number of both sectors business and transport services. A high presence of 'solo entrepreneurs' can also be found in the personal

service sector as well. In contrary, manufacturing and construction self-employed people play a relatively smaller role as they account for less than 10 percent of these sector's total employment share. Construction is presenting a comparatively stable segment of small enterprises (10-49 persons employed) in terms of employment.

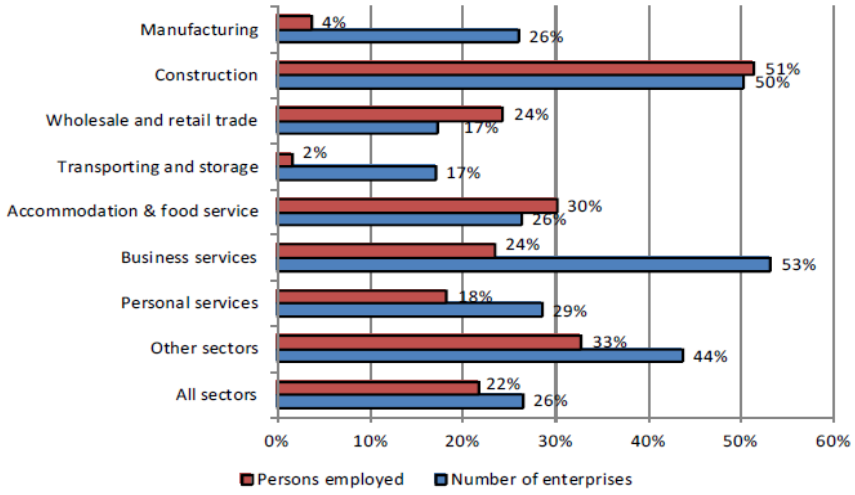


(Source: KOSME calculation based at ATK register)

Figure 3.16: Percentage share of the different size categories in each sector's total employment in 2013

Based upon above mentioned figures the private sector enterprises developed rapidly between 2010 and 2013 in overall. The deep concerned remains micro enterprises as well as large companies, in particular. Concerning the number of enterprises and employment, as seen in figure 3.16, none of the main sectors experienced a decline. The construction sector expanded most in both the number of businesses and persons employed increased by around 50 percent in the 3-year period (KOSME, 2014). In the business services sector, there was a similar growth in number of enterprises around 53 percent, but the number of jobs grew strikingly by only 24 percent. When analysed more deeply it can be explained due to the fact that the growth occurred mainly in industries dominated by solo-entrepreneurs and micro enterprises such as ICT services, professional services or real estate services, while it was evident a stagnation among the large financial corporations. Microenterprise segment (2-9 people) was mainly dominant in personal services that displayed an increase of business numbers and jobs (KOSME, 2014). The transport

sector experienced a substantial growth in the smaller size segments (2-9 and 10-49 persons employed), but in terms of employment this was largely counterbalanced by a significant decline of jobs in large companies, resulting in a net increase of only 2 percent. Similarly, good growth in micro and small companies came along with a loss of employment in a few large enterprises in manufacturing, indicating an overall of just 4 percent. A comparatively moderate increase of solo-entrepreneurs but a remarkable rise of jobs in the small medium and large size, categories was characterised by, the largest sector in Kosova, retail and wholesale trade (KOSME, 2014).



(Source: KOSME calculation based at ATK register)

Figure 3.17: Development of private sector enterprises, 2010–2013, by sector (% - change)

The TAK data was found useful by KOSME (2014) to investigate the number of start-ups and business closures or, more technically speaking, new entries into and exits from the register of businesses. Over the last few years, new entries were even increasing and reached about 6,250 in 2013. However, the Chart also indicates that there are still a considerable number of market exits each year, too.

According to KAS (2014) during the fourth quarter of 2013 (Q4 - 2013) a total of 1,805 enterprises were registered, while in the previous quarter (Q3 - 2013) were 2,011, which shows a decline between quarters of the same year to 206 enterprises, of which expressed in percent is

equal to 10.2 percent fewer enterprises registered in Q4 – 2013. Also, it is noticed a decrease to 20.2 percent of new business compared with the same quarter of the previous year (Q4 - 2012).

Table 3.8 depicts that during Q4-2013, favourite economic activities were trade with 559 new enterprises (31 percent), real estate and leasing with 197 (10.9 percent), agriculture, hunting and forestry 189 (10.5 percent), construction with 174 (9.6 percent), hotels and restaurants with 161 (8.9 percent), processing industry 159 (8.8 percent), other social and personal activities 147 (8.1 percent), transport, storage and communication with 143 enterprises (7.9 percent), while other activities take part in a slight scale.

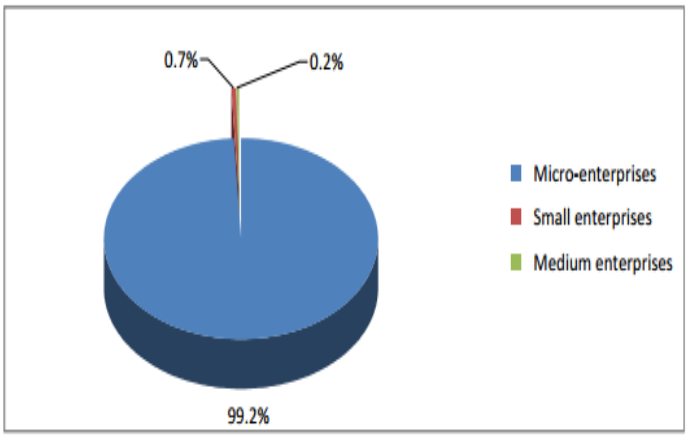
Table 3.8: Number of new enterprises by sector of economic activity and the category of number of employees in Q4 2013

Section of economic activity	Category of number of employers					
	1-4	**5-9**	**10-19**	**20-49**	**50-249**	**250+**
A -Agriculture, hunting and forestry	185	4	-	-	-	-
B -Fishing	1	-	-	-	-	-
C -Mining and quarrying	4	1	-	-	-	-
D -Manufacturing	154	4	-	1	-	-
E -Electricity, gas and water supply	5	1	-	-	-	-
F -Construction	164	5	4		1	-
G -Wholesale and retail trade; repair of motor vehicles motor cycles and personal and household goods	548	6	3	1	1	-
H -Hotels and restaurants	151	10	-	-	-	-
I -Transport storage and communication	139	4	-	-	-	-
J -Financial intermediation	-	-	-	-	-	-
K -Real estate, renting and business activities	193	2	-	1	1	
L -Public administration and defence, compulsory social security	7		2	-	-	-
M -Education	17	1	-	-	-	-
N -Health	35	1	-	-	-	-
O -Other social and personal activities	144	3	-	-	-	-
P -Private households with employed persons	1	-	-	-	-	-
Total	**1748**	**42**	**9**	**3**	**3**	**1805**

(Source: KAS, ABRK register)

All the enterprises that were registered during the last quarter (Q4) of 2013 were SMEs. As seen in figure 3.18 from all registered about 1,748 enterprises or 96.8 percent of new enterprises were Microenterprises with number of employees of 1-4 (employees), 42 (2.3 percent) were in

category with 5-9 employees, followed by category of 10-19 employees with 9 (0.5 percent), category of 20-49 and 50-249 share each 3 enterprises (0.2 percent), whereas in other categories there are no enterprises registered in this quarter (KAS, 2014).



(Source: KAS, ABRK register)

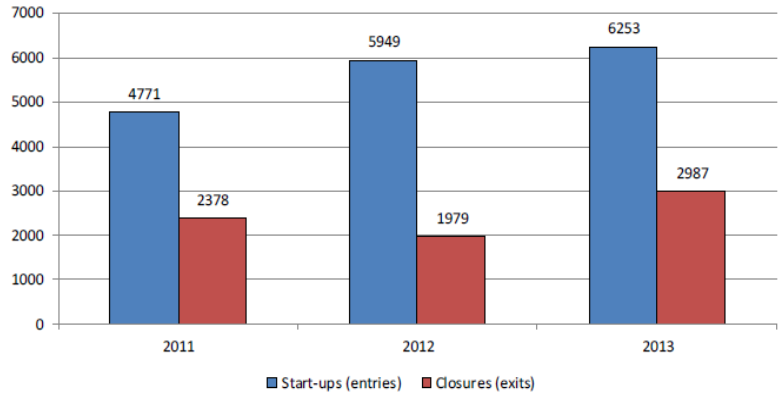
Figure 3.18: Structure of enterprises by size in Q4 2013

Regarding the extent of new enterprises through municipalities even in this quarter prevails Pristina with 526 of them (29.1 percent expressed as a percentage), Ferizaj with 138 (7.6percent), Prizren 129 (7.1 percent), Peja with 87 (4.8 percent), Gjilan with 74 (4.1 percent), Mitrovica with 71 (3.9 percent), while other municipalities have a smaller number of new enterprises in this quarter (KAS, 2014).

According to KAS (2014) the number of terminated enterprises in Q4 2013 in overall was 404, 134 terminated enterprises were retail and wholesale trade; 49 were transport, storage and communication; 43 hotels and restaurants; 41 other social and personal activities; 33 manufacturing; 30 firms were construction; while from real estate, renting and business activities; and agriculture were less than 30 terminated firms from each sector. The rest sectors had small number of terminated firms from 1 to 12 firms while there was no terminated firm in fishing, financial intermediation and electricity, gas and water supply.

KOSME (2014) report was more extended by covering annual data of business closures. According to them, in 2013, there were almost 3,000 closures that equal approximately 7 percent

of the total business population in the preceding year (figure 3.19). So, in 2013 the net increase in businesses was about 3,270 and the turnover or 'churning' was around 2,990 firms (KOSME, 2014).



(Source: KOSME calculation based at ATK register)

Figure 3.19: Number of start-ups and closures of businesses, 2011-2013

As shown in Table 3.9. Start-up activity in 2013 was highest in the construction sector and in business services, where entry rates were about 19 percent. Interestingly, both sectors had comparatively low exit rates. This indicates a kind of stability within this sector and explains why the number of enterprises increased strongly in these sectors. In accommodation & food services start-up, activity is also clearly above average, but exits are very high as well, which points to a considerable turnover in the sector's business population (KOSME, 2014). Manufacturing and personal services feature average entry and exit rates. Finally, the lowest start-up rate (11.1 percent) is found in wholesale and retail trade.

Table 3.9: Number of start-ups and (entries) and closures (exits) of businesses in 2013, by sector

	Start-ups/entries		Closures/exits	
	Number	**Rate***	**Number**	**Rate***
Manufacturing	620	13.1%	276	6.2%
Construction	589	19.1%	175	6.1%
Wholesale and retail trade	2.057	11.1%	1.277	6.8%
Transporting and storage	357	13.9%	235	9.5%
Accommodation & food service	575	17.6%	329	10.1%
Business services	946	18.7%	247	6.1%
Personal services	602	14.4%	319	7.8%
Other sectors	507	17.4%	129	4.8%
Total	**6.253**	**13.9%**	**2.987**	**7.0%**

* Rate=percentage of the sector`s total business population in preceding
(Source: KOSME calculation based at ATK register)

Table 3.10 gives information about the start-ups (entries) of 2011 performance developed over the following two years until 2013. In Overall, most of the enterprises approximately 93percent survived the first year and about 85 percent survived until 2013; resulting 15 percent closed enterprises within two years period. The highest 2-year survival rates more than 87 percent can be found in construction, manufacturing and personal services. In contrary, start-ups in the accommodation & foodservice and the transport sectors show the lowest likelihood of survival less than 80 percent. Table 3.10 also gives information on how many of the 2011 start-ups (entries) have grown in terms of persons employed by 2013. Three leading sectors were: Manufacturing, accommodation & food service, and construction where growth probability for start-ups varies between 27 percent and 30 percent. While, in transport services only relatively few new businesses are increasing employment within two years.

Table 3.10: Survival rates of start-ups (entries) of 2011, by sector

	New entries in 2011	% that survived until 2012	% that survived until 2013	% that survived until 2013 and has grown*
Manufacturing	478	92.5%	87.4%	30.3%
Construction	385	94.3%	89.1%	26.8%
Wholesale and retail trade	1.931	94.6%	85.9%	20.4%
Transporting and storage	315	87.6%	79.4%	9.5%
Accommodation & food service	391	92.3%	79.0%	27.6%
Business services	550	92.4%	84.5%	20.0%
Personal services	433	95.6%	87.1%	14.8%
Other sectors	288	92.0%	87.5%	22.9%
Total	**4.771**	**93.4%**	**85.3%**	**21.4%**

* Number of persons employed in 2013 is high than in start year 2011
(Source: KOSME calculation based at ATK register)

The last analysis in this chapter relates to the sources of job growth within the private enterprise sector, to more extend it looks into the main components determining the (positive) change in total employment from 2012 to 2013.

Each of the main components is given in the rows of Table 3.11. According to ATK register and KOSME almost 3,000 business closures between 2012 and 2013 meant a loss of slightly more than 5,000 associated jobs. On the other way around, almost 13,600 new jobs were created by about 6,250 start-ups. All businesses that have continued between 2012 and 2013 can be grouped into shrinking, constant, and growing ones as far as their employment numbers are concerned. Constant enterprises represent the largest group with more than 29.000; they remained neutral toward employment contribution as these firms did not have a negative or positive impact on the employment. Most new jobs more than 17,000 have been created by the approximately 6,400 growing SMEs. Although shrinking SMEs have lost almost 12,000 jobs, the net contribution of existing SMEs to job growth is still clearly positive (KOSME, 2014). Regarding the balance of large firms, it is negative as due to a loss of more than 5,000 in shrinking companies that could not be compensated by the growing large firms.

Table 3.11: Jobs created and lost in the private enterprise sector from 2012 to2013

	No. of firms concerned	Persons employed 2012	Persons employed 2013	Jobs created/lost
Business closures (exits)	2.987	5.068	0	-5.068
Start-ups (entries)	6.253	0	13.576	13.576
Shrinking SMEs	4.166	37.737	25.842	-11.895
Shrinking large firms	21	25.766	20.534	-5.232
Constant businesses	29.173	55.032	55.032	0
Growing SMEs	6.399	46.098	63.421	17.323
Growing large firms	20	9.935	11.218	1.283
Total		**179.636**	**189.623**	**9.987**

(Source: KOSME calculation based at TAX register)

Based on this analysis approximately 15 percent of businesses had experienced growth of jobs between 2012 and 2013. However, a more detailed investigation of these 15 percent of companies reveals that job growth is an even more concentrated phenomenon, because the Top 500 firms, which represent slightly more than 1 percent of all businesses in 2012, contributed more than 50 percent of all new jobs in the private enterprise sector. However, it should finally be noted that the relative importance of the different components of growth also relies on the length of the period observed.

Although Kosova's economy continually grew since 2001 much of its growth can be attributed to the low base effects as genuine sources of sustainable growth remain absent (Kosova progress report, 2014). The labour market is characterised by low participation and high unemployment rates.

CHAPTER IV

CONCEPTUAL FRAMEWORK, HYPOTHESIS AND RESEARCH QUESTIONS

The conceptual framework was theoretically derived from the determinants of SMEs growth and IT adoption from SMEs literature and other IT related areas. Given the available evidence on transition countries (e.g. Kontorovich, 1999; Bartlett and Bukvic, 2001; Bartlett et al. 2002; Krasniqi et al. 2011) the business environment is heavily characterized by institutional barriers both formal and informal. Barriers such as tax burdens and high levels of bureaucracy are significant for firm growth while corruption among some officials in the state administration associates with further costs and delays. In this context, we are particularly interested in how formal and informal barriers influence the growth SMEs in Kosovo. External and internal factors have an important role in explaining the SMEs growth of transitional economies. The lack of combining different levels of analysis (entrepreneur, firm, and environment) can also be considered, a common problem that can be found in the extant research (Capelleras & Rabetino, 2008; Hoxha, 2013). Hence, this conceptual framework will include both internal and external factors that could influence SMEs growth. In particular, the framework was presented with elements of focus that aligned with answering the research questions. The elements of the framework are summarised as: the nature and characteristic of the business environment in particular the barriers to doing business in Kosova, determinants of SMEs growth and performance, the level of IT adoption and web-based applications, the managerial characteristics and perception of e-business, the factors affecting e-business and particular e-banking adoption. This framework is focused on how the factors interact to determine the SMEs performance and the extent of e-business adoption, the level of Information Technology adoption by SMEs and the role of the local business environment were applied in the analysis of the data collected from interviews to unearth factors that affect e-business adoption in an organisation (Figure 4.1).

The conceptual framework elaborates the path is taken to answer the research questions:

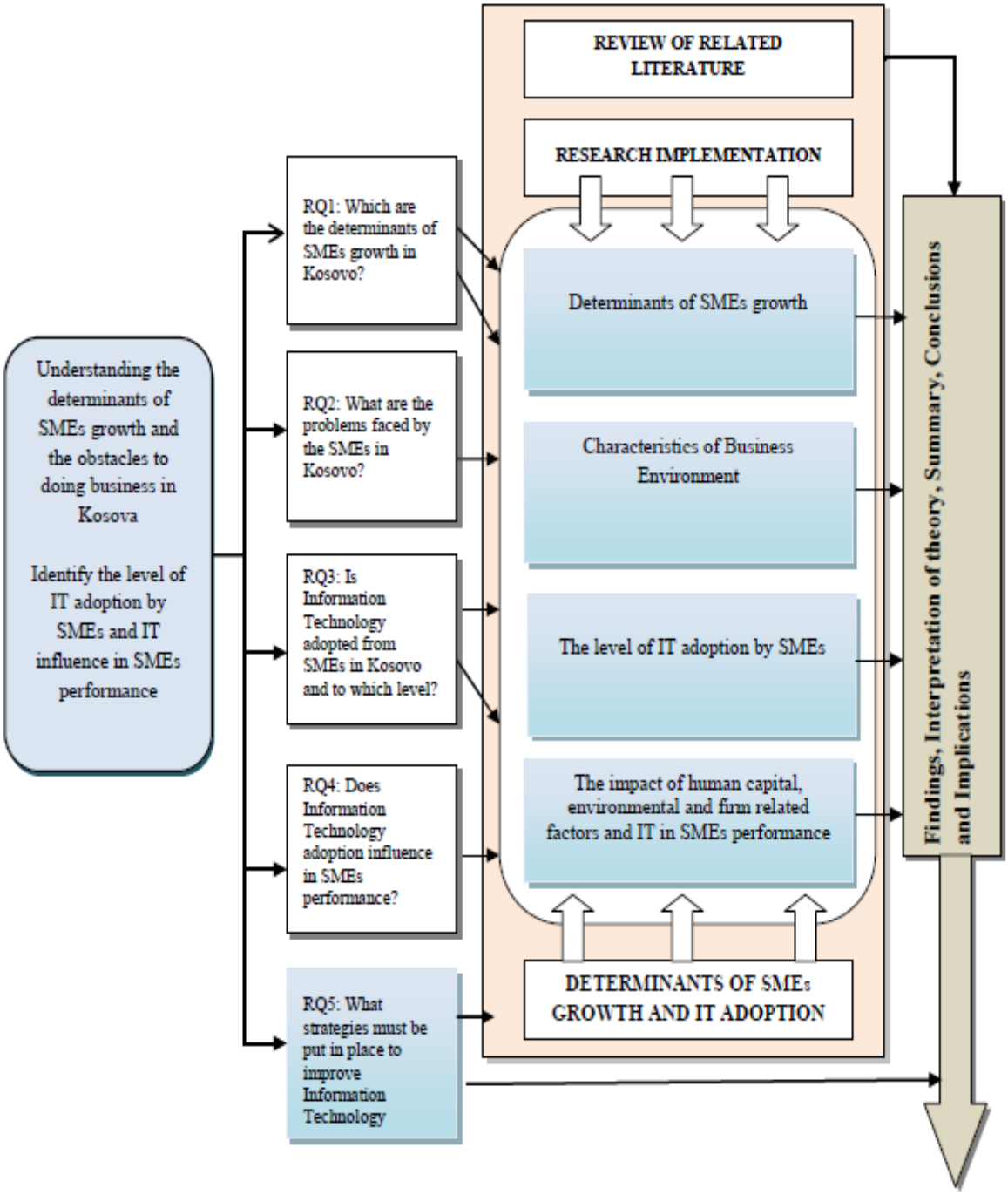


Figure 4.1: Conceptual framework

For the purpose of this study, we will test four groups of the independent variable. Similarly, aiming to answer the first research question **RQ1** the following hypotheses are set and ranked into four main groups.

4.1 Human capital,

It is hypothesised that **Entrepreneur's attributes e.g. age, education and previous business experience will be positively related to SMEs performance.**

Aiming to have a clearer overview of each attribute of human resources separately we have set up several sub-hypotheses as can be seen bellow:

Hypothesis 1a: Entrepreneur's age, will be positively related to SMEs performance

Hypothesis 1b: Entrepreneur's Education, will be positively related to SMEs performance,

Hypothesis 1c: Entrepreneur's previous business experience will be positively related to SMEs performance.

According to OECD report, 2002 upgrading the skills of all types of workers, managers, in particular, is central to firm performance in knowledge-based economies. Considering that SMEs must be flexible and able to adapt to the business environment the quality of management is crucially important, which mainly have limited resources. Studies indicate that there is a positive correlation between the degree of management training and the performance of an SME (Cosh et. al., 2000). Therefore, we have set up the following hypothesis.

Hypothesis 2: Managers training in the area of management and business will be positively related to SMEs performance.

4.2 Environment related factors

SMEs operating in transition economies face numerous formal and informal barriers. The business environment remains crucial to SMEs performance. In addition firm's growth and performance is influenced by many other complex external and internal factors.

In this research, it is hypothesised that formal and informal institutional barriers will have a negative impact on SMEs performance.

Hypothesis 3: Formal and informal institutional barriers will be negatively related to SMEs performance.

Four sub-hypothesis are set, in order to distinguish the formal and informal barriers impact on firm's performance; we expect all formal and informal barriers to hinder SMEs profitability.

In the group of formal barriers taxes too high are chosen as we suppose that higher high amount of taxes will have a negative influence on firm's profitability. Higher taxes negatively affect the performance of SMEs. According to Williamson (2000), formal and informal institutions are not independent as they tend to interact e.g. it happens that start-ups support partially or entirely the informal economy in order to evade payment of too high taxes. Dadashev et al., (2003) declared in Russia high taxation resulted in the increase of the shadow economy and unprofitable businesses.

Hypothesis 3a: Taxes too high will be negatively related to SMEs performance.

Informal institutions present codes of behaviour, norms, and culture, which are not supported by formal law but by social custom (North, 1990). The informal barriers such as the corruption (Bohata and Mladek, 1999), strong competition and unfair competition from the large informal economy (Muent et al., 2001) affect doing business in transition economies, therefore the following sub-hypothesis are raised.

Hypothesis 3b: Strong competition will be negatively related to SMEs performance,

Hypothesis 3c: Corruption will be negatively related to SMEs performance,

Hypothesis 3d: Informal economy/black economy will be negatively related to SMEs performance.

4.3 Firm related characteristics

Firm related characteristics such as age, size, location and sector has influence of SMEs performance, the following hypothesis is build and it is hypothesised that age, size and service sector will have positive impact on firm's performance.

Hypothesis 4: Business age, size and sector will be positively related to SMEs performance

Hypothesis 4a: Business age will be positively related to SMEs performance,

Hypothesis 4b: Business size will be positively related to SMEs performance,

Hypothesis 4c: Business service sector will be positively related to SMEs performance

4.4 Firms strategy

Entrepreneurs start up and run their companies by following different growth strategies. Existing literature suggests strategic decisions "how the ventures are growing" (i.e., via internal or external growth) and "where that growth is occurring" (i.e., domestically or internationally), whereas growth through mechanisms internal to the firm means that the enterprise uses innovative product development, technological sophistication or marketing practices to identify and develop products (Gilbert et al. 2006).

We hypothesise that firms strategic decision to introduce new methods of marketing, companies investments and IT adoption will have positive influence on SMEs performance (Hypothesis: 5, 6, 7 and sub-hypothesis 7a,7b,7c).

Hypothesis 5: Firms introduction of any new method of marketing during last three years will be positively related to SMEs performance.

Hypothesis 6: Firms Investment will be positively related to SMEs performance.

Hypothesis 7: Firms Information Technology adoption will be positively related to SMEs performance.

Hypothesis 7a: Firms Internet use will be positively related to SMEs performance.

Hypothesis 7b: Firms computer use will be positively related to SMEs performance.

Hypothesis 7c: Firms web-site use will be positively related to SMEs performance.

Regarding the second research question **RQ2** we will provide the BSCK survey results as perceived by entrepreneurs among 2010, 2011 and 2012 for the obstacles to the development.

Based on the obtained results access to finance presents potential barrier to firms growth, therefore to complement this research question we will provide information from CBK for banking sector in Kosova and from BSCK survey in 2012, information considering the lending conditions in the following chapter.

Considering the third research question **RQ3**, we will provide the BSCK survey results on 2012 regarding firm's informatisation and the case study in Chapter 7 will provide complementary results to this research question.

For the purpose of our research and to answer to the next research question **RQ4** hypothesis 7 is set and in the following chapter we will discuss the obtained results.

According to the reviewed literature and obtained results, in Chapter 8, we propose strategies and recommendation in order to improve Information Technology adoption in Kosovar SMEs and thus provide the answer to the last research question **RQ5**.

CHAPTER V

DATA DESCRIPTION AND METHODOLOGY

The methodological position of the present research rests on the use of the two strategies, quantitative and qualitative (with more emphasis on the quantitative strategy) for two reasons. Firstly, the philosophical assumptions of the present study and the research design adopted are characteristics of both quantitative and qualitative research. Secondly, the quantitative and qualitative approaches offer complementary views of the social world; this implies that richness can enhance precision because the in-depth account encompasses more information, while a focus on accuracy can lead to a clarification of basic concepts (Cupchik, 2001). Furthermore, the adoption of two methods in this thesis is in line with frequent recommendations to use multiple, complementary methods to increase the validity and reliability of research findings (Tan & Teo 2000; Tigre & Dedrick, 2004). The uses of various methods, or triangulation, reflects an attempt to secure an in-depth understanding of the phenomenon in question (Denzin & Lincoln 2005)

5.1. Data

For the purpose of this doctoral thesis, we will use data gathered from Business Support Center Kosova, who developed a survey from 500 SMEs in Kosovo carried out in December 2012. This survey includes these sectors: service, trade, and manufacturing. In the sample are included SMEs across all regions of Kosova and the sample is stratified by three main sectors aiming to reflect the differences between trade, production, and services. According to BSCK report (2012), the sample was designed to study SMEs profile and entrepreneurship. The sample is drawn randomly from the business register that was kept at the Ministry of Trade and Industry-Agency for Business Registration. BSCK team performed the procedure for selecting the sample size and companies to be interviewed in Excel and SPSS using the random command (Krasniqi, 2013). After several testing phases, the BSCK research team solved to stratify the sample into two categories: size of the company and sectors of business activity. This stratification was necessary since the random sampling provided unsatisfying results while representing the medium firms and manufacturing firms. Both these categories were under-represented in the

sample and as such sample would not have been valuable to analyze these categories. Therefore, the stratifications were applied; the satisfying results in terms of statistical representation of the both sector and size class as seen in Table 5.1 were provided (Krasniqi, 2013).

Table 5.1: Total sample by sector and size (number of firms)

Sector Size	Micro	Small	Medium	Total
Manufacturing	34	24	6	115
Service	140	64	12	174
Trade	176	37	7	211
Total	350	125	25	500

Source: BSCK SME Survey 2012

This randomly stratified sample will enable to BSCK team (different researchers), and to us to derive generalized conclusions about the whole population of SMEs in Kosovo.

5.2. Questionnaire design

BSCK team conducted interviews face-to-face with the key people in each enterprise, mainly owner/managers or financial managers. The questionnaire contains nine sections. The First section seeks information about respondent's profile such as Gender, age, education and position held in the enterprise.

The rest eight sections ask information on SMEs profile and entrepreneurship. The respondents were asked to give qualitative answers e.g. their start-up motivation business and firm growth aspirations; data on firm performance; entrepreneurs awareness of the business environment and future prospects). And quantitative answer on internal characteristics of the corresponding firm (business age; location; size of the company in terms of employment; value of assets; sector of activity etc), financial information performance indicators (firms profitability and level of investment, etc); information technology adoption and information on their innovation activities.

Aiming to obtain higher response rate, more realistic and high-quality results the data for SMEs were collected by the trained team of interviewers at Business Support Centre Kosovo (BSCK). The training for interviewers was organized by BSCK aiming to raise the interviewer's awareness for the importance of this research, and train them for the technical issues involved in implementing the survey. Training was delivered by two professors Prof. Besnik Krasniqi from BSCK, for the part of the questions included in the research instrument regarding economic and business aspects and a consultant from the Faculty of Psychology of the University of Prishtina for other parts of training that relates to the psychological aspects of interviewing process and how the interviewer should approach the respondent.

BSCK team were committed to quality assurance, also. Initially, they tested the questionnaire during the training, and few remarks about the questions and technical errors were eliminated. In the second phase, 50 interviews were conducted as part of the piloting phase. Each interviewer conducted approximately one interview in the field. After the piloting phase, each interview provided a feedback to the BSCK project team, and final preparations were made to launch the final interviews. In addition, the BSCK project team supported the interviewers in conducting at least one interview in the field. The BSCK team also phoned 40 percent of all interviewed companies in order to ensure that interviews were conducted properly, and interviewers behaved satisfactorily during the interviewing process.

Another stage of quality control included the logical control by the BSCK team at BSCK office. Completed questioners were reviewed, and cross-checked for specific questions and consistency of responses. In each stage, the project team ensured the removal of some questionnaires (although only a few cases were found) and replaced them with other firms and in some cases interviewers were sent back to the company to collect the required data. Then, the collected data was processed in MS Excel and SPSS by the BSCK team.

Most of the questions were measured by using a five-point Likert scale.

The data obtained from the questionnaire were analysed using the designed logic regression econometric model to investigate the factors influencing the probability of firms.

Pearson Correlation was used to assess the relationship between independent and dependent variables. The data was computed using the Statistical Package for Social Science (SPSS) version 16 application to strengthen the accuracy of results.

5.3. Dependent variable

SMEs growth has been for a long time an issue with a particular focus for many researchers. Since 1931, Gibrat's law was found as a useful theoretical benchmark for theoretical and empirical research on the determinants of firm growth (Becchetti & Trovato, 2002). Its two main points may be summarised as follows: the rate of growth of a firm is independent of its size at the beginning of the period and the probability of a given rate of growth during a particular time interval is the same for any firm within the same industry (Becchetti & Trovato, 2002). The Gibrat's Law, mainly was confirmed from the very early articles in 50s and 60s of the last century. The vast majority of the literature, reviewed for the purpose of this research work, has rejected as well the Gibrat's Law. Gibrat's Law or the Law of Proportionate Effect is an alternative theory to the classical economic theory that postulates that there is an optimal firm size. Classic economists found it difficult to explain the presence of firms with heterogeneous sizes. In this sense, Gibrat's Law describes the empirical evidence better. However, the classical and the stochastic theories offer different explanations for a firm's size and its performance in the market. In the last few decades, the post-entry performance of firms has focused researchers' attention. Post-entry performance includes analysis of a firm's growth and the likelihood of its survival. As Kimberley (1976) stated, the number of employees is the most widely used measure of size. The number of employees reflects how the internal process is organised and adapts to changes in activity. Moreover, employment is not sensitive to inflation or currency exchange rates. Scholars agree that this variable is a direct indicator of organisational complexity and is suitable for analysing the managerial implications of growth (Penrose, 1959).

According to many researchers, the best variables for measuring firm size are therefore added value and the number of employees. The problem with added value is that there is usually a lack of information in particular with individual firms (Carrizosa, 2007). Obviously, using a measure such as the number of employees has several disadvantages. Delmar et al. (2003) mentioned that the number of employees does not reflect "labour productivity increases, the machine for man substitution, the degree of integration, and other make-or-buy decisions".

The first studies on firm growth concentrated mainly on the impact of size and age. However, the characteristics that can influence post-entry firm behaviour are wider and authors such as Storey (1994) determined several factors affecting firm growth. Following Storey's (1994) classification, a distinction is often made between three groups of growth determinants: (i) those related to the entrepreneur (also defined as founder-specific); (ii) those related to the firm (also defined as owner/manager specific); and (iii) those related to strategy (Table 5.2).

Table 5.2: Factors influencing growth in small firms

The entrepreneur's resources	The firm	Strategy
1. Motivation	1. Age	1. Workforce training
2. Unemployment	2. Sector	2. Management training
3. Education	3. Legal form	3. External equity
4. Management experiences	4. Location	4. Technological sophistication
5. Number of founders	5. Size	5. Market positioning
6. Prior self-employment	6. Ownership	6. Market adjustments
7. Family history		7. Planning
8. Social marginality		8. New products
9. Functional skills		9. Management recruitment
10. Training		10. State support
11. Age		11. Consumer concentration
12. Prior business failure		12. Competition
13. Prior sector experience		13. Information and advice
14. Prior firm size experience		14. Exporting
15. Gender		

(Source: Storey, 1994)

Considering our research particular focus on IT adoption from SMEs in Kosova, and Information Technology impact on firm's performance, for our research purpose we will measure SMEs performance in terms of profitability.

5.4. Independent Variables

In this research explanatory variables (independent) can be separated into four main categories:

5.4.1. Human Capital related variables

For our research purpose, we have chosen the characteristics of the human capital as the first group of variables. Often in literature is made a difference between the "generic" and "specific" components of human capital (Becker, 1975). Similar to some previous authors we argue that generic human capital refers to the general knowledge obtained by entrepreneurs or employees through regular education, whereas specific human capital refers to tacit skills and knowledge that are less transferable and have a narrower scope of applicability than generic human capital attributes (Gimeno et al., 1997; Hoxha, 2013). We have included variable education as a proxy for general human capital. Entrepreneurs specified their level of education. We use this variable to measure whether (or not) entrepreneurs have a university degree (1=university degree, 0=otherwise).

In addition to human capital attributes, entrepreneurs' previous business experience in the field they started their business is related to actual firm performance. Therefore, respondents were asked whether they had previous experience (1=yes, 0=no). We control for age of the entrepreneur.

According to OECD report, 2002 upgrading the skills of all types of workers, managers, in particular, is central to firm performance in knowledge-based economies. Considering that SMEs must be flexible and able to adapt to the business environment the quality of management is crucially important, which mainly have limited resources. Studies indicate that there is a positive correlation between the degree of management training and the performance of an SME (Cosh et. al., 2000). Therefore, we have set up the following hypothesis.

Regarding specific human capital, and strategic decisions in their further training, respondents were asked whether SMEs managers have received training in management or business-related areas (1=yes, 0=no).

5.4.2. Environment related variables

The second group of variables is related to institutional constraints that are likely to have an impact SMEs performance in the particular context of transition countries. 21 variables related to formal and informal barriers, which are measured on a five-point scale (ranging from 1=very low to 5=very high), were evaluated by respondents. In order to answer our RQ2 we will comment

the comparing of the BSCK surveys results among 2010, 2011and 2012 whereas results are presented on average where 1- is not an obstacle and 5- is the major obstacle. In our research model, we have chosen four variables that resulted as the main obstacles to business. The respondent's answers whether strong competition, informal economy, corruption and taxes too high presents obstacles to business (1=is an obstacle, 0=is not an obstacle).

5.4.3. Firm related variables

According to Gibrat's Law (1931) the probability of given proportionate change in size during a particular period is the same for all firms in a given industry, that implies that both growths mean, and growth variance do not show any relationship with the size of the firm. In contrast, Jovanovic's (1982) model of noisy selection indicate new firms have no expectations about their post-entry performance, so that the likelihood of survival should be assumed to be stochastically distributed across firms, whereas firms learn about their efficiency as they operate in the industry. In addition Jovanovic (1982) assert the efficient firms grow and survive whereas inefficient firms decline and fail. In markets with only negligible-scale economies, the likelihood of survival is greater for new firms, but the opportunity to grow in the post-entry period is limited by the gap between the minimum efficient scale and the size of the firm (Acs and Audretsch 2001; Krasniqi 2007).

We also control for the industry sector. Three main sector dummies are included: manufacturing, trade and services. Variables business size (number of current employees) and business age (measured as the number of years the firm has been founded) are included as well. Business age, size and sector served as control variables in the model for performance to capture the potential effect of firm profitability and subsequent growth.

5.4.4. Firms strategy variables

The third group of variables describes general characteristics of the firm as controls that may have an influence SMEs performance. We include a variable measuring whether the company has made investments in 2012 (1=yes, 0=no). The rationale is that the higher amount of investments will increase the return on investments and firms profit. According Gilbert et al., (2006) growth through internal mechanisms to the firm occur when enterprise uses innovative product development or marketing practices to identify and develop products, therefore we

included a firm related strategy variable new method of marketing whereas respondents had to answer whether their firm introduced any new method of marketing other than existing in the market for product/service during last three years (1=yes, 0=no). Expecting that the firm's internationalization could increase profitability we included a variable export of the company's whereas respondents were asked to weather their enterprise is an exporting firm (1=yes, 0=no).

IT adoption resides and complies with the Firms strategy. Information technology adoption has been an important topic of study in a number of areas including SMEs. It is expected that IT can lower labour costs and increase profit, add value to products and services and increase a company's competitive advantage (Corso et al., 2003; Levy et al., 2001; Nguyen et al., 2007; Premkumar, 2003). Therefore, the last group of variables describes the level of technology usage from Kosovar SMEs that can have an influence on SMEs performance. A variable is included measuring whether the firm declared they have computer/s, and we also ask if firms are using Internet (1=yes, 0=no). A variable measuring whether the firm reported that have their web-site and web e-mail (1=yes, 0=no) (Table 5.3).

Additional information in regard to IT adoption e.g. the number of computers that SMEs possess, the quality of use, the purposes of computers and Internet use, SMEs performing online transactions, presenting their products and prices online on their web-site, etc, are given considering the **RQ3** .

Table 5.3: List of variables

Category	Variables	Definition
Human Capital	Age	Age of the entrepreneur in years
	Education	1= if the entrepreneur has university degree, 0= otherwise
	Business experiences	1=yes, 0=no
	Business Management Training	1= if the entrepreneur followed training in last two years
Firm	Business Age	Number of years the firm has been operating
	Business Size	How many employee your firm has actually in 2012 (indicate number)?
	Sector Service	1= if the firms operates in service sector, 0= otherwise
Barriers	Informal economy	1=is a barrier, 0=is not a barrier
	Corruption	1 = is a barrier, 0 = is not a barrier
	Taxes to high	1 = is a barrier, 0 = is not a barrier
	Strong competition	1 = is a barrier, 0 = is not a barrier
Strategy	Exporting firms	1=yes, 0=no
	Investment 2012	1=yes, 0=no
	Marketing method	1=yes, 0=no
IT	Computer	1=yes, 0=no
	Internet use	1=yes, 0=no
	Web site	1=yes, 0=no

CHAPTER VI

RESULTS AND DISCUSSION

In this chapter, the obtained results of this research are presented. Initially, is given a brief overview of descriptive results and correlations of the main variables introduced in the regression analysis.

Afterwards, the research model about SMEs performance in terms of profitability is discussed.

As can be seen in Table 6.1 most of the entrepreneurs/owners in the surveyed firms are young, and the average age of the respondents is 37 years. Business age or years in operation is more than ten years.

Table 6.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AGE	495	17	78	37.38	11.183
EDUC	486	0	1	0.38	0.487
BUSINEXPER	467	0	1	0.73	0.447
BUSMANTRAIN	496	0	1	0.33	0.471
INFORMECON	453	0	1	0.86	0.344
CORRUPT	477	0	1	0.84	0.37
TAX	478	0	1	0.88	0.322
STRONCOMPET	474	0	1	0.49	0.5
BUSINAGE	466	0	73	10.32	9.012
BUSINSIZE	483	1	120	12.47	11.606
SECSERVICE	349	0	1	0.32	0.467
INVEST2012	485	0	1	0.39	0.488
EXPOFIRM	457	0	1	0.06	0.236
NMARKEMETH	466	0	1	0.11	0.307
COMPUT	498	0	1	0.58	0.494
INTERNETUSE	434	0	1	0.73	0.447

FWEBSITE	424	0	1	0.16	0.363

6.1. Discussion of research model

In this section, we discuss econometric model designed to investigate the factors influencing the probability of firms being profitable. The logit model is chosen because our dependent variable is dichotomous taking values of 1 if the firm is profitable and taking value of 0 if not profitable. Following, Wooldridge (2006) logistic model takes the following form.

$$P(y = 1 \mid x) = \beta_0 + \beta_1 x_1 + ... + \beta_k x_k \qquad (1)$$

Where the outcome of y is equal to 1 if company belongs to the group of profitable firms and 0 otherwise; while x is vector of explanatory variables and is vector of coefficients of independent variables in the model. Based on logistic model we estimated following empirical model to measure the impact of firm, entrepreneur, business environment business strategy and IT related factors on probability of being profitable:

$$\mathbf{P(y = profit \mid x) = \beta_0 + \beta_1 AGE_1 + \beta_2 SIZE_2 + \beta_3 BUSINESEXP_3 + \beta_4 EXPOFIRM_4 + \beta_5 NMARKEMETH_5 + \beta_6 COMPUTE_6 + \beta_7 INTERNETUSE_7 + \beta_8 TAX_8 + \beta_9 STRONGCOMPET_9 + \beta_{10} CORRUPT_{10} + \beta_{11} EDU_{11} + \varepsilon}$$

6.2. Discussion of results

In this part of the thesis, we will discuss empirical findings from our econometric model. Findings from the model reported in Table below. Before moving to the discussion of results we will analyse the statistical tests that show if our model is well specified and statistically accepted. We begin with the test for overall statistical significance of coefficients in the model. Table 6.2 shows that all parameters (coefficients) are jointly and statistically different from zero. All p-values are .000, based on which we can conclude that our coefficients in the model have the explanatory power to explain the profitability of firms.

Table 6.2: Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	51.223	17	0
	Block	51.223	17	0
	Model	51.223	17	0

Cox & Snell R Square statistical tests as well *Nagelkerke R Square* in Table 6.3 show that econometric model has very high explanatory power. In particular in this type of cross-sectional data and models. According to these statistical tests, the independent variables included in the model explain around 33 percent of the variation in the dependent variable, i.e. profitability of firms.

Table 6.3: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	191.302[a]	.245	.333

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

The classification table produced by SPSS output summarises the results of our predictions of firm profitability of the model based on our 17 independent variables. Our model can predict 57.1 per cent of non-profitable firms and 82.1 per cent of profitable firms. In general, our model can predict 72.5 per cent of firms correctly (Table 6.4).

Table 6.4: Classification Table[a]

Observed			Predicted		
			PROFIT		Percentage Correct
			0	1	
Step 1	PROFIT	0	40	30	57.1
		1	20	92	82.1
	Overall Percentage				72.5

(a. The cut value is .500)

Now we will turn to the discussion of the impact of independent variables on the dependent variable. The table below, reports results from the logistic regression in which we included 17 independent variables related to entrepreneur, firm, business environment, business strategy and information technology adoption in particularly. Some of the independent variables serve as a control and to improve model fits such as firm's age, size, and sector variables (Table 6.5).

B - These are the values for the logistic regression equation for predicting the dependent variable from the independent variable. They are in log-odds units. Similar to OLS regression, the prediction equation is expressed in terms of the variables used in this example, the logistic regression equation is:

$$P(y = profit \mid x) = .864 - .052AGE + .633\ EDUCATION + .177BUSINESSEXP + 0.19INFORMALECONOMY + 0.420\ CORRUPTION - .966TAX + .697STRONGCOMPETITIO + .050BUSINESS\ AGE + .008BUSINESSSIZE + .413\ SERVICE\ SECT - .269BUSINESSMANAGTRAIN - .789INVESTMENT\ 2012 + .255\ EXPORTING\ FIRM + 1.86\ 4NEWMARKETMETHOD - .248\ COMPUTER + 1.725\ INTERNETUSE - .535\ FIRM\ WEBSITE + \varepsilon$$

where P is the probability of SMEs being profitable.

Table 6.5 Results from the logit model estimates: factors influencing probability of being profitable firm

(Dependent variable is categorical *1=profitable firm and 0=non-profitable firm*)

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	**AGE**	-.052	.018	8.143	1	.004	.950
	EDUCATION	.633	.396	2.557	1	.110	1.882
	BUSINEXPER	.177	.411	.185	1	.667	1.193
	INFORMECON	.019	.714	.001	1	.979	1.019
	COMPUT	-.248	.507	.240	1	.624	.780
	TAX	-.966	.771	1.570	1	.210	.381
	STRONCOMPET	.697	.384	3.295	1	.069	2.008
	BUSINAGE	.050	.025	4.081	1	.043	1.051
	BUSINSIZE	.008	.007	1.227	1	.268	1.008
	SECSERVICE	.413	.433	.910	1	.340	1.511
	BUSMANTRAIN	-.269	.423	.406	1	.524	.764
	INVEST2012	-.789	.433	3.322	1	.068	.454
	EXPOFIRM	.255	.712	.128	1	.721	1.290
	NMARKEMETH	1.864	.869	4.605	1	.032	6.451
	CORRUPT	.420	.627	.448	1	.503	1.522
	INTERNETUSE	1.725	.512	11.349	1	.001	5.614
	FWEBSITE	-.535	.613	.761	1	.383	.586
	Constant	.864	1.251	.477	1	.490	2.372

a. Variable(s) entered on step 1: AGE, EDUC, BUSINEXPER, INFORMECON, COMPUT, TAX, STRONCOMPET, BUSINAGE, BUSINSIZE, SECSERVICE, BUSMANTRAIN, INVEST2012, EXPOFIRM, NMARKEMETH, CORRUPT, INTERNETUSE, FWEBSITE.

Table 6.6 reports the series of regression results that show the importance of factors explaining the determinants of SMEs performance in terms of profitability. Although findings indicate that several correlations coefficients are found to be significant, those correlations are sufficient low resulting that our model pass the Wald test for mutual statistical significance of independent variables resulting that they are mutually significantly different from zero (Wooldridge, 2005).

In addition, correlation matrix reported in Table 6.6 suggests low correlation coefficients in accordance with Lind et al. (2000) whereas rule of thumb for the detection of the multicollinearity problem a correlation coefficient is threshold smaller than 0.7 in absolute value. Therefore, we can bring to an end that multicollinearity is not a problem in our data.

Table 6.6: Correlation Matrix

		AGE	EDUC	BUSINEXPER	EXPOFIRM	NMARKEMETH	COMPUT	INTERNETUSE	FWEBSITE	STRONCOMPET	INFORMECON	CORRUPT	BUSINAGE	BUSINSIZE	SECMANUFAC	SECTRADE	SECSERVICE
AGE	Pearson Correlation	1															
	Sig. (2-tailed)																
	N	495															
EDUC	Pearson Correlation	-.043	1														
	Sig. (2-tailed)	.348															
	N	482	486														
BUSINEXPER	Pearson Correlation	.016	.077	1													
	Sig. (2-tailed)	.724	.103														
	N	464	453	467													
EXPOFIRM	Pearson Correlation	.050	.167**	.056	1												
	Sig. (2-tailed)	.286	.000	.250													
	N	453	444	426	457												
NMARKEMETH	Pearson Correlation	-.004	.042	.082	.102*	1											
	Sig. (2-tailed)	.938	.370	.087	.034												
	N	463	454	437	429	466											
COMPUT	Pearson Correlation	-.051	.308**	.213**	.178**	.137**	1										
	Sig. (2-tailed)	.262	.000	.000	.000	.003											
	N	494	485	465	456	465	498										
INTERNETUSE	Pearson Correlation	-.025	.203**	.198**	.159**	.154**	.562**	1									
	Sig. (2-tailed)	.611	.000	.000	.001	.002	.000										
	N	430	421	405	395	408	434	434									
FWEBSITE	Pearson Correlation	.072	.168**	.084	.282**	.294**	.273**	.222**	1								
	Sig. (2-tailed)	.142	.001	.095	.000	.000	.000	.000									
	N	420	413	395	385	394	424	404	424								
STRONCOMPET	Pearson Correlation	-.073	.134**	.070	-.002	.091	.171**	.246**	.129**	1							
	Sig. (2-tailed)	.114	.004	.143	.968	.056	.000	.000	.010								
	N	469	460	444	436	445	472	410	401	474							
INFORMECON	Pearson Correlation	-.065	.082	.001	.071	.034	-.031	-.126*	.006	-.097*	1						
	Sig. (2-tailed)	.168	.087	.984	.146	.478	.517	.012	.911	.041							
	N	448	439	425	416	427	451	393	382	442	453						
CORRUPT	Pearson Correlation	-.171**	-.063	-.007	.004	.017	-.018	-.119*	-.124*	-.125**	.318**	1					
	Sig. (2-tailed)	.000	.175	.877	.932	.721	.691	.016	.012	.007	.000						
	N	472	463	447	438	448	475	413	405	467	447	477					
BUSINAGE	Pearson Correlation	.313**	.039	.041	.111*	.068	.017	-.021	.093	-.058	-.023	-.128**	1				
	Sig. (2-tailed)	.000	.402	.396	.023	.156	.715	.677	.066	.226	.631	.007					
	N	464	454	439	425	435	465	403	394	443	428	444	466				
BUSINSIZE	Pearson Correlation	.038	.098*	.069	.308**	.153**	.135**	.084	.306**	.046	.006	.018	.067	1			
	Sig. (2-tailed)	.406	.035	.144	.000	.001	.003	.086	.000	.321	.895	.696	.156				
	N	478	469	454	444	451	482	419	413	458	437	461	450	483			
SECMANUFAC	Pearson Correlation	.091	.023	.070	.252**	.169**	.105	.107	.189**	.010	-.073	-.013	.070	.094	1		
	Sig. (2-tailed)	.093	.676	.206	.000	.002	.050	.064	.001	.858	.189	.818	.204	.084			
	N	345	345	331	321	324	347	299	295	337	322	339	330	337	348		
SECTRADE	Pearson Correlation	-.071	.075	-.053	-.095	-.013	-.019	.038	-.035	.092	.081	.027	.042	-.092	-.342**	1	
	Sig. (2-tailed)	.185	.163	.329	.086	.812	.720	.504	.545	.091	.145	.611	.441	.089	.000		
	N	350	350	336	326	328	352	304	299	342	327	344	335	342	348	353	
SECSERVICE	Pearson Correlation	.047	-.017	-.042	-.122*	-.088	-.001	-.086	-.004	-.114*	-.024	-.061	-.087	.036	-.243**	-.689**	1
	Sig. (2-tailed)	.383	.750	.442	.029	.113	.992	.139	.947	.036	.669	.266	.116	.512	.000	.000	
	N	346	346	332	322	325	348	300	295	338	323	340	331	338	348	349	349

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

6.2.1. Entrepreneur related factors

The belief that the entrepreneurial firm is an extension of the entrepreneur has led many researchers to examine the character traits of the entrepreneur that are most likely to influence the growth of the firm (Gilbert et al. 2006; Meiseberg, 2013). Therefore, in our research model entrepreneur presents the first group of the independent variable. The fundamental question of "how much" (Gilbert et al. 2006) the SMEs to grow, usually reflects the individual entrepreneur's attitude toward an appropriate level of desired growth. Therefore, we will focus on resources for the entrepreneurs e.g. entrepreneur's motivations to start up their business; entrepreneur characteristics (age, education, and entrepreneur's previous business experience).

As can be seen in Table 6.7 majority of the respondents 29.9 percent of 2010, declared that they spotted a business opportunity and started up their businesses; in 2011 is noticed a decrease since only 12.5 percent of respondents started their business based on these motive, whereas in 2012 is noticed an almost a 14percent increase in the percentage compared to the previous year since 26.13 percent declared that have started their businesses as of the business opportunity. According to BSCK researchers, "spotted business opportunity" motivation is a direct result of the destabilised market and business environment in Kosovo. Based on the last BSCK findings (Report 2013) regarding the motive to start up business in 2012, the largest number of entrepreneurs or 32.61 percent argue that they started their own business motivated by pull factors as they "dreamed to have their company", followed by the entrepreneurs (26.13 percent) that "spotted a business opportunity". The rest of surveyed entrepreneurs started their own business mainly influenced by push factors as they assert they started their business since they were "unemployed and had to do something" (23.97 percent); some of entrepreneurs (8.21 percent) as they "inherited business from their family", followed by entrepreneurs that started decided to start their business as result of "dispute with my previous employer/partner" (2.38 percent) and those entrepreneurs (0.22 percent) that declared they started their business for "other" reasons. These statistics indicates the increase of pull factors in 2012 compared to previous years 2010 and 2011, although large impact of both push and pull factors is noticed considering the decision of people to start – up business in Kosova.

Table 6.7: Reasons for starting up business

Start – up motive	% (2010)	% (2011)	% (2012)
I always wanted my dream of having my own company to come true	20.7	8.9	32.61
Dispute with my previous employer – partner	1.4	1.1	2.38
I have been unemployed and had to do something to earn a living	26.6	11.5	23.97
I spotted a business opportunity and I decided to act upon it and establish my own company	29.9	12.5	26.13
I inherited from my family	7.6	10.0	8.21
Other	1.6	0.4	0.22

Considering our first hypothesis in regard to Entrepreneur's attributes e.g. age, education and previous business experience will be positively related to SMEs performance, our findings indicate age of the entrepreneur is highly statistically significant (p=.004) and enters equation with negative sign. A unit change in the age of the entrepreneur decreases odds ratio to be in-group of profitable firms by -.052.

Based on the existing literature the entrepreneurs characteristics such prior related industry experience (Baum et al., 2001; Box et al., 1993; Cooper et al., 1994; Eisenhardt & Schoonhoven, 1990; Siegel et al., 1993), and prior entrepreneurial or start-up experiences (Box et al., 1993; Baum et al., 2001) have well established direct effects on growth of the new firms. Similarly, prior experience growing other firms is also supported as an important catalyst for higher levels of growth in small firms (Wasilczuk, 2000). Before starting business entrepreneur's prior experience has high importance because the knowledge relevant for making business decisions is often tacit and requires time spent observing and studying a specific activity before tacit knowledge of the activity is developed (Cooper et al., 1994). Therefore in Table 6.8 the surveyed entrepreneur's prior experience is presented. According to BSCK report (Krasniqi, 2013) the findings state the highest rate of entrepreneurs who had extensive experience prior to starting– up the business was recorded in 2011 while the number of entrepreneurs with extensive experience

has decreased in 2012 by more than 14.89 percent. In contrast, the number of respondents who had limited experience prior to starting – up the business has increased by more than 7.78 percent. A decrease of entrepreneurs with no previous experience was recorded in 2011 by more than 6.9 percent while in 2012 statistics state increase of this category of entrepreneurs by more than 7.11 percent.

Table 6.8: Experience of SME owners in business prior to start-up

Did you have any experience in the field where you started your own company?	**2010 %**	**2011 %**	**2012 %**
Extended experience	42.8	56.0	41.11
Limited experience	30.0	23.7	31.48
No experience	27.2	20.3	27.41
Total	**100**	**100**	**100**

In Kosova similar to other SEE countries, women entrepreneurs are still an unexploited source of business and job creation since a substantial gap exists between male and female entrepreneurs. Table 6.8 shows the vast majority of SME founders remain males with less than 90 percent while the number of women founders is still small around 10 percent.

The existing literature claim that characteristics such as the educational background (Sapienza & Grimm, 1997), and background experiences are valued as they enable entrepreneurs to know where to go to obtain information relevant to the enterprise and also how to deploy the resources they obtain (Kirzner, 1983). As seen in Table 6.9 regarding the educational level it is important to remark that majority of SMEs, have owners with a secondary school education (in 2010 around 61.6 percent, in 2011 around 57.1 percent and in 2012 with around 54.8 percent). In addition based on the statistics in the table below the level of education of University, MSc Degrees has recorded increase when compared to previous years. In contrast, the Ph.D. level of education has enormously decreased compared to data of 2011.

Table 6.9: Ownership structure, gender and educational level

Male founders 89.8 %	**Female founders 10.2 %**		
Education Level	**% (2010)**	**% (2011)**	**% (2012)**
Doctors	1.0	2.9	0.9
Masters degree	2.3	4.2	4.3
University	31.3	32.1	37.2
Secondary school	61.6	57.1	54.8
Primary school	3.9	3.1	2.8
Total	**100**	**100**	**100**

In our research we found weak support for positive impact of variable entrepreneur's education to SMEs profitability (p=.110), whereas variable business experience is not statistically significant in SMEs performance respectively profitability (p=.667), this may suggest that there is a diminishing rate of return from the business experience as predicted by Jovanovic learning theory (1982). When entrepreneurs enter the market, they have a knowledge gap about business practices. Therefore, the knowledge they acquire adds to their efficiency. However, after years they accumulate sufficient knowledge and the extra year of experience does not produce the same effect as at the beginning of their career. Even numerous of authors argue prior experience is important to firms growth, however there are opposing opinions similar to our obtained results e.g. "too much knowledge has been shown to have diminishing returns on the sales and employment growth of new firms" (Chrisman, et al., 2005).

Considering the last chosen variable in our research managers training in the area of management and business, I had a dilemma whether to classify it in the group of entrepreneur related firm or strategy related group. According to Storeys classification this variable belongs to strategy factors (see Table 5.2) whereas considering to existing theory of Kosova case it is classified as a Human Resources variable (Krasniqi, 2012), possibly as Strategic Management of SMEs in Kosova mainly is undeveloped. Therefore, this variable classified as Human Resource related.

This variable is expected to have positive effect on firm's profitability, surprisingly our research indicates the opposite as this variable enters the equation with a negative sign and is not statistically significant (p=.524). These results are not in line with other studies (McPherson,

1996; Krasniqi, 2012) that provide evidence for the importance of trained managers of the firm, but we can hypothesise that probably training was not provided to the key persons of the company; the level of training quality; trained managers didn't share the obtained knowledge with their colleagues, etc.

6.2.2. Business environment factors

Storey (1994) pointed out the existence also of growth barriers. These barriers can be due to human failures but they may also be beyond the control of managers and owners. Geroski (1995) mentioned that one of the most interesting subjects in firm dynamics is the ability to learn and respond to their changeable environment. According to Storey (1994) the main barriers of firms growth are: Availability and cost of finance for expansion, Availability and cost of overdraft facilities, Overall growth of market demand, increasing competition, Marketing and sales skills, Management skills, Skilled labour Acquisition of new technology, Difficulties in implementing new technology, Availability of appropriate premises or site and, Access to overseas markets.

Unlike the majority of the Transitional Economies, Kosovo has not been very conducive for SMEs, and it continues to face an unfriendly environment. Kosovo continues to face issues in creating new institutions and a favourable business environment coming primarily as of the war consequences, difficulties of transition process along with privatisation, quality of institutions, etc.

According to previous studies of SMEs in transition countries business operations are affected by a large number of obstacles. The formal barriers such as the high level of taxes (Bohata and Mladek, 1999; Hashi, 2001; Bartlett and Bukvic, 2001) and the general regulatory environment (Brunetti et al., 1998; Hashi 2001) seem to be the main barrier in transition economies. Besides the formal obstacles, the informal constraints such as the implementation of regulations (Jancauskas, 2000; Bartlett and Bukvic, 2001), corruption (Bohata and Mladek, 1999) and unfair competition from the large informal economy (Muent et al., 2001) affect doing business in transition economies as well. External environment obstacles such as strong competition, environmental barriers such as lack of financing (Pissarides et al., 2000; Aidis, 2005; Hashi, 2001; Bartlett and Bukvic, 2001) and, low purchasing power (Jancauskas, 2000) further hinder the SME development. Lack of qualified staff (Bohata and Mladek, 1999), and delayed payments

by clients (Bartlett and Bukvic, 2001) presents additional environmental barriers. The lack of business-related skill development derives as a result of the lack of previous private business experience in transition countries (Aidis, 2005; Roberts and Tholen, 1998). Despite the fact that SMEs owners may not be aware of their skill weakness, lack of adequate business skills can hinder with the growth of private businesses in transition countries.

As presented in Table 6.9, the market of Kosovo possesses several other obstacles to the development of SMEs, whereas this are the compared results of 2010, 2011 and 2012 BSCK surveys concerning the obstacles to the development of SMEs as perceived by the entrepreneurs. The results are presented in average where 1- is not an obstacle and 5- is the major obstacle.

Table 6.10: Obstacles to business

Obstacles to business	Average 2012	Obstacles to business	Average 2011	Obstacles to business	Average 2010
Strong competition	3.02	Strong competition	3.95	Informal economy / black economy	3.92
Informal economy / black economy	2.64	Informal economy / black economy	3.81	Strong competition	3.84
Corruption	2.54	Taxes too high	3.58	Corruption	3.79
Taxes too high	2.53	Supply with electricity	3.57	Taxes too high	3.64
Lack of market demand	2.4	Corruption	3.55	Fiscal evasion	3.41
Crime robbery and anarchy	2.26	Fiscal evasion	3.34	Supply with electricity	3.33
Low enforcement	2.22	Low enforcement	3.22	Low enforcement	3.30
Sufficient and adequate Laws	2.23	Crime robbery and anarchy	3.21	Sufficient and adequate Laws	3.15
Fiscal evasion	2.22	Administrative borders	3.18	Political instability	3.13
Administrative borders	2.18	Sufficient and adequate Laws	2.93	Administrative borders	3.07
Supply with electricity	2.1	Political instability	2.88	Crime robbery and anarchy	3.05
Delayed collection of debits	2.05	Delayed collection of debits	2.68	Lack of market demand	2.94
Access to finance	1.99	Lack of market demand	2.63	Delayed collection of debits	2.79
Insufficient capacities	1.97	Access to finance	2.58	Access to finance	2.43
Political instability	1.81	Insufficient capacities	2.22	Insufficient capacities	2.17
Supply of materials, machinery and equipment	1.80	Supply of materials, machinery and equipment	1.98	Supply of materials, machinery and equipment	1.98
Transport	1.7	Lack of information concerning business	1.87	Lack of information concerning business	1.85
Lack of information concerning business	1.54	Business licensing	1.65	Transport	1.80
Employee skill	1.42	Transport	1.64	Business licensing	1.65
Business licensing	1.40	Employee skill	1.59	Employee skill	1.53
Managerial skill	1.04	Managerial skill	1.35	Managerial skill	1.35

(Source BSCK report 2012)

For the research purpose, we have chosen four of the most highly ranked obstacles according to BSCK report (Krasniqi, 2013) in Table 6.10.

It is hypothesised that these four obstacles will be negatively related to SMEs performance.

From business environment-related variables (taxes too high, corruption, informal economy and strong competition) only strong competition is statistically significant (p=.069). The variable strong competition enters the equation with a positive sign indicating that the higher the

competition makes the firm more efficient and innovative to reduce the cost of operation and as such increases the likelihood of being profitable. In today's economy SMEs have no longer the luxury to improve profit simply by increasing revenue. These firms, needed to improve operational efficiencies and merely support existing processes with fewer resources. In general this can be interpreted that the firms that are more concerned with the strong competition are profitable firms.

On the other hand, the profitable firms are not concerned with corruption, informal economy and taxes too high since the research results doesn't support our hypothesis that taxes too high, corruption, informal economy are negatively related to SMEs performance. Combined together, informal activities and corruption contribute to an anti-competitive environment in which the market fails to allocate resources efficiently because some market players operate outside the law (Krasniqi, 2012), while those working within the legal system face the increased cost of 'doing business' legally.

Maybe these can be the consequence the decade of the 90 were when entrepreneurship in Kosova emerged. Those necessity driven enterprises were not result of the favorable business environment, but as a response to several political developments, entrepreneurs were obliged to pay too high taxes, therefore, most of them informal economy as the most appropriate solutions.

It seems that most of the firms are adopted with these barriers and take them as the rules of the game; therefore profitable companies do not see them as obstacle.

6.2.2.1. Banking Sector in Kosovo and lending condition

As mentioned in the conceptual framework this thesis research will investigate and one more obstacle to the business that is access to finance. In this section, information regarding banking sector in Kosova and lending conditions are provided.

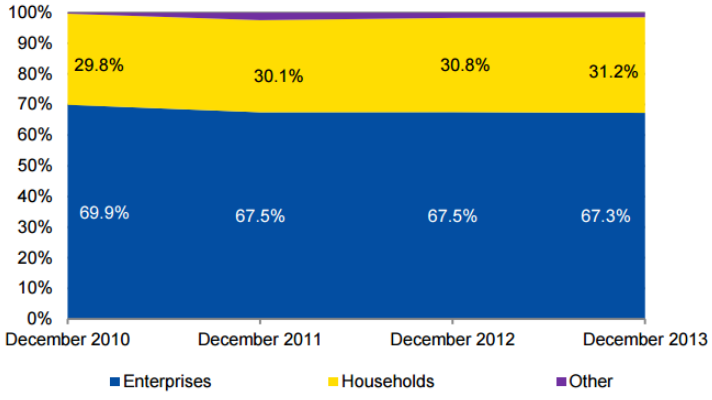
Financial Institutions in Kosova are licensed and supervised by the Central Bank of Kosova (CBK). The Financial sector in Kosova consists of Commercial Banks, Insurance Companies, Pension Funds, Financial Auxiliaries and Microfinance Institutions (Table 6.11).

The Banking sector in Kosova is characterized with a large of foreign capital. There are nine banks operating in Kosova, most of them dominated by foreign-owned banks, whose assets by the end of December 2013 constitute 89.9 percent of the total assets of the banking sector, and the rest is managed by domestically-owned banks.

Table 6.11: Number of Financial Institutions

Description	2010	2011	2012	2013
Commercial banks	8	8	9	9
Insurance companies	12	13	13	13
Personal funds	2	2	2	2
Financial auxiliaries	28	34	38	39
Microfinance institutions	17	20	17	17

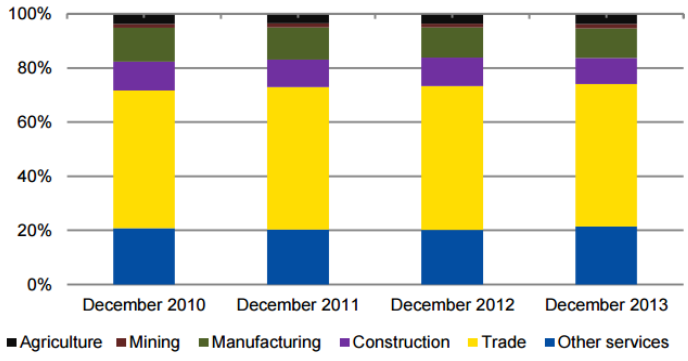
Despite the uncertainties and crises in the global financial markets, banks' perceptions of a relatively stable economic environment in Kosovo led to the continuation of lending growth in Kosovo (CBK, Krasniqi, 2013). According to CBK, in 2013, the total value of loans of the banking sector in Kosovo amounted to Euro 1.81 billion, marking an annual increase of 2.4 percent. Even loans to enterprises increased by only 2 percent (3.9 percent in December 2012), still the share of 67 percent is dominant to the structure of total loans, followed by loans to households with 31.2 percent of total loans (Figure 6.1).



Source: CBK (2014)

Figure 6.1: Loan structure, in percent

Within loans for enterprises, the majority consists of loans to commercial enterprises that comprise 52.6 percent of total loans to enterprises (Figure 6. 2).

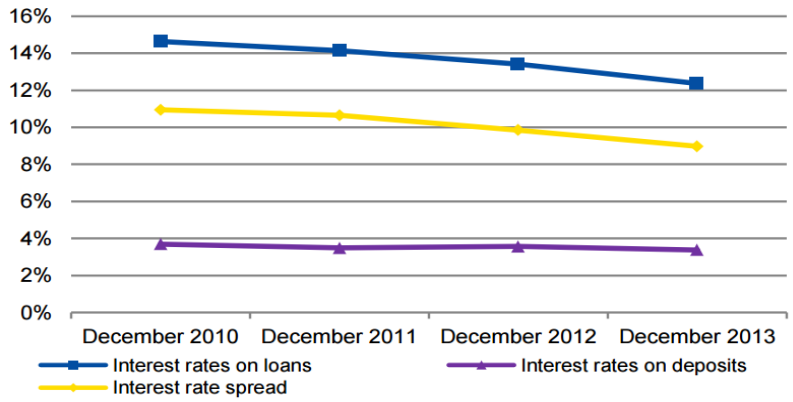


Source: CBK (2014)

Figure 6.2: Structure of enterprise loans by economic activity, in percent

According to CBK, in 2013 the average interest rates on loans and deposits were characterized by a declining trend. The average interest rate on loans decreased to 12.4 percent in 2013 and 13.4 percent in 2012, while deposits decreased to 3.4 percent in 2013 and 3.6 percent in 2012. As seen in Figure 3, the difference between interest rates in loans and deposits in 2013 was 9 percent, compared with 9.8 in 2012.

The average interest rate on enterprise loans decreased to 12.4 percent in December 2013 from 13.2 percent in December 2012. Investment loans were characterized by lower interest rates (12 percent in 2013 and 12.9 percent in 2012) compared to other business loans, on which the average interest rate during 2013 was 13.6 percent and 14.6 percent in 2012 (Figure 6.3). The average interest rate on household loans marked a decrease in 2013 (12.1 percent from 12.5 percent in 2012). The decline is also marked in the interest rate on deposits of enterprises, whereas the average falls from 3.3 percent in 2012 to 2.8 percent in 2013. Meanwhile, the average interest rate on household deposits decreased to 2.7 percent in December 2013 compared to 3 percent in December 2012.

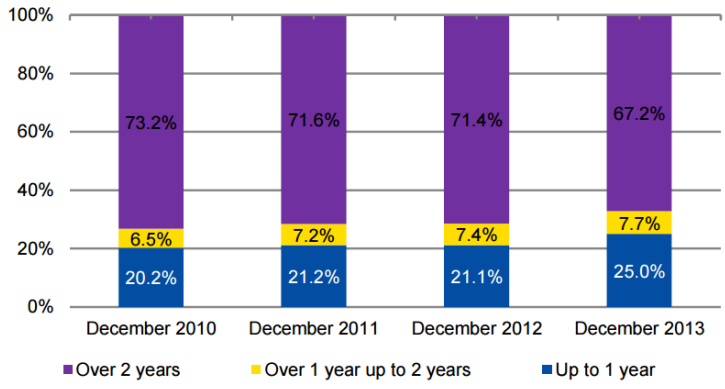


Source: CBK (2014)

Figure 6.3: Annual average interest rates, in percent

The structure of loans till December 2013 continues to dominate by loans with longer maturity period, which represent 67.2 percent of total loans considering the loan maturity criteria (Figure 6.4).

According to CBK, during 2013, it is noticed a slight shift towards loans with shorter maturity period that may reflect tightening the criteria for commercial banks in the form of reduced maturity deadline.



Source: CBK (2014)

Figure 6.4 Structure of loans by maturity, in percent

According to the BSCK survey conducted in 2012 most of the SMEs, rely more on internal business funds than on bank financial assistance. From 500 interviewed SMEs, only 30.91 percent of responded are credited by the commercial banks in Kosova. The majority of

respondents, 59.75 percent haven't applied for the loan, whereas 9.34 percent applied for the bank loan but were rejected (Table 6.12).

Table 6.12: Number of SMEs relied on bank loan

Have you received bank loan?	No of respondents	%
YES	149	30.91
NO. I haven't applied?	288	59.75
NO. I have applied but my application was rejected?	45	9.34
TOTAL	**482**	**100.00**

As shown in Figure 6.5 loan amounts that were disbursed to the surveyed SMEs varies starting from 300 Euros presenting the lowest to 3,000,000 that shows the highest loan amount among respondents. Most of the SMEs, 44.74 percent were credited with smaller amounts from banks 300-5,000 Euro. 25 percent of respondents had the loan in amounts 20,000-50,000 Euros, whereas only one enterprise declared that was credited with the highest amount (Figure 6.5).

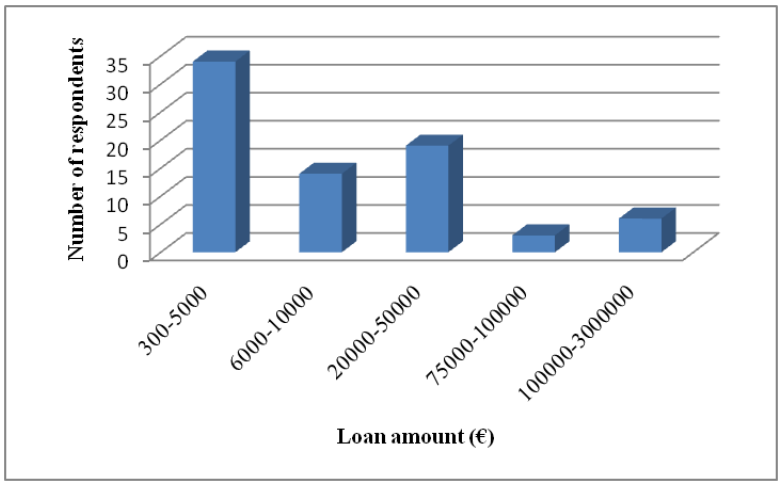


Figure 6.5: SMEs loan amount

As seen in previous CBK reports, the structure of loans was dominated by loans with longer maturity than two years. According to the BSCK, reports most of the SMEs 54.95 percent had the loan with higher duration than 2 years (24 months), whereas the rest 45.05 percent of respondents were credited in period for 24 months or less (Figure 6.6).

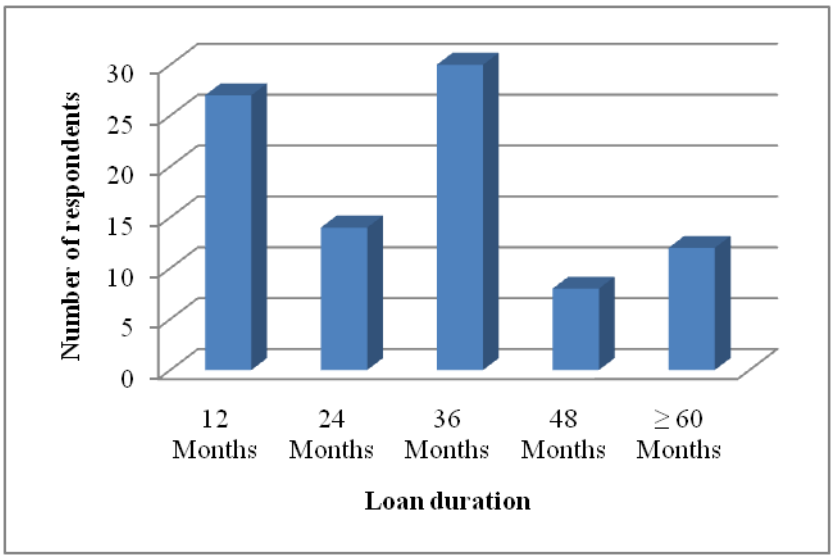


Figure 6.6 SMEs loan duration

The credit history of SMEs varies as per performance as well as the number of loans received from commercial banks. According to CBK, Non-Performing Loans ratio to total loans amounted to 8.7 percent in 2013, compared to 7.5 percent in 2012.

The vast majority of BSCK survey respondents 93.15 percent had 1-5 loans whereas 6.85 percent had more than five loans (Table 6.13). Most of the SMEs (48.21 percent) had applied for the loan during the years 2006-2010 and a considering number of respondents (35.71 percent) very early when the first commercial banks emerged. Only 16.07 percent of surveyed SMEs received the loan from the banks during the years 2011-2012.

Table 6.13: Number of loans

Number of loans	No of respondents	%
1-5	68	93.15
6-10	4	5.48
12	1	1.37
Total	**73**	**100**

According to CBK, a slight decrease in the loan interest rates was recorded. This decrease encouraged to some extent entrepreneurs to apply for loans. Based on the BSCK survey report an

increase of 30.9 percent was recorded in 2012; 29.70 percent in 2011 and 36.7 percent in 2010. Database indicates 45.83 percent of surveyed entrepreneurs stated that "I did not need a loan" as the company had sufficient capital to invest in their activities, 31.48 percent didn't apply for loan because of high loan interest rates. The research indicates that 9.34 percent of the firms applying for bank loans were rejected. BSCK survey aiming to investigate the main reasons for SMEs loan rejection found that most of the loan applications were rejected due to the absence of collateral. According to survey results, 95.57 percent of entrepreneurs stressed it was required to pledge real estate for the bank loan, whereas 64.6 percent have pledged their real estate and 30.97 percent firms real estate. The rest 4.42 percent of respondents' stress, it was required other collateral such as mortgage, transportation vehicles, equipment, company's inventory and some declared it was required a guarantor to apply for the loan (Table 6.14).

Table 6.14: Reason for not applying for loan

	2011	**2012**
I did not need a loan-company had sufficient capital	73.48%	45.83%
Application procedures was very complex	2.74%	0.93%
High interest rates	3.87%	31.48%
Collateral requirement too high	2.87%	2.31%
Repayment period was not sufficient	0.76%	2.62%
I was not confident that my loan application would be approved	1.93%	0.68%
Other	0.00%	0.93%
Total	**100.00%**	**100.00%**

(Source: BSCK SME Survey 2011, 2012 and 2013)

6.2.3. Firm related factors

When enterprises are founded by teams, rather than individuals, the experiences of the founders are of substantial importance (Gilbert et al. 2006) as their background heterogeneity and number of individuals involved, are important for the growth of the firms (Eisenhardt & Schoonhoven, 1990) since higher number of founders enables the distribution of responsibilities across a greater number of individuals and leads to higher levels of disagreement while strategic decision

making (Lant et al., 1992). The ownership structure of SMEs in Kosovo is mainly influenced by the family relations. Most of the surveyed SMEs around 82.27 percent are established by a single owner and most of them; about 70 percent of these SMEs are managed by the owners. The vast majority of these SMEs that are individually owned are micro enterprises. Considering the large share of micro enterprises in the overall structure of Kosova SMEs, based on these findings it can be concluded that the most SMEs around 83 percent are founded by individuals, this share is even higher among micro enterprises with around 87.4 percent. In contrast, small enterprises present a higher diversity of founders since over 30 percent of them are established by two, three and more founders. Individuals are also the main founders of medium sized enterprises with 65.4 percent, but the share of three and more founders is the highest among all groups with around 31 percent.

Based on the BSCK annual reports for years 2010, 2011 and 2012 the partnership structure of the surveyed SMEs in 2012, has not experienced any significant change compare to the previous year. It is noticed a slight increase of professional relations in establishing of enterprises while the share of technological relations has been halved. The survey showed that the number of enterprises with joint finance is more stable and appears as one of the important forms of financing their business. In contrast, the existing literature indicate that the differences between founders in age, education, major, and functional expertise have been found significant in new venture sales growth (Amason et al., 2006) and it is found to have negative implications for strategic decision making by lengthening the time of decision making (Miller et al., 1998).

The vast majority of businesses are individual businesses (89.3 percent). Only 4.97 percent of companies in the sample are organized as business partnerships and 1.45 percent of companies as shareholding companies, reconfirming the earlier conclusion that business partnerships are not common although increasing slightly. Concerning to organizational types, the survey suggests that 4.35 percent of companies operate under the unlimited legal liability.

It is hypothesised that business age, size and the sector will be positively related to SMEs performance. As can be seen in descriptive statistics (Table 6.1) the median of the firm's age in the sample is around ten years. Findings show that variable BUSINAGE (Business age) is statistically significant at around 5 percent level of significance (p=.043) and enters equation with positive sign strengthening the argument that Gibrat’s Law does not hold in our research, whereas potentiating Jovanovic’s learning theory. This suggests that an increase of one year in

the age of the firm increases the odds-ratio of .050 to be profitable firm. Older firms are more likely to be profitable compared to younger firms. Two other variables business size (p=.268) and service sector (p=.340) enter the equation with a positive sign and are not statistically significant.

6.2.4. Strategy related factors

Firms strategic decision to introduce new methods of marketing, companies investments and IT adoption has statistical significance on SMEs performance (p=.032) and enters the equation with a positive sign. In addition, the use of the internet for new market research methods is an important factor influencing the positive likelihood of being profitable firms.

Surprisingly, companies that did invest in the previous year of the survey are less likely to grow in the subsequent period (p=.068). Probably, this is linked to the domestic practices of business as they sometimes make investment choices without taking into consideration the internal resources and cost of capital and hence face difficulties in the subsequent period. This issue should be investigated further with qualitative data.

6.2.4.1. Information Technology

From technology related factors, variable use of internet is highly statistically significant at 1 percent it enters the research equation with a positive sign. The variable Internet use shows that firms that use internet compared to firms that do not use internet are more likely to be profitable companies. Internet use has a critical role on the profitability of firms. Another technology relates variables such as number of computers and website usage are not shown to be significant factors for profitability. In fact, the internet is more important rather than the number of computers in the firm.

The eight section of the survey asks information on the SMEs level of Information Technology usage in 2012. The respondents were asked to give the information about their technology adoption.

Table 6.15 Possession of computers by SMEs in 2012

Does your enterprise have computer?	Number of respondents	%
Have computer	290	58.00
Haven't computer	208	41.60
Didn't answer	2	0.40
Total	**500**	**100.00**

According to 2010 BSCK survey, 59.42 percent of firms declared they have computer/s. As recorded in BSCK Surveys report, in 2011 the usage of computer/s by firms has increased by approximately 7 percent (66 percent in 2011), while in 2012 the usage of computer/s by firms has decreased by 8 percent (58 percent in 2012) (Table 6.15). In 2010 only 40 percent of companies that did not have computers were planning to buy a computer in the future while in 2011 this percentage decreased by 0.1 percent. In 2012, the percentage of the companies that were planning to buy computer/s had decreased by 5 percent (34.38 percent in 2012).

Table 6.16 provide information on how many computers SMEs have. We have classified the companies that have computers into six groups: the first group those that have only one computer, the second group that have 2-5 computers, third group that have 6-10 computers, fourth group 11-20 computers, fifth group that possess 21-30 computers and the seventh group SMEs that have more than 30 computers.

The vast majority of surveyed SMEs in 2012 (142 or 28.40 percent) has only one computer, 105 companies or 21 percent have 2-5 computers, and 20 SMEs or 4 percent possess 6-10 computers. The number of companies that have more than 10 is significantly smaller whereas 7 companies or 1.40 percent have 11-20 computers, 3 SMEs or 0.60 percent has 21-30 computers and only 2 SMEs or 0.40 percent have more than 30 computers.

Table 6.16: The number of computers possessed by SMEs in 2012

No of computers	Number of respondents	%
1	142	28.40
2-5	105	21.00
6-10	20	4.00
11-20	7	1.40
21-30	3	0.60
>30	2	0.40

Considering the low intensity of the use of computers by SMEs, Table 6.17 provides information about the SMEs main purpose of computer use in order to observe the quality of computers use. Some of the respondents gave only one answer while a considerable number gave multiple answers, which mean that some firms use computers for different purposes.

In 2010 majority of companies have used computers for purposes of financial record keeping (37.7 percent); in 2011, 30 percent of respondents used computers to keep financial records, while, in 2012, 53.9 percent of respondents use computers to keep financial records. According to this statistics financial recording remains the primary reason for companies possessing computers; followed by planning purpose since in 2010 around 16.7 percent of SMEs use computer for planning, in 2011 was recorded an decrease from 5.4 percent, while in 2012 around 13.9 percent of surveyed SMEs use computers for this purpose. Computers are used for market research, for text (word) processing, production/operations management, quality control and for electronic communication.

A small number of surveyed SMEs (3.8 percent in 2010 while in 2011 and 2012 decreased in 2.60 percent) declared that use computers for other purposes such as: sale, communication, business, invoicing, calculations, CD copying, photo adjustment, work activity, adjustment and for entrepreneurs needs.

Table 6.17 SMEs main purpose of computer use

The main purpose of computer use	2010 %	2011 %	2012 %
1. Financial record keeping	37.7	30.0	53.9
2. Planning	16.7	11.3	13.9
3. Word processing	11.7	9.8	7.8
4. Market research	15.3	11.9	8.3
5. Production/operations management	8.0	7.1	7.8
6. Quality control	6.8	5.8	5.6
7. Electronic communication		21.5	1.2
8. Other	3.8	2.6	2.6

Table 6.18 provides information whether SMEs use Internet or not. According to the obtained results the vast majority (63 percent) use Internet, 23.80 percent do not use Internet while 13.20 percent didn't answer.

Table 6.18 Internet usage from SMEs in 2012

Do you use Internet?	Number of respondents	%
Yes	315	63.00
No	119	23.80
No answer	66	13.20
Total	500	100.00

Since 63 percent of surveyed SMEs, which is more than half of them, use Internet, the following question seeks information about the quality of Internet usage. According to BSCK report (2012) in 2010 most of SMEs use Internet for market research (46.8 percent) followed by e-mail communication (18.1 percent); promotion and advertising (15.4 percent); selling products (13.9 percent) and for other purpose (5.7 percent).

In 2011, 23 percent used Internet for market research, 14.4 percent for promotion and advertising activities, 11.5 for selling of goods and services. The table below shows the rate of percentages for these factors has decreased among 2010 and 2011. In 2011, the use of the Internet for e-mail communication has almost doubled, which currently presents the main purpose of using the internet. Only, in 2011 the survey recorded the e-Banking factor as a reason for internet usage, as

the results assert that 12.4 percent of companies use Internet for e-banking services in particular. The remaining 3.1 percent of the companies use Internet for other purposes.

As previously mentioned, in 2012 leads e-mail communication purpose with almost 61.2 percent; followed by 18.1 percent of respondents use the internet for market research purpose; 10.1 percent for promotion and advertising activities; 4.6 for selling of goods and services. As seen in the table below, decrease in the rate of percentages is recorded for the most of the factors among 2011 and 2012. In 2012, the use of the Internet for e-mail communication has increased tremendously, which is currently the key factor for using the internet in 2012 (Table 6.19).

Table 6.19 SMEs main purpose of Internet use

Please indicate the purpose of Internet use	**2010 %**	**2011 %**	**2012 %**
Market research	46.8	23.0	18.1
Promotion and advertising	15.4	14.4	10.1
Selling products	13.9	11.5	4.6
E-mail communication	18.1	35.6	61.2
Other specific business purposes	5.7	3.1	5.9
E-banking		12.4	

As Table 6.20 shows the majority of surveyed SMEs 71.60 percent does not possess web-site, only 66 SME or 13.20 percent have web-site while 76 or15.20 percent didn’t answer.

Table 6.20 Possession of web-site by SMEs

Does your enterprise posses web-site?	**Number of respondents**	**%**
Yes	66	13.20
No	358	71.60
No answer	76	15.20
Total	**500**	**100.00**

Table 6.21 provide information whether SMEs perform online transactions or not. The vast majority of SMEs hesitated to answer (86 percent), only 8 percent completed B2B online transactions, 4.80 percent performed B2C online transaction and, 1.20 percent performed B2B and B2C transactions online.

Table 6.21 SMEs online transactions

Do you perform online transactions such as:	Number of respondents	%
B2B	40	8.00
B2C	24	4.80
B2B and B2C	6	1.20
No answer	430	86.00
Total	**500**	**100.00**

As seen in Table 6.22, only 6.20 percent of surveyed SMEs have exposed their products/services and prices on their web-site; 69.80 percent do not present their products/service online.

Table 6.22 SMEs products and prices exposed on web-site

Are your products and prices exposed on your web-site?	Number of respondents	%
Yes	31	6.20
No	349	69.80
No answer	120	24.00
Total	**500**	**100.00**

Table 6.23 shows that most of the SMEs 71.20 percent do not order goods online, 102 SMEs didn't answer while only 42 SMEs or 8.40 percent perform online orders of goods.

Table 6.23: SMEs online orders

Do you order goods online?	Number of respondents	%
Yes	42	8.40
No	356	71.20
No answer	102	20.40
Total	**500**	**100.00**

As can be seen in Table 6.24, only 74 SMEs or 14.80 possess licensed software, 279 SMEs or 55.80 percent use the non-licensed software while 147 SMEs or 29.40 percent didn't answer.

Table 6.24: SMEs software

Do you possess licensed software?	Number of respondents	%
Yes	74	14.80
No	279	55.80
No answer	147	29.40
Total	**500**	**100.00**

The most commonly used software by surveyed SMEs are: Windows 7, Windows 8, Windows Vista, Windows XP, CASI, Informatika soft, Rikont, Expert, Expik, K software, Log Micro and others.

CHAPTER VII

ACCEPTANCE OF E-BANKING SERVICES FROM SMALL AND MEDIUM ENTREPRISES

E-banking is the provision of banking services through electronic channels. The customer can access the data without any temporal and geographical constraints. Electronic banking has caused massive changes in the banking practice since it was first introduced as "home banking" by the main New York banks in the 1980's (Osho, 2008). This service enables consumers to use the Internet to access their bank account anytime and anywhere. E-banking involves facilities such as full access to accounts, money transfer and the purchase of financial products or services online. From the banks' point of view, the use of Internet Banking leads to larger customer coverage, more effective marketing of their services and products internationally (Tuchila, 2000), more substantial cost saving (Sathye, 1999, Robinson 2000), better enhanced competitiveness, higher increase in customer satisfaction and personalized relationship with customers. Furthermore, Internet Banking provides opportunities for the bank to develop its market by attracting a new customer base from existing Internet users (Suganthi et al., 2001). Although Madill et al., (2002) have pointed out that the relationship between SMEs and banks has not been the subject of much attention; recently the situation has been changing. SMEs have access to credit facilities and different bank services.

There is a growing reorganization within the banking sector, so nowadays SMEs not only represent a viable market segment in terms of the number and value of accounts, but also provide a considerable amount of the retail profit (Carroll, 1999; Kaleem, 2007; Kaleem, 2009). Therefore, the attraction and retention of the SMEs market segment is in the interest of banks, so they make efforts to facilitate long-term growth (Gerrard and Cunningham, 2000). Zekos (2004) and Kim (2004) were right to argue that e-banking grows faster in comparison to other e-commerce sectors, especially taking into consideration that the financial services are data intensive, and there is no physical delivery.

In today's knowledge-based economy, the use of information technology by firms adds to their competitive advantage. The majority of companies in Kosovo use computers for purposes of

financial record keeping while some of them use them for planning and market research. SMEs in Kosovo are very important for the economic growth. As previously mentioned, there are 87,960 registered businesses in Kosovo. The percentage that SMEs account for is around 98.4 percent and approximately 65 percent of employees in Kosovo are represented by SMEs. The enterprise structure is mainly dominated by micro enterprises and the growth level, although steady, is still at low levels.

There are nine banks currently operating in Kosovo, representing 76.3 percent of the total assets in the financial sector. Commercial banks in Kosovo are universal banks therefore they carry out a whole range of banking activities.

The current legislation does not differentiate between commercial, savings, mortgage and cooperative banks. In Kosovo, all banks have the right to offer all types of banking services. Their products and services include bank accounts, loans, domestic and international payments, deposits, foreign exchange transactions, bank cards, bank guarantees, e-banking, m-banking and others. The access to these services is assured through 310 branches and sub-branches, 415 ATM's, 8,361 POS and 55,292 e-banking accounts. Euro is the most widely used currency in Kosovo. E-banking services have been available in Kosovo since 2007. Initially, only two major banks (Raiffeisen Bank and Procredit Bank) offered e-banking services, and the number of users was very small. Nowadays almost all banks in Kosovo offer e-banking service to their clients. Even the number and value of E-Banking transfers is growing continuously; still it is worth mentioning that this service has not yet found widespread use by the public. In the payment service market, there has begun an increased interest in the payments by mobile phone (mobile banking). These services enable clients to access their banking account and to perform various payments by mobile phone at any time. Having in consideration the high penetration of mobile phones to citizens, and the high coverage in the country by the telecom operators, this method of payments appears quite promising in the future. Currently, some banks have already started successfully to provide this service.

Despite the growing trend of e-banking services, Kosovo continues to have a relatively small number of e-banking service users. Figure 7.1 presents the number of e-banking accounts during the years. According to the Central Bank of Kosovo report the growth rate of the number of accounts which can be accessed through e-banking service in 2011 compared with the previous

years was about 25 percent, while a year ago the growing rate was 35 percent. If we compare 2012 with the end of 2011 will determine 40.7 percent more accounts that can be accessed through e-banking service. According to the growth rate of e-banking users that results high, it can be concluded that Kosovo will be close to the average of the region in a relatively short period. Currently, Kosovo has 53.9 thousand e-banking users per million people which remains a very low number of accounts which can be accessed through e-banking.

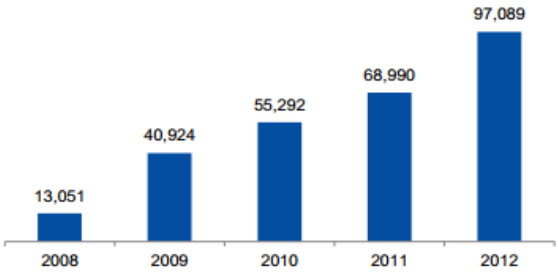


Figure 7.1: Number of e-banking accounts (Source: CBK 2013)

Table 7.1 presents the number of e-banking service users by the type of account, divided into individuals and businesses. According to data in Table 7.1, we can see that 79.15 percent of all e-banking accounts are those of private persons while only 20.85 percent are accounts used by businesses. From Table 7.1 we can also see that in total number of individual accounts using e-banking services, 96.4 percent of them are resident accounts while only 3.6 percent are non-residents. A similar situation is for business accounts as well; where from the total number 99 percent of them are residents while only 1 percent of them are accounts of non-residents businesses.

Table 7.1: Number of e-banking accounts by type in 2012

Description	Number	%
Individual`s accounts	76,844	79.15%
a- individual (resident)	74,099	
b-individual (non-resident)	2,745	
Business accounts	20,245	20.85%
a- individual (resident)	20,099	
b-individual (non-resident)	146	
Total	**97,089**	**100.00%**

(Source: CBK 2013)

The adoption of online banking channels by SMEs in Kosovo has been rather slow when compared with the large companies. Since, e-services are new products in Kosovo and their usage in the market is not very large, some banks hesitate to report about these products with the excuse that the data is internal and confidential.

This paper attempts to bridge this gap by exploring e-banking acceptance and adoption, as well as the obstacles toward its usage by SMEs in Kosovo.

7.1. Methodology

In this study, a single case study approach was employed with the intention to explore and gain preliminary understanding of the e-banking adoption in Kosovo from the perspective of small and medium size enterprises. The objective of this paper is to explore the factors that are affecting the adoption of e-banking among the SMEs using a research model that was adapted (Figure 7.2). The study attempts to identify the "push" factors encouraging the use of Internet banking, as well as the barriers that prevent SMEs to adopt this technology.

Figure 7.2: Research Model (adapted from Chong et al. 2010; Polasik and Wisniewski 2009)

7.2. Hypotheses of the Study

Based on the objective of the study, five testable non-directional hypotheses were developed to address the research question:

H1: There is a significant relationship between Internet usage period and E-banking services usage.

Taking into consideration that prior Internet experience, familiarity with computers gives more confidence to the costumers to interact online with their banking accounts. Therefore, hypothesis H1 is proposed.

H2: There is a significant relationship between Perceived ease of use and E-banking services usage.

As Radner and Rothschild (1975) stated that perceived ease of use refers to the degree to which a person believes that using a particular system would be free of effort. The effort is a finite resource that a person may allocate to the various activities for which he or she is responsible, hence an application perceived to be easier to use than another is more likely to be accepted.

H3: There is a significant relationship between Quality of Internet and E-banking services usage.

Good and secure Internet connections increase the security of E-banking services thus the significance of this factor is explored.

H4: There is a significant difference between business sectors as to the E-banking services usage.

Variability exists among different business sectors about E-banking adoption. IT companies are more likely to adopt online banking rather than food industries, cosmetic salon and restaurants.

H5: There is a significant difference between ages of business as to the E-banking services usage.

Existing companies tend more to use E-banking services than Start-ups.

7.3. Questionnaire design

A questionnaire was used to achieve the objectives of our study. For the purposes of this study, the questionnaire was sent to people that operates with SMEs banking accounts: owners, managers and financial directors with an invitation to participate. In order to maximise the

number of responses, the purpose of the questionnaire was clearly stated and the respondents were given assurance that the information being collected is highly confidential and used only for the purposes of this study, without their real names being published. Some of the SMEs refused to participate in the study, and there were also some incomplete questionnaires returned, which were subsequently excluded from the list. Out of the total of 145 distributed, only 106 valid questionnaires were collected back, which represents a response rate of 73%. From 106 valid responses that provide information about the company 60 of them were from SMEs owners, 27 managers and 19 financial directors.

The questionnaire comprised four sections. It was designed with simplicity and ease of understanding in mind, with closed questions. The first section was composed of two parts. The first part asked for general information about the owners, managers, financial directors of the company (gender, age, marital status, and education) and second part asked for general information about the company (business sector, age of business and area of business). The second section seeks the Internet status of the SMEs (Internet usage period), the third section seeks E-banking usage and the quality of the relationship the SMEs have with their banks (perceived ease of use E-banking services). The fourth section sought information about the Quality of the Internet. Questions in the second, third and fourth section were measured by using a five-point Likert scale.

The data obtained from the questionnaire were analysed using multiple regression analysis and frequency counts. Pearson Correlation was used to assess the relationship between independent and dependent variables. The data was computed using the Statistical Package for Social Science (SPSS) version 19 application to strengthen the accuracy of results.

7.4. Results and discussions

The result of reliability testing of the variables was found to be 0.82; it is considered that the coefficient of the data generated is acceptable.

Demographic factors have been found to be associated with the adoption of different banking channels, especially Internet banking (Al-Ashban and Burney, 2001; Karjaluoto et al., 2002; Sathye, 1999). People with high education may have an aptitude for computer literacy and information processing skills. All these qualities are essential for E-banking usage and, therefore,

there is a relationship between education and E-banking usage. The results reported that males were more likely to use E-banking than women. Based on Akinci et al.'s (2004) findings, in Turkey mid-aged consumers are more likely than younger or older consumers to use Internet banking. Similar results found in this study shows that there is a negative relationship between age and online banking activities.

From the Table 7.2 it can be seen the demographic profile of the sample in this study. The number of respondents for the study was 106 out 6529 population of the Mitrovica region.

Most of the surveyed respondents were male: 64.15% and 35.85 were female. Based on age, most of the respondents were from 31-40 years old, which is 44.34 percent, 33.96 percent from 41-50 years old, 11.32 percent are less than 30 years old and 10.38 percent are from 50 years old and above. The vast majority of the respondents were married which made up to 60.38 percent; 30.19 percent were single while 9.43 percent of the respondents were divorced. Based on the sample results: most the SME Managers 47.17 percent have High School, 32.08 percent have a secondary school, 14.15 percent have the undergraduate degree, 2.83 percent have a graduate degree and primary school. Only 0.94 percent of SME Managers/Owners have Ph.D. degree.

Table 7.2: Frequencies of Demographic Variables

Respondent profile	Frequency	Percent (%)
GENDER		
Male	68	64.15
Female	38	35.85
AGE		
Less than 30 years old	12	11.32
31-40 years old	47	44.34
41-50 years old	36	33.96
Above 50 years old	11	10.38
MARITAL STATUS		
Single	32	30.19
Married	64	60.38
Divorced	10	9.43
EDUCATION		
Primary school	3	2.83
Secondary school	34	32.08
High school	50	47.17
Undergraduate	15	14.15
Graduate	3	2.83
PhD	1	0.94
BUSINESS SECTOR		
Food	30	28.30
Pharmacy	14	13.21
Salon and cosmetic	20	18.87
Clothing Store	18	16.98
Electrical	8	7.55
Restaurant	16	15.09
AGE OF BUSINESS		
Less than 2 years	12	11.32
2-5 years	50	47.17
6-10 years	31	29.25
More than 10 years	13	12.26

As can be seen from the table 7.2 regarding the business sector most of the SMEs were from the food sector 28.30 percent, salon and cosmetics 18.87 percent, Clothing Store 16.98 percent, restaurants 15.09 percent, pharmacy 13.21 percent and electrical 7.55 percent.

According to the age of the business: 47.17 percent of respondents have 2-5 years; 29.25 percent have 6-10 years; 12.26 percent have more than ten years and 11.32 percent have less than two years.

The results reported that most of the SMEs from the sample are urban 82 (77.36 percent), while only 24 (22.64 percent) are rural (Table 7. 3).

Table 7.3: E-banking users and non-users in Mitrovica region

	Area	Total		Users		Non-users	
		n	%	n	%	n	%
E-Banking	Urban	82	77.36	70	66.04	12	11.32
	Rural	24	22.64	7	6.60	17	16.04
Total		106	100	77	72.64	39	27.36

According to the Table 7.3, urban SMEs are more likely to use E-banking services than rural. From 82 urban SMEs from the sample, 70 SMEs use E-banking services and 12 of them are non-users. In rural, results differ among 24 rural SMEs 17 are non-users, while only 7 SME use E-banking services. Some of the interviewed rural SMEs declared that they lack E-banking services due to the quality of Internet, and they were seeking better Internet in order to increase e-banking services usage.

7.4.1. Correlation Analysis of the selected variables

The Pearson Correlation was used in order to assess the relationship between independent and dependent variables. According to Table 7.4 all the hypothetical independent variables were statistically significant with the p-value lower than 0.05 ($p < 0.05$). Based on the analysis, the dimension concerning Internet usage period indicated the highest strength with $r = 0.306$, shows that this variable has positive correlation with online banking, followed by perceived ease of use with $r = 0.283$ and quality of Internet $r = 0.208$. Based on the analysis, results indicate that three variables have positive correlation respectively.

Table 7.4: Correlation Coefficient Analysis

Variables	Online Banking	Internet usage period	Perceived ease of use	Quality of Internet
Online Banking	Pearson 1	0.306**	0.283**	0.208*
	Correlation Sig. (2 tailed)	0.001	0.003	0.032

N: 106
**Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at the 0.05 level (2-tailed).

The Pearson Correlation analysis as a whole suggested that there was significance between independent variables with online banking. The further evidence displayed in Table 7.4 confidently supports hypothesis 1, hypothesis 2, and hypothesis 3 since the significant p-value was lower than 0.05.

Table 7.5: Regression Analysis (Multiple Regressions)

Variables	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	β	t-value	Sig.
Constant	1.710	0.493		3.470	0.001
Internet usage period	0.381	0.134	0.257	2.855	0.005
Perceived ease of use	0.163	0.061	0.236	2.678	0.009
Quality of Internet	0.061	0.072	0.076	0.845	0.400

R^2=0.489

Table 7.5 displays the summary of the multiple regression analysis among all the independent variables towards E-banking service usage as the dependent variable. Among all the independent variables, Internet usage period indicated the highest significance with the t-value equal 2.885 and the beta score of 0.257, perceived ease of use indicates the t-value equal 2.678 and the beta score of 0.236, while quality of Internet indicated the lowest significance with the t-value equal 0.845 and the beta score of 0.076.

As can be seen from the table 7.5 the mentioned variables can explain 49 percent the usage of e-banking among SMEs in Mitrovica region. The unexplained (51 percent) may be the result of the influences of others factors that have not been yet explored such as awareness, accessibility, security, trust and others.

7.4.2 Analysis of Differences for Business sector and Business Age with Online Banking

Table 7.6 displays the test results of significant differences for variables among multiple groups.

Table 7.6: One-way ANOVA

Factor list	Dependent variable	df	Mean Square	F	Sig.
Business sector	E- Banking	5	2.282	3.413	0.007
Age of business	E- Banking	5	1.831	6.800	0.001

The differences between the business sector and the E-banking services; the result on the ANOVA indicated that there was a significant difference 0.007, based on significant level 0.05 (F=3.413, df=5). With the calculated value, the evidence suggested that there was a significant difference among the six groups of the business sector (food, pharmacy, salon and cosmetics, clothing store, electrical and restaurants) in terms of their participation in E-banking services. For the analysis of differences between the age of business and E-banking services usage, the result indicated that there was a significant difference 0.001, based on significant level 0.05 (F=6.800, df=5). This was evidence indicating a significant difference between the age of business and the E-banking services usage. As shown in Table 7.6 Hypotheses 4 and 5 were significantly supported.

7.5. Conclusions

The emergence of the internet seems to have a significant impact on the diffusion of electronic banking. With the diffusion of the internet banking transactions, the small and medium enterprise is no longer bound to the limitation of time or geographical factors. E-banking enables transactions and services to conduct via online, which can provide customers more flexibility in making payment or other related transaction. This study presents reports and data from Central Bank of Kosovo about of e-banking adoption in Kosovo. The study sheds light on perceptions for small and medium enterprises regarding E-banking usage.

It served as a marketing tool for E-banking services for small and medium enterprises that currently do not use these services, taking into consideration that they take an interest in their acceptance. Even in 2012, Kosovo had 53.9 thousand e-banking users per million people still it

was a very low number of accounts that could be accessed through e-banking. E-banking services are used more from private person accounts than from businesses accounts whereas 76,844 e –banking accounts or 79.15 percent of all e-banking accounts were those of private persons, while only 20,245 e-banking accounts or 20.85 percent are used by businesses in 2012. During the last couple of years, the e- banking services has grown rapidly. Banks are starting to encourage the use of electronic payments by their customers by increasing fees for inside bank payments and decreasing fees for online payments. However, according to the CBK payment reports (2015) the volume of inside the bank payments still exceeds that of online payments (ATM, POS, E-banking, M-banking, and others).

According to CBK (2015) in the last quarter of 2014 the total number of e-banking accounts increased in 157,761 while at the end of January the total number of e-banking accounts increased in 169,104.

Even in the end of January 2015 businesses lag to use e-banking accounts since 132,576 e-banking accounts are used by individuals or 78.40 percent while 36,528 are used by businesses that present 21.60 percent of total e-banking accounts.

In January of 2015 besides that the number of bank accounts has increased in 1,982,993 as reported in CBK (2015), increases are marked in other alternative distribution channels as well e.g. number of POS increased to 9.348; number of ATMs increased to 497, and the number of e-banking accounts increased to 169.104. While the number of debit cards reached 677.738; credit card 123.838 and the number of accounts that use standing orders amounted to 48.753.

By the recent upgrade of the accessibility of information technology and smart phones, it is noticed an increased interest in the payments by phone or so-called Mobile banking (M-banking). Adoption of these new technology services, enable clients to perform different payments by mobile phone at any time, seven days a week and 24 hours per day in the entire territory of Kosovo.

This method of payments seems promising in the future considering the high level of mobile phones penetration to citizens, the high coverage in the country by the telecom operators and the young generation which is very familiar with new technology and its utilization.

It is expected that the introduction of ATM terminals with barcode readers will increase the efficiency of payment services, in particular for Kos Giro payments.

Customers and in our case SME entrepreneurs can pay the utility bills (such as electricity, post-telecommunication, etc.) without having to go to bank tellers and wait in long line. Besides the comfort and speed, this service will reduce the payment fees of commercial banks and will encourage payment of these bills through bank accounts and not with cash.

The Pearson Correlation was used in order to assess the relationship between independent and dependent variables in the study. According to results all the variables have the significant relationship on the dependent variable when correlated singly. Among the three independent variables identified that Internet usage period is the most influential factor towards usage with r = 0.306 and followed by Perceived ease of use and the quality of Internet. With this finding, all hypotheses of the study were accepted.

Based on the results, we can conclude that small and medium enterprises with the higher Internet usage period of the persons that operate with the firms' banking accounts are willing more to use e-banking services. The age of the managers, owners, and financial directors results to have a negative influence on E-banking acceptation.

7.5.1. Limitations and further study

This study was conducted to find the factors influencing the adoption of E-banking services among SMEs users, but there is still the place for further studies to explore. Most of the respondents were E-banking users; therefore the results of this study contribute more to the perception and adoption of online banking channels. Further studies should be undertaken from rural areas where most of the SMEs are non-users of these services, in order to identify the obstacles toward using these services and products.

The number of respondents was not very high, and all of them were from the Mitrovica region, further studies should focus on SMEs from other regions of Kosovo in order to have more representative results.

CHAPTER VIII

CONCLUSION

8.1. Main results of discussion and thesis summary

- This thesis empirically investigated the determinants of SMEs growth. Also, the fundamental obstacles faced by SMEs in Kosova are identified. A particular focus of this thesis was drawn to Information Technology adoption from Kosovar SMEs and the impact of Information Technology on SMEs performance. We have reviewed the existing literature from different books, reports, electronic libraries and journals to bring the evidence from developed countries, developing countries, and those in transition.
- According to the reviewed literature, the developed countries SMEs account for a large share of enterprises and do not have that significant impact on economic development and poverty alleviation. Whereas, in poor and developing countries ‘‘SMEs are the emerging private sector and thus form the base for private sector-led growth’’. The literature was reviewed for our variables of interest – Information Technology and Electronic banking as well. Our literature review has detected several gaps on determinants of SMEs growth and performance. Most of prior studies that have explored this area in developed and developing countries, as well as those in transition, focused on the business environment and its impact on SMEs growth or on SMEs intention to adopt Information Technology but the combination of all this factors remained a gap in existing literature.
- Considering the gap in the literature the overall purpose of this doctoral thesis, was to contribute to existing theory in terms of research on the determinants of SMEs growth from transition developing countries with empirical evidence from a unique transitional country – Kosova. Considering the specific context of the study the main purpose of this thesis gives particular attention to the application of Information Technology (IT) in small and medium enterprises in Kosovo and its impact on their performance.

Three research objectives are derived based on the overall purpose of this thesis (see below):

- To investigate the determinants of SMEs growth in Kosovo and to identify the fundamental obstacles faced by SMEs in Kosovo,
- To identify the level of Information Technology application in SMEs in Kosovo and their impact on SMEs performance,
- To propose strategies and measures to maximize Information Technology adoption in SMEs in Kosovo

This thesis investigates the combinations of different factors such as business environment, entrepreneur's resources, firm related factors and strategy (IT adoption) and their influence on SMEs performance in transition economies – case of Kosova. The large dataset based on the BSCK SME Survey was employed to estimate the influence of a variety of factors affecting SMEs growth and performance. The logit model is chosen for research purpose because our dependent variable is dichotomous taking values of 1 if the firm is profitable and taking value of 0 if not profitable Our model can predict 57.1 percent of non-profitable firms and 82.1 percent of profitable firms by summarising results from 17 independent variables. In general, our model was able to predict 72.5 percent of companies correctly. Based on our research the independent variables included in the model explain around 33 percent of the variation in the dependent variable, i.e. profitability of firms.

Although, the large impact of both push and pull factors is noticed in the decision of people to start – up business in Kosova. The largest number of entrepreneurs or 32.61 percent argue that they started their own business motivated by pull factors as they "dreamed to have their company", these statistics indicates the increase of pull factors in 2012 compared to previous years 2010 and 2011 (BSCK report- Krasniqi, 2013).

Initially we hypothesized entrepreneur's attributes e.g. age, education and previous business experience will be positively related to SMEs performance, whereas our findings indicate the age of the entrepreneur is highly statistically significant (p=.004). A unit change in the age of the entrepreneur decreases odds ratio to be in-group of profitable firms by -.052. In our research, we found weak support for the positive impact of variable entrepreneur's education to SMEs profitability (p=.110), whereas variable business experience is not statistically significant in SMEs performance respectively profitability (p=.667). Considering the variable research

managers training in area of management and business it is expected to have positive effect on firm's profitability, by surprise our research indicate the opposite as this variable enters the equation with negative sign and is not statistically significant (p=.524).

According to BSCK report (Krasniqi, 2013) the fundamental obstacles faced by SMEs as perceived by the entrepreneurs among 2010, 2011 and 2012 BSCK surveys are: Strong competition, Informal economy/black economy, Corruption, Taxes to high, Lack of market demand etc.

In our research on business environment-related variables (taxes too high, corruption, informal economy and strong competition), only strong competition is statistically significant (p=.069). This result indicates that facing the stronger competition firms became more efficient and innovative to reduce the cost of operation.

Surprisingly, based on our research results the profitable firms do not consider corruption, informal economy and taxes too high as significant obstacles to business since our hypothesis that taxes too high, corruption, informal economy are negatively related to SMEs performance are not supported. Usually, informal activities and corruption contribute to an anti-competitive environment in which the market fails to allocate resources efficiently since some firms operate outside the law (Krasniqi, 2012), while those working within the legal system face the increased cost of 'doing business' legally.

We believe that these results are due to unfavorable business environment from the past, in particular during the 90 when the majority of the population working in state enterprises as a response to several political developments were expelled and were pushed to become entrepreneurs in order to survive. The push driven entrepreneurs were obliged to pay too high taxes. Therefore, most of them found informal economy and corruption from officials in the state administration as the most appropriate solutions. These bad habits are and nowadays inherited, and it takes time and commitment to rooting them out. It seems that most of the firms are adapted to this kind of business environment and these obstacles in particular. Consequently, firms accept them as part of the business or as the rules of the game; therefore profitable companies do not see them as obstacles.

We found informality in the literature as something that start-ups for a while have to live with, but in general it is suggested that would be better to eliminate it.

An entrepreneur chooses whether his or her enterprise will enter an industry formally or informally or, whether to stay out and this choice that is made under conditions of uncertainty about profitability (Bennett, 2010). Enterprises that enter informally in the market, according to the start-up period performance, will decide whether to continue informally or, to switch formality status, or to exit.

According to Loayza, (1996) informality undermines the tax base and has adverse effects on investment in public infrastructure. Also, informal employment is disadvantageous to workers as it comes without social benefits (World Bank 2007).

As far as Bennett, (2010) argues that Informality may be a stepping stone, without which formality may never be achieved, we hope that informal economy in a near future will not be present to a greater extent as most of the firms in Kosova will switch operating formally.

Findings indicate that variable Business age is statistically significant at around 5 percent level of significance (p=.043) and enters equation with positive sign arguing Gibrat's Law does not hold in our research, whereas supporting Jovanovic's learning theory. Older firms are more likely to be profitable compared to younger firms. Two other variables business size (p=.268) and service sector (p=.340) enter the equation with a positive sign and are not statistically significant.

Firms strategic decision to introduce new methods of marketing, companies investments and IT adoption has statistical significance on SMEs performance (p=.032) and enters the equation with a positive sign. The use of the internet for new market research methods is an important factor influencing the positive likelihood of being profitable firms. Whereas, companies that did invest in the previous year of the survey are less likely to grow in the subsequent period (p=.068).

From technology-related factors, variable use of the Internet is highly statistically significant at 1 percent; it enters the research equation with a positive sign. The variable Internet use shows that firms that use the Internet compared to those that do not use the internet are more likely to be profitable companies. Therefore, we can conclude that internet use has a critical role on the profitability of firms. Another technology relates variables such as the number of computers and website usage are not shown to be significant factors for profitability. In fact, the Internet is more important rather than the number of computers in the firm.

According to 2012 BSCK survey, 58 percent of enterprises declared they have computer/s. The vast majority of surveyed SMEs in 2012 (142 or 28.40 percent) has only one computer. Computers are used mainly for market research, for text (word) processing, production/operations management, quality control and for electronic communication. The majority of surveyed SMEs (63 percent) use the Internet, whereas most of SMEs 71.60 percent does not possess web-site.

Only 6.20 percent of surveyed SMEs have presented their products/services and prices on their web-site. These results probably would be higher if the respondents were asked if they present their product and prices via Facebook or other social networks considering the high level of usage of social networks in Kosova.

The econometric analysis provides a clearer picture of the main determinants of SMEs growth in Kosovo. The empirical analysis found that four groups of factors have an influence on firm performance: firm-related factors, human capital factors, management strategy, external business environment factors and IT adoption. Whereas, Internet use remains the most significant variable on firm's profitability (p=.001).

8.2. Theoretical and Practical Implications

In overall the obtained results of this doctoral thesis has contributed to new evidence on the theory of SMEs performance in transition and emerging country. This research strengthens the existing theory of this field with new evidence from human capital theory, institutional theory, and resource base theory.

Particular theoretical importance is given when researching the firm performance determinants and contribution of Information Technology and Internet use in primarily. In general, this thesis contributes to the literature by bringing together a broad spectrum of variables, methods, and measures of growth and applying them to SMEs dataset.

Regarding the theoretical perspective, the analysis suggests that internal and external factors are both important in explaining small firm growth model.

This doctoral thesis suggests using numerous factors, unlike other studies in Transition Economies that overlooked internal factors; the findings suggest the benefits of using a combined model and a mixed approach in order to obtain a clearer overview on investigating SMEs performance.

Regarding practical implication, this thesis results address some implications for entrepreneurs. Taken into consideration, strong competition in the market we suggest to entrepreneurs/firms, it is needed to improve operational efficiencies and merely support existing processes with fewer resources.

Some SMEs mainly in developed economies have used the benefits of Lean, Six Sigma, Total Quality Management and Lean Six Sigma to improve organization's performance, by cutting costs and waste, improving their products or services, increasing profitability as well as enhancing customer satisfaction. We suggest to Kosovar entrepreneurs to apply the quality programs. SMEs of Kosova aiming to use quality management methodologies successfully, they should provide training to their managers and staff. Trained personnel can easily identify what kind of changes and improvements are required, and learn how to implement them. Firms should perform continuous improvement and changes to remain competitive in the market.

Based on our research results entrepreneurs should introduce a new method of marketing other than existing in the market for products and services to increase the firm’s profitability. In particular they need to invest in Internet use as the most significant factor in SMEs performance.

Although our research results suggests that managers training in area of management and business is not statistically significant on firm’s profitability, still we believe that SMEs should invest in training but should also clearly decide what kind of training to provide; to select the right people to attend those trainings, and to monitor if the trained staff share the obtained knowledge among other colleagues.

In today’s high-tech world SMEs need to offer specialized services and develop an innovative customer-focused strategy employing the new technologies (Gates et al., 1995) since customer satisfaction is essential to long term firm’s health and presents a significant indicator of firm’s performance.

Some studies and reports have shown that IT is a means that could enhance the business process (Acar et al., 2005; Levy et al., 2001). The study by Ballantine and Stray (1998), suggests that IT or information systems (IS) are not just tools, but techniques that need to understand before making any capital investment. Therefore, we suggest entrepreneurs invest in Information Technology and Internet use in particular as it may have positive effects on perceived performance.

Considering that some of the respondents are not the Internet users yet, it can be noticed that entrepreneurs that adopt the Internet earlier can gain competitive advantage from this tool as they can benefit to build on-line customer relationship to new and existing customers.

By utilizing the Internet, entrepreneurs can access online the very latest news, research findings, and innovations and embody them in their practice. In this way, they assure competitive advantage over their competitors in the market and can increase the quality of their service or products to their customers (clients).

Kosovo does not participate in the major international e-ranking surveys. Therefore, there is no objective benchmarking that provides the comparison to other countries in South Eastern Europe and EU.

During the last few years, the government has put the ICT sector development and public e-services delivery high on its priority list on a macro level. Furthermore, significant funds have been invested in developing infrastructure and e-governance services for businesses and citizens.

Worldwide it is expected that e-Government transform government to a more efficient, legitimate, flexible, transparent and also to create a rapid growing market for goods and services, and a variety of new business opportunities.

In Kosova, the e-government services integration through the governmental portal is still in the initial phase. Besides the improvements made by Ministries and municipalities most of them offer mainly information to citizens and businesses (e.g. the citizens are informed that when they apply for official documents such as ID, passport & driving license, they can check the status of their application online), while the direct citizen interaction with the government is still in its development stage.

According to Rexhepi et.al., (2012) a fully functional governmental e-portal as a one-stop access to the most important interactive and transactional e-services, leading to integrated delivery of all government services to citizens and businesses is one of the most significant challenges in Kosova. The development of technological, legal and institutional infrastructure will enable the development of such services to the level of performing full e-government transactions by citizens and businesses (Rexhepi et.al., 2012).

Entrepreneurs and the government should focus on sustainable growth but not leaving aside smart growth that relies on innovations, new products, and services.

The government has a crucial importance in supporting SMEs in particular in their business environment, trying to identify and isolate SMEs obstacles to business, corruption and informal economy in particular.

The government should reduce VAT for basic products as well as household consumes energy, water, waste, and heating. It should provide the abolition of VAT on the import of all machinery production, some raw materials and information technology for businesses.

Kosovo will benefit from addressing numerous other barriers to private sector development, such as weak administrative capacity, underdeveloped infrastructure especially in electricity supply, lack of access to finance, deficient rule of law, widespread informal economy and inadequate professional education.

8.3. Contribution of the Doctoral Thesis

This doctoral thesis will provide new empirical evidence regarding SMEs growth in developing countries, and its contribution is expected to be threefold:

It will contribute to the academic community, as results stemming from this study can be useful in furthering understanding of entrepreneurship in transition countries and difficulties derived from a turbulent business environment that directly affect economic development. Thesis results cover a wide range of variables and are based on large samples, including these sectors: service, trade, and manufacturing.

There are several research studies that shed light over evidence on the determinants of SMEs growth from transitional countries. Still there is no sufficient evidence so far coming from

Kosovo case in terms of the real contribution of the determinants of SMEs growth and in particular to IT adoption by SMEs in Kosovo. Also to this, research will also bring evidence on the banking system in Kosovo and its support to SMEs regarding e-services and the lending conditions of commercial banks. Therefore, we think that this doctoral thesis is an important outcome that will contribute to the empirical evidence with the focus on determinants of firm's growth and IT adoption in transitions countries.

To entrepreneurs, it will provide a contribution to valuable evidence on the determinants of growth and barriers to doing business. In particular entrepreneurs with the attitude toward technology adoption might become interested in proposed strategies and measures to maximize IT adoption and benefit from the efficiency and better time management. Also, they can find out which factors influence the firm growth and act accordingly.

The policy makers, according to the obtained results can observe barriers that mostly disfavor firm growth and consequently take action on reducing them. By bringing evidence from developed countries regarding the importance of SMEs growth on economic development, employment and poverty reduction this doctoral thesis can aware policy makers to support SMEs with appropriate policies.

8.4. Limitation and future research

This thesis has some research limitations that lead us to future studies. First of all, our dependent variable (profitability) is not an exact figure taken from company accounts but it is self-reported.

Second, our research cover data only for one year and these is not a longitudinal research. Therefore, it lacks the time dimension to observing and investigating a phenomenon.

Third, the BSCK survey questionnaire constituted some of the most important sources of information and was designed professionally to analyze the profile of entrepreneurship and SMEs in Kosovo.

This survey has produced valuable insights into the impact of different internal and external factors. It contains numerous questions that seek information about entrepreneur's profile such as gender, age, education and position held in the enterprise, firm, business environment, strategy, etc. Still it misses detailed questions regarding our variable of interest "Information Technology"

such as the push or pull factors toward Information Technology adoption, etc. We believe that the qualitative research of our case study in Chapter 7 has filled this gap.

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APPENDIX A

I. PERSONAL DATA ON THE RESPONDENTS IN ENTERPRISE

1. Sex (please encompass the right answer): 1. Female 2. Male

2. Age (write years): _____

3. Professional qualification (please encompass the right answer):

1) Primary school,
2) Secondary School,
3) Higher education
4) Postgraduate Education

4. Occupation: _____;

5. Position in the enterprise:

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

II. THE DATA ON ENTERPRISE

1. The main office of enterprise (define the municipality where the company is registered):
_____.

2. The Enterprise operates in (please encompass the right answer):

1. Urban area 2. Rural area 3. Urban and Rural area

3. Location/ location of the activity (where the enterprise operates, please encompass the right answer):

1. Only in one location in Kosovo,
2. Two or more locations in Kosovo,
3. Kosovo and abroad
4. Export 100% of production outside Kosovo.

4. The foundation year of company (Please indicate the year when the enterprise has begun to work):_____.

5. Your enterprise is (please encompass the right answer):

1) Individual business

2) Joint ownership-partnership

3) Limited Liability Company

4) Joint Stock Corporation

6. Please specify the proportion of foreign capital in company (from 0% - 100%):

_____%

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

1. Full Liability Company,
2. Limited Liability Company

8. What percentage of the property possesses the largest owner in this company, if there is more than one owner?

The largest percentage held from the owner	%

9. If the number of founders is higher than 1 what is the relationship between them (you can have more than one answer; please encompass the right answer/s):

1. Family ties
2. The professional Links
3. Investment / Joint Financing
4. Other (please indicate)_____

10. Have you been employed before you start up your business?

1. Yes 2. No

11. Did you have any experience in the field where you start up your business?

1. Extended experience
2. Limited experience
3. No experience

12. If Yes, (in the above, 1 & 2) please indicate in numbers how many years of experience did you had? (Write the correct number) _____.

13. What was the main reason for starting up your business?

1. I always wanted my dream of having my own company to come true
2. Dispute with my previous employer – partner
3. I have been unemployed and had to do something to earn a living
4. I spotted a business opportunity and I decided to act upon it and establish my own company

5. I inherited from my family

6. Other (specify) _____

14. Did you have any written business plan before start up your business?

1. Yes 2. No

15. Currently do you have written business plan?

1. Yes 2. No

16. Please specify qualification and gender structure of founders:

	Description	M	F	Age		Qualification				
				When Start up	Currently	"Ph.D."	"Mr"	The graduate	High School	Elementary School,
A	The Founder 1									
B	The Founder 2									
C	The Founder 3									
D	The Founder 4									
E	The Founder 5									

17. The enterprise is led by (please encompass the right answer):

1) The owner / co-owner

2) Director / Manager

3) Both (owner and manager)

18. Does your company owns the quality standards or accreditation or is in the implementation process (e.g. ISO series)?

1. Yes 2. No

19. If yes, what standards and / or accreditations:

_____.

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

1. Which is the main activity of the company (please indicate only one answer):

1.a. Manufacturing (if manufacturing specify the business activity below from 1-10):

Business activity within the industry sector:	**% of sales by sector**
1. Agro-industry	
2. Metal processing and electrical equipment	
3. Material construction	
4. Chemical industry, plastic and of rubber	
5. Textile industry, leather and footwear	
6. Wood processing	
7. Graphic and of paper industry	
8. Building Construction (e.g. the production of bricks, etc.)	
9. Construction service (e.g. masonry etc.)	
10. Agriculture (farmers)	
11. (Other, specify)_____	
1.b. Trade (**if trade specify the business activity below**):	
Branch of commercial activity:	**% of trading activity**
1. The retail	
2. The wholesale	
1.c. Service (**if service specify the business activity below from 1-5**):	
Branch of service activity:	**% of trading activity**
1. Transportation	
2. Financial	
3. Hotels and Tourism	
4. Professional Training and Consultancy	
5. Information Technology	
6. (Other, specify) _____	

2. How do you evaluate your business in 2012?

1. Better than 2011,
2. No differences,
3. The worse than 2011

3. What is your business expectations in 2013 (please encompass the right answer)?

1. Better than 2012,
2. I do not expect differences,
3. Worse than in 2012

4.

4.1. Compared with the previous 12 months, your turnover is:	**4.2. Compared with the previous 24 months, your turnover is:**	**4.3. Compared with the previous 36 months, your turnover is:**
1. Decreased	1. Decreased	1. Decreased
2. No differences	2. No differences	2. No differences
3. Increased	3. Increased	3. Increased

5. Compare to the first operation year how much approximately turnover has increased?_____%.

6. What do you think of growth in the sector in that you operate?

a. Increasing b. No differences c. Decreasing

7. What do you think for the profitability of firms, in general, in the industry or sector in which your company operates?

a. Very high profitability
b. Not very high profitability
c. Not very low profitability
d. Very low profitability

8. What is the value of total assets? (in Euros)

No.	Title	**2012**	**2011**
A	Working capital (finished goods, raw material, etc)		
B	Building and premises		
C	Machinery and equipment		
D	Transportation vehicle		
E	Land		
F	Other assets (specify)		

EXPORT

9. Are you an exporting enterprise: 1. YES 2. NO

*(If **NO** go to question 20, please circle the right answer)*

10. If YES, approximately how much export your firm had in the year (please indicate the amount in €, below)?

Export 2012	Export 2011	Export 2010
_____€	_____€	_____€

11. In which year you have started to export (please indicate the year)? _____.

12. What is the participation of export value in total sales in 2012 (total turnover)?_____%

13. Which are the main barriers to export? (Range in priority basis, 1 = is not an obstacle, 2 = Minor obstacle, 3 = obstacle, 4 = High obstacle, 5 = Major obstacle) **please write numbers next to the text**:

1) Tariff barriers (tariff amount) _____
2) The culture of doing business in the country of destination _____
3) Lack of personal documentations (e.g. Visa) _____
4) Lack of Banks efficiency _____
5) Lack of information on market _____
6) Quality certificate _____
7) Delays in the border _____
8) Cost of transport _____
9) The work of customs agent _____
10) Operation of the Food and Veterinary Agency _____
11) Other (specify) _____

14.

Write the country where you export products	% of exports according to the country
1.	
2.	
3.	
4.	
5.	

15. Please indicate:

	Number
15.a. The number of visits abroad in 2012	
15.b. Number of months in your career that you spent abroad	

16. What are the beliefs of your company on the products / services internationalization?

(5 = totally agree, 4 = agree, 3 = neutral, 2 = disagree, 1 = totally disagree) **please write numbers next to the text**:

1. Internationalization is a desirable task for my company. _____
2. Our company to export services. _____
3. The general manager has favourable attitude towards internationalization. _____
3. The general manager support the company internationalization. _____

17. Does the firm internationalisation influence on these area: (please write numbers next to the text: ***5 = completely agree, 4 = agree, 3 = neutral, 2 = disagree, 1 = disagree completely***).

1. Profit increase. _____
2. Company Development. _____
3. The security of your company's investments. _____
4. Development of markets. _____
5. The security of your company's market. _____

18. Indicate to which extent each of the following advantages have supported your firm to compete more successfully: (please write numbers next to the text: ***5 = completely agree, 4 = agree, 3 = neutral, 2 = disagree, 1 = = disagree completely*****).**

1. Technological competence. _____
2. The image of the company. _____
3. Adequate financial assets. _____

19. How is your company's internationalization associated with the company's strategic motivations: (**please write numbers next to the text:** ***5 = completely agree, 4 = agree, 3 = neutral, 2 = disagree, 1 = disagree completely)*****.**

1. Our initiative to enter international markets is a result of strategic plan. _____

2. Our Internationalization is a result of our desire to benefit from the high growth potential markets _____

3. Internationalization is a result of our desire to be recognized as an international service provider. _____

20. Did you have import in 2012 (if no, skip to Chapter IV)?

1. YES 2. NO

21. How much in % of the total purchasing value of raw materials your company import? (Insert amount in Euros)?

1) 2012_____%; and 2) 2011 _____%.

22.

22.1. Compared to with the previous 12 months, your profit has:	**22.2. Compared to with the previous 24 months, your profit has:**	**22.3. Compared to with the previous 36 months, your profit has:**
1. Decreased	1. Decreased	1. Decreased
2. No difference	2. No difference	2. No difference
3. Increased	3. Increased	3. Increased

23. Which are the reasons that your profit has increased?

1. Sales Increased ❑ 1. YES ❑ 0. NO
2. New products ❑ 1. YES ❑ 0. NO
3. Cost Reductions ❑ 1. YES ❑ 0. NO
4. We have been more productive ❑ 1. YES ❑ 0. NO
5. Improvement of the main tools ❑ 1. YES ❑ 0. NO
6. Improvement of the workers skills ❑ 1. YES ❑ 0. NO
7. Management Improvement ❑ 1. YES ❑ 0. NO
8. Other specify?_____

24. Which were the reasons for the lower profit?

1. Sales decreased ❑ 1. YES ❑ 0. NO
2. Cost increased ❑ 1. YES ❑ 0. NO
3. Customers unpaid debts ❑ 1. YES ❑ 0. NO
4. Other specify?_____

IV. OBSTACLES / BARRIERS TO BUSINESS

1. Range according to your opinion factors that represent an obstacle for your business:

***1 = is not an obstacle, 2 = Minor obstacle, 3 = obstacle, 4 = High obstacle, 5 = Major obstacle),* please write numbers next to the text:**

Nr	Naming	1	2	3	4	5	9(NA)
1	Taxes too high						
2	The work of tax administration (bureaucracy)						
3	Inadequate and insufficient laws						
4	Law enforcement						
5	Strong competition						
6	Corruption						
7	Tax evasion						
8	Crime, robbery and anarchy						
9	Informal Economy / black Economy						
10	Access to finance						
11	Insufficient capacity						
12	Political instability						
13	Managerial skills						
14	Business licensing						
15	Employee skills						
16	Transport						
17	Power supply						
18	Supply with material, machines and equipment						
19	Lack of market demand						
20	Delaying payments (collection of debts)						
21	Lack of information concerning business						
	Other (specify) _____						

V. TRENDS FOR GROWTH AND DEVELOPMENT

1. Have you made investments in 2012 (if no, skip to question 6):

1. YES 2. NO

2. What is the value of the investment you have made in 2012 and 2011 (write amount in €)?

	1) 2012	2) 2011
The value of investing (€)		

3. Investments in 2012 will have provided by (write in %):

	Naming	**%**
1	With your internal sources	
2	With loans from local bank,	
3	With loans from foreign banks	
4	Donation from foreign donors (NGO)	
5	Borrowings from family or friends	
6	Informal market capital	
7	Through Foreign Direct Investment	
8	Other (specify) _____	
	TOTAL	**100 %**

4. Investments in 2012 have made in (please encompass the right answer):

1. Manufacturing activities,
2. Trade activities,
3. Service activities
4. Other (specify) _____.

5. Investments are made in:

No.	TITLE	**2012**	**2011**
A	Working capital (finished goods, raw material, etc)		
B	Building and premises		
C	Machinery and equipment		
D	Transportation vehicle		
E	Land		
F	Other assets (specify)		

6. How much is approximately the value of expected investments in 2013?_____euro

7. In the future you intend to develop your economic activity in (please encompass the right answer):

1. The continuation of the current business
2. Investment in a new field
3. Both
4. Yet not determined

8. If you plan to invest in a new field, that will be (write)? _____.

9. Have you received bank loan?

1. YES
2. NO. I haven't applied?
3. NO. I have applied but my application was rejected?

10. If you have received loan please provide the following information to your last taken loan:

1. What was the total amount of loan _____ (€)
2. It is a secret
3. When? (Year) _____
4. What was the loan duration? (in months) _____
5. What was the interest rate (in %) _____

11. If you had more than one loan, indicate:

11. a. No. of received loans: _____
11. b. First year of your first loan ever taken:_____

12. Is required to pledge collateral for loan?

1. YES 2. NO

13. If YES what is used as collateral? _____

1. My or my family's Real estate
2. Firms Real Estate
3. Something else _____ (specify what)

14. What was the total value of the collateral? _____ (Euro).

15. If you have circled question 9.2 (No. I haven't applied for loan**) reason was:**

1. I did not need a loan - company had sufficient capital
2. Application procedures was very complex
3. High interest rates
4. Collateral requirement too high
5. Repayment period was not sufficient
6. I did not know how to apply
7. I was not confident that my loan application would be approved
8. Other_____

16. If you have circled question 9.3 (NO. I have applied but my application was rejected) reason was (please encompass all relevant options):

1. The lack of collateral
2. The lack of business plan
3. The absence of documents required by the bank
4. Other (Please specify)_____.

17. If had bank loan, the lending conditions were (1 = very unfavourable and 5 = favourable): _____.

18. During 2012 which was the main sources to finance working capital (stocks, short-term payments)

1. Personal savings	_____%
2. Profit Held	_____%
3. Borrow from family and friends	_____%
4. Loans from Banks	_____%
5. Loans from special programs to support SMEs	_____%
6. Loans informal capital market	_____%
7. Loans from local suppliers from supplier	_____%
8. Loans from external supplier	_____%
9. Late payment of taxes and contributions	_____%
10. Other (Please specify)	_____%

19. To what extent do you believe your associates?

1) Does not trust all 2) Neutral trust 3) Maximum trust

20. Are relationships of trust with other companies and / or organizations an important factor to compensate certain assets that your company miss?

1) Not important 2) Neutral 3) Very important

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

1) Not important 2) Neutral 3) Very important

VI. INNOVATION

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

1. YES; 2. NO;

2. During the past three years have you created any product / service / process completely new from your firm or any substantial modification of products / services / processes of your firm?

1. YES; 2. NO;

3. If yes, what was the number of new products or services _____ introduced in business?

4. New products introduced in the market during the past three years have been:

a. New products for the market (not existed in Kosovo market previously).

b. New products just for your firm (Imitation of current products on the market Kosovo).

5. Development and design of new innovative products introduced in the market during the past three years are made by:

a. Mainly from your enterprise.

b. Your enterprise in cooperation with other enterprises

c. Your enterprise in collaboration with academic institutions (Institute for Research and Development, University Research Institute, and other similar)

d. Mainly by enterprises and institutions outside your enterprise

6. Please specify the costs that you have made in activities to create or substantialy modification of products / services or new processes, as a percentage of sales of the last period.

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

Percentage of total sales that have invested in innovative activities: _____ %

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

a. European Union funds 1. YES / 2. NO

b. Central Government 1. YES / 2. NO

c. Local Government 1. YES / 2. NO

8. Indicate if your company during the last three years has taken any action to protect intellectual property rights:

a) Has applied for patent 1. YES / 2. NO

b) Has registered a new commercial brand or any new design 1. YES / 2. NO

9. Please rank the following factors of importance about your activities on the creation or substantial modification of products / services or new processes during the last three years.

5 = most important, 4 = very important, 3 = important, 2 = less important, 1 = not
please write numbers next to the text:

Nr	Name	1	2	3	4	5	9(NA)
1	Information obtained from the market (suppliers, competition, customers)						
2	Information obtained from institutions (Universities and public research institutes)						
3	The importance of your staff experience in creating new products / services or processes:						
4	The ideas generated by your staff in creating products / services or new work processes:						
5	The time dedicated by your staff during working hours as an individual or group effort in generating any new idea or other activities relevant to improving work processes, or the creation of any product / new service:						
6	If you applied any new work process, evaluate the importance of the increased production flexibility and reduce cost of production						
7	**Factors that hinder innovation:** Rate of importance factors that have hindered the creation innovative activities or substantial modification of products / new processes. From 1 - major obstacle, to 5 - did not suggest any obstacle.						
7a	Cost of financing						
7b	Cost of innovation						
7c	The lack of staff knowledge						
7d	The lack of information on technologies and markets						
7e	Uncertain demand and market dominated by large enterprises						
7f	There is no need for new products because we have produced them previously						
7g	Lack of demand for new products						

10. Please indicate if, during the last three years have activities related to create products / services, new processes or their substantial modification, which ended unsuccessful, or are still in progress but unfinished.

1. YES

2. NO

11. During the past three years, has your company made any full or substantial change in organizational management structure?

1. YES; 2. NO;

12. During the past three years have your company introduced a completely new way of marketing your product which has not been present on the market?

1. YES; 2. NO;

13. Range according to the importance to your firm the following Strategic Goals (5-Very Important to the 1- Not important):

1) Product Quality _____

2) The image _____

3) Qualitative Services _____

4) Market share _____

5) Position in the industry _____

6) Penetration into international markets _____

14. Do you know the size of the market where your firm operates (please encompass the right answer)?

1) Yes, we know

2) No, we do not know

15. How is the intensity of competition in the industry in which your firm operates (please encompass the right answer)?

1) Very high

2) High

3) Average

4) Below the average

5) Low

6) None of the above

16. Do you have any permanent partners from abroad? 1. YES 2. NO

17. If yes, your cooperation is concerned with:

1. Import,
2. Export
3. Joint Investment
4. Technical Assistance

5. Representation
6. Cooperation in the other countries markets
7. Franchising
8. Other (specify) _____.

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

1. YES 2. NO

VII. TAXES

1. In your opinion, what percentage of the turnover of a business similar to yours reports to the tax administration? _____ (Write percentage).

2. How do you consider the tax rates?

a. Too high
b. High
c. Average
d. Low
e. Ref NA (No answer)

3. From 1 to 10, where 1 is unreasonable and 10 fully justified, how do you estimate the tax evasion in Kosovo? _____.

4. How many times a month your business has visit from the Tax Administration? _____.

5. Which are the main obstacles to the tax payment (you may encompass more than one answer):

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

6. Are you informed for use of taxes collected from tax administration and customs, respectively for Kosovo budget:

1. I am fully informed

2. I have partial information

3. I am not informed.

VIII. ENTERPRISE INFORMATIZATION

1. Do you have computer? 1. YES 2. NO

2. If yes, how many computers you have? _____.

3. If NO do you plan to buy a computer: 1. YES 2. NO

4. You use Computer for (questions 4-7 are only for those who have computer):

1. Financial Records
2. Planning
3. Processing of text (text processor)
4. Market research
5. Production /operation / management
6. Quality control
7. For anything else, (specify)_____

5. Do you use the internet: 1. YES 2. NO

6. **If YES, Internet is used for (please encompass the right answer):**

1. Market research
2. Promotion
3. The sale of products
4. Communication by E-mail
5. For other business purposes (specify _____)

7. **Do you web site (your Web Mail)**? 1. YES 2. NO

8. Do you perform business transactions via the Internet (sale / purchase) as?

1. Business to business
2. Business to client

9. Have you presented pricelists and goods / services in your Web-page?

1. YES 2. NO

10. Do you order online? 1. YES 2. NO

11. Do you possess licensed software? 1. YES 2. NO

12. Which software do you use the most during your business activity?
(indicate) _____

IX. PERSONNEL

1. With how many employees did you start your business? _____

2. How many employees your company had at the end of 2010? _____

3. How many employees your company had at the end of 2011? _____

4. How many employees your company actually have at the end of 2012(in number)?__

5. Employees of your enterprise are:

Description		Number of employees		Total
		1. M	2. F	
1	Full time employees			
2	Permanent part time employees			
3	Seasonal employees – with contract			
4	Seasonal employees without contract			
5	Total			

6. Qualification structure, gender and salaries of employees:

	Qualification	Number of workers with this title	1) M	2) F	Personal income monthly for this category in €
1	Doctor of Science				
2	Master's degree				
3	University degree				
4	High school				
5	Secondary school education				
6	Unqualified				
7	Total				

7. Describe the management structure:

	Description	1.M	2.F	Age (Write years)		Qualification structure			
					”Dr”	“Mr”	The graduate	High School	elementary School,
1	General Director								
2	Finance Director								
3	Technical director								
4	Director of Marketing								
5	Director for R & D								
6	Other								

8. Have you employed new workers in 2012? 1. YES 2. NO

9. If yes, what is the structure of the workers qualification you have employed in 2012?

	Qualification	Number of workers	1.M	2.F	Personal income monthly for this category (insert amount in €)
1	Doctor of Science				
2	Master’s degree				
3	University degree				
4	High school				
5	Secondary school education				

10. Evaluate the level of how you feel satisfied with your employees work compared to their qualifications from 1-5 (1 not satisfied at all, 5 - very satisfied).

	Qualification:	Evaluation of workers.
1	Foreign University (abroad)	
2	Foreign University (in Kosovo)	
2	Public University of Prishtina	
3	Kosovo Private Universities	

11. How important to you is your employee certification: (1 - not important at all, 5 very important).

12. Do you intend to employ new employee during 2013?

1. YES 2. NO

13. If yes, what would be the appropriate level of education? (please write the right answer)

1) The unqualified _____ specify number
2) Primary school _____ specify number
3) With high school _____ specify number
4) The Graduate _____ specify number
5) With the Masters _____ specify number
6) With doctorate _____ specify number

14. Have you or any other manager of your company attended any training course for business or management: 1. YES 2. NO

15. Did you or any of your managers had managerial experience before starting to work in this company?

1. YES 2. 2. NO

16. Are you a member of any business association?

1. YES 2. NO

17. Do you have use consultants (consulting for business from any public or private institution)?

1. YES 2. NO

18. If YES, who has been the provider of these services?

_____

19. Have you been satisfied with the (consulting)?

1. YES 2. NO

20. In which field you have used consulting?

_____

APPENDIX B

FIRST SECTION

PART 1. Demographic information

1. Gender

Male ❑

Female ❑

2. Age (years old)

Less than 30 years old ❑

31-40 years old ❑

41-50 years old ❑

Above 50 years old ❑

3. Marital Status

Single ❑

Married ❑

Divorced ❑

4. Education background

Primary school ❑

Secondary school ❑

High school ❑

Undergraduate ❑

Graduate ❑

PhD ❑

PART 2.

1. Business sector

Food ❑

Pharmacy ❑

Salon and cosmetic ❑

Clothing Store ❑

Electrical ❑

Restaurant ❑

2. Age of business

Less than 2 years ❑

2-5 years ❑

6-10 years ❑

More than 10 years ❑

3. Area of business

Urban ❑

Rural ❑

SECOND SECTION

1. Do you use Internet?

Yes ❑

No ❑

2. Internet usage period

Less than 6 months ❑

6 -12 months ❑

12-24 months ❑

24-36 months ❑

More than 36 months ❑

THIRD SECTION

1. Do you use E-banking services?

Yes❑ No❑

2. Do you perceive E- banking services as ease of use?

Strongly agree ❑

Agree ❑

Neutral ❑

Disagree ❑

Strongly disagree ❑

FOURTH SECTION

1. Do you evaluate the quality of the Internet as high quality?

Strongly agree ❑

Agree ❑

Neutral ❑

Disagree ❑

Strongly disagree ❑