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"Competitiveness of SMEs: A Study of the Construction Industry in Kosovo"

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ABSTRACT

The concept of competitiveness is considered as the main factor of business success or failure (Porter, 1985). It is an important element in the debate on the performance of nations, industries and firms, especially at the time of globalization. A competitive firm knows how to use strengths to exploit the opportunities of the environment and to reduce the negative influence of some external environmental factors. But as Ganesh & Mehta (2010) say that no matter if your organization is large or small, being competitive is the main factor that leads to success. According to Johansson (2008), the competition for SMEs is very intense.

Despite growing attention and literature, competitiveness or competition remains a concept without a single definition. This concept is the subject of many other definitions and misrepresentations in some cases, due to the fact that competition is a multidimensional concept (Porter, 1980). Despite numerous perspectives to explain the competitiveness between companies, the synthesis of all expresses fierce war of competitors to achieve something that not everyone can realize (Li, 2006).

The way companies compete among themselves within a certain industry, reflects the degree of competition of that industry. Examination of the literature and many empirical studies show that, still today there are many debates pertaining to the way they measure the competitiveness of the industry and the factors influencing it (Mandaraka, Lipovatz, Mourelatos, 2000; Wheelen, Hunger, 2002; Chen, Liu, Tsai, 2004; Tang, Sirikrai, 2006). As a result, the measurement of industry competition in view of the attraction that it represents, involves a complex process (McDermott & Coates, 2002) which is explained by the multiple connections that affect organizational performance variables.

The construction industry is the "arena" in which starts and applies this study but in principle, it remains a model applicable to any industry that needs to be studied. The methodology used represents a different way to study competition and industry, built on the location and combination of key variables (output of the rich theoretical literature

as well as, the information gathered from the respondents through questionnaires) with qualitative and quantitative methods of data processing.

Variables used to analyze the construction industry are mostly taken from Porter model, specifically the five forces model of industry: rivalry among competitors, threat of new entry, substitute products, power suppliers and buyers, and generic competitive strategies: low cost, differentiation, and focus (Porter, 1980, 1985). However, in industry analysis are included other variables, of environmental analysis or of value chain analysis, although the latter is not the direct purpose of this paper.

Through empirical analysis of competitive forces and generics strategies, among others, the work contributes to the specific orientation, that managers, investors, companies must have when deciding to enter a particular industry or located in terms of fierce competition. It is evident that the high competitive rivalry among firms, affects positively the customer, but it remains to say that a good analysis of the industry affects positively the success of the company.

The thesis is developed based on an extensive literature and the practice of development of SMEs in the construction sector in Kosovo. The study focuses on enhancing the competitiveness of SMEs in the construction sector, to ensure sustainable economic growth.

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I dedicate this work to my dear father, Prof.Asoc.Dr Fadil Govori, who is no longer with us. My guardian angel who has always been on my side, every step I added, helping me with strength and courage to overcome every difficult moment.

Cordially

Arbiana

"Competitiveness of SMEs: A Study of the Construction Industry in Kosovo"

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ABBREVIATIONS

IMF – International Monetary Fund

CEFTA - Central European Agreement on Free Trade Agreement

SME – Small and Medium Enterprise

KAS - Kosovo Agency of Statistics

UN – United Nations

CIOB - Chartered Institute of Building

RIBA - Royal Institute of British Architects

UNDP – United Nations development Program

S&DC - Strategy & Development Consulting

KIESA – Kosovo Investment and enterprise support Agency

CHAPTER 1: INTRODUCTION

1.1 PREFACE

Although the theory of competitiveness has been widely used, academics have not yet reached a consensus on a standard definition for it (Krugman 1996; Porter 1998); there is no common view about how competitiveness can be measured, nor is there one specific determinant (Krugman 1996; Sanjaya Lall, 2001). Various definitions of competitiveness have been presented at national, industry, and corporate levels.

Through empirical studies conducted in different countries and industries it is noted that there is still controversy over the definition of competition and the way they measure the competitiveness of the industry and the factors affecting it. Mandaraka, Lipovatz, and Mourelatos (2000) study the factors such as labor productivity, vertical integration, technological innovation and the company size as the main factors of competitiveness measurement within the industry. Another study regarding measurement of the competitiveness and attractiveness of the industry is the involvement in the strategic chain (environmental analysis, strategy formulation, implementation and control process) procedures and tools that highlight the features of the industry and the best "weapons" to compete by benefiting from competitive advantage (Wheelen and Hunger, 2002). While Chen, Liu and Tsai (2004) studied the link between knowledge, managerial skills and the level of competition, to test their model in industries that use advanced technology.

The research of competitiveness in the SME-s of construction sector has been classified into three levels, i.e., industry, company, and project (Flanagan et al. 2007), whilst the competitiveness of the construction industry seems to gain very limited interest in the construction management community. Further research on the competitiveness of SME-s has tended to focus on how the competitiveness can be measured and improved, specifically among different countries (e.g., Flanagan et al. 2005; Ive et al. 2004).

The industry five forces model and generic strategies of Porter are considered important pillars amongst management theories which may explain the behavior of the firm over its competitors in a given industry. Despite the support that Porter Model had

(Porter, 1980, 1985) and its popularity as a highly profound and persuasive model on which rises analysis of the competitive behavior of the firm, much debate and criticism already openly oppose it. What is very interesting in the study of this theory is the debate created by researchers divided into two major groups, for and against the view that Porter conveys, and the evolution that has undergone this theoretical model in recent decades.

One of the reasons for choosing this theme is that in this period of globalization, in order that SME-s to be successful should have a competitive advantage. Successful and growth-oriented SME-s are vital for the economy (Analoui & Karami, 2003).

On the other hand, in recent years the construction industry became one of the most important sectors that contribute to economic growth in Kosovo. Financed mainly through foreign aid, the construction sector in Kosovo has so far utilized several hundred million Euros, which are mainly used for the construction of new homes, or rehabilitation and development of road infrastructure. Through this work it is intended to show the strategic importance of creating a competitive advantage as a major determinant of success and growth of SMEs in the sector.

1.2 PROBLEM STATEMENT

The main purpose of this study is an examination of the competitive advantages and their impact on the success of SMEs in the construction sector and proposing appropriate strategies for achieving competitive advantage and increases the performances.

It is evident that high competitive rivalry among firms affects positively the customers, while a good industry analysis contributes positively to company success. Therefore, the assessment of the attractiveness of the construction industry and the selection of competitive strategies by the company, are the objectives and main pillars on which this study is based.

The quality of life of every Kosovo citizen relies in part on the products of the Kosovo construction industry—houses, office buildings, factories, shopping centers, hospitals, airports, universities, roads, bridges, power plants, water and sewer lines, and other infrastructure. Construction products — buildings and infrastructure — provide shelter, water, and power, and they support commerce, education, recreation, mobility,

and connectivity. The construction industry itself is a major generator of jobs and contributes an important component of the gross domestic product (GDP).

In recent years the construction industry became one of the most important sectors that contribute to economic growth in Kosovo. Financed mainly through foreign aid, the construction sector in Kosovo has so far utilized several hundred million Euros, which are mainly used for the construction of new homes, or rehabilitation and development of road infrastructure.

Another factor which is helping to promote the development of this sector is the demand for road and highway construction. Kosovo's government has set itself a target to connect the country in three main areas, the most important international road corridors, in Macedonia, Albania and Serbia. According to estimates, in the next five years, Kosovo will need about 60,000 new apartments, including associated infrastructure, such as roads, kindergartens, schools, recreational facilities, restaurants, etc.

1.3 SCIENTIFIC JUSTIFICATION AND THEORETICAL BACKGROUND

The development and growth of SMEs, especially in construction industry is an important factor for the economy of Kosovo as a developing country. Furthermore, it emphasizes the importance of identifying and assessing trends and potential, as well as investigating factors that will create sustainable competitive advantage, as very important determinants for increasing SME-s performance. It is an area that is not studied to a great extent, and we considered the importance of this scientific research, in order to contribute to the theory of competitive advantage, as well as to the SMEs capabilities to create competitive advantage in a competitive market.

Competitive advantage and competitive strategies that leads to success of SMEs in construction industry is a field that is not theoretically studied or investigated in practice in Kosovo. The main pillars which support this study are: industry analysis and competitive strategies that will be elaborated in the dissertation from different perspectives. As an additional contribution to the scientific justification of this scientific research, the candidate stresses out that the literature review on the strategy theories and

current research related to the construction in general of Kosovo construction industry indicate that there is an evident lack of research in this area.

Regarding the industry sector chosen for scientific and empirical analysis, it is emphasized that it is a dynamic sector, one of the engines of economic development in our country, currently in transition from the supply-driven and poorly regulated market system that emerged in the post - conflict period, into a demand - driven market. This transition period is marked by several bottlenecks, which constrain both demand and supply in the market, which is defined here as the relation between the suppliers of construction services and residential buyers (identified as the biggest source of demand for construction services). It is an industry which contributes to social and economic development of the country, and it is closely linked to the labor market - with a share of 9.5%, the construction sector was the fourth largest employer in Kosovo in 2014, employing about 39,000 people. Furthermore, there are relationships of interdependence between the construction industry and other industries. Demand for services/products in this industry generates demand for inputs in other related industries.

1.4 RESEARCH OBJECTIVES, METHODOLOGY AND HYPOTHESES

The main purpose of this dissertation is an examination of the concept of competitive advantage and its impact on the success of SMEs in the construction sector and proposing appropriate strategies for achieving competitive advantage and increases the performances. Other purposes of the study are:

Other purposes of the study are:

- To come to help SMEs to be oriented to create and show an ambitious mindset regarding the strategic importance of creating a competitive advantage and enhance the value of their businesses.
- To analyze and make a more complete assessment of performance and problems facing Kosovo SMEs in general and especially those in the construction sector?
- To demonstrate the strategic importance of creating a competitive advantage as a major determinant of success and growth of SMEs.

- To investigate whether Kosovo SMEs use models for the management of distinctive competencies, and what is most appropriate.
- To emphasize the strategic importance of creating a competitive advantage as a major determinant of success and growth in construction industry in Kosovo.
- To analyze and make a more complete assessment of performance and problems facing Kosovo SMEs in general and especially those in the construction sector?
- To investigate whether Kosovo SMEs use models for the management of distinctive competencies, and elaborate the most appropriate models to use.

To the aid of achieving the primary goals, some of the questions raised are:

1. How attractive is the external environment of the construction industry in Kosovo?
2. What are the stages of development of this industry?
3. What is the source of competition and dynamics of the industry?
4. Is the value one of the most important competences of the company to create competitive advantage?
5. Does the competitive advantage impact performance of the firm?
6. How easy it is for them to find competitive alternatives in the environmental conditions they are operating?
7. How does competitive strategy impact in the company's success?
8. What is the degree of using competitive strategies in the construction businesses?

There are following hypotheses posed in this context:

Competitive advantage analysis

H 1: Creating value is one of the most important competencies to create competitive advantage.

H 2: The performance is positively associated with competitive advantage and vice versa

Competitive strategies 'analysis

H3. There is a positive relationship between the implementation of competitive strategies (cost leadership, differentiation and integrated strategy) and SME-s performance.

H 3a SME-s that implement integrated strategies (low cost & differentiation) have a higher performance than firms which implement only cost leadership strategy.

H 3b SME-s that implement integrated strategies (low cost & differentiation) have a higher performance than firms that are engaged only in the differentiation strategy.

H3c SME-s that implement one of competitive strategies (cost leadership, differentiation and integrated strategy) have a higher performance than firms which implement the strategy "stuck in the middle".

1.5. RESEARCH METHODOLOGY

The methodology used is in the function of the goals of this study. The purpose of the research is based on the assessment of attractiveness that represents the construction industry and how firms use competitive strategies.

Primary sources. Questionnaires technique is used as one of the most common methods for data collection in empirical research, because of the advantages in relation to the analysis of statistics, archives and observation. One of the basic principles used in preparing the questionnaire is coherence within and between sections (Sarantakos, 2005) by providing participants in the study, the understanding of the research purpose (O'Neill, McGuirk, 2005), responding accurately and without manipulating their real attitude towards certain issues. In this context, it is used a logical flow in the analysis, including variables belonging to SME-s, external environment, industry environment and competitive strategies.

Secondary sources. The research is based on literature review to verify the findings of studies conducted by numerous authors in different countries that are characterized by different economic, political and social developments. There are used the latest theoretical studies conducted about SME-s, strategies used and construction industry, as primary studies. The bulk of research papers and books has been found in bookstores,

scientific and electronic sources, such as Science Direct, EBSCO, Emerald, JSTOR, and belong recent years. Although are not excluded early works, which are used as a point of reference.

The content of the research questions is based on the literature, in which are mentioned and studied theories and related analysis. To test research hypotheses, the sample size is taken to be as representative as possible, in order to perform reliable statistical analysis. Having given two criteria (i) construction industry, (ii) the location or district where construction firms are registered, we can say that the study population is sufficient for study purposes. Of the total private companies registered in Kosovo Directorate of Taxation, were selected only SME-s that exercise their activity in the construction industry and in construction projects.

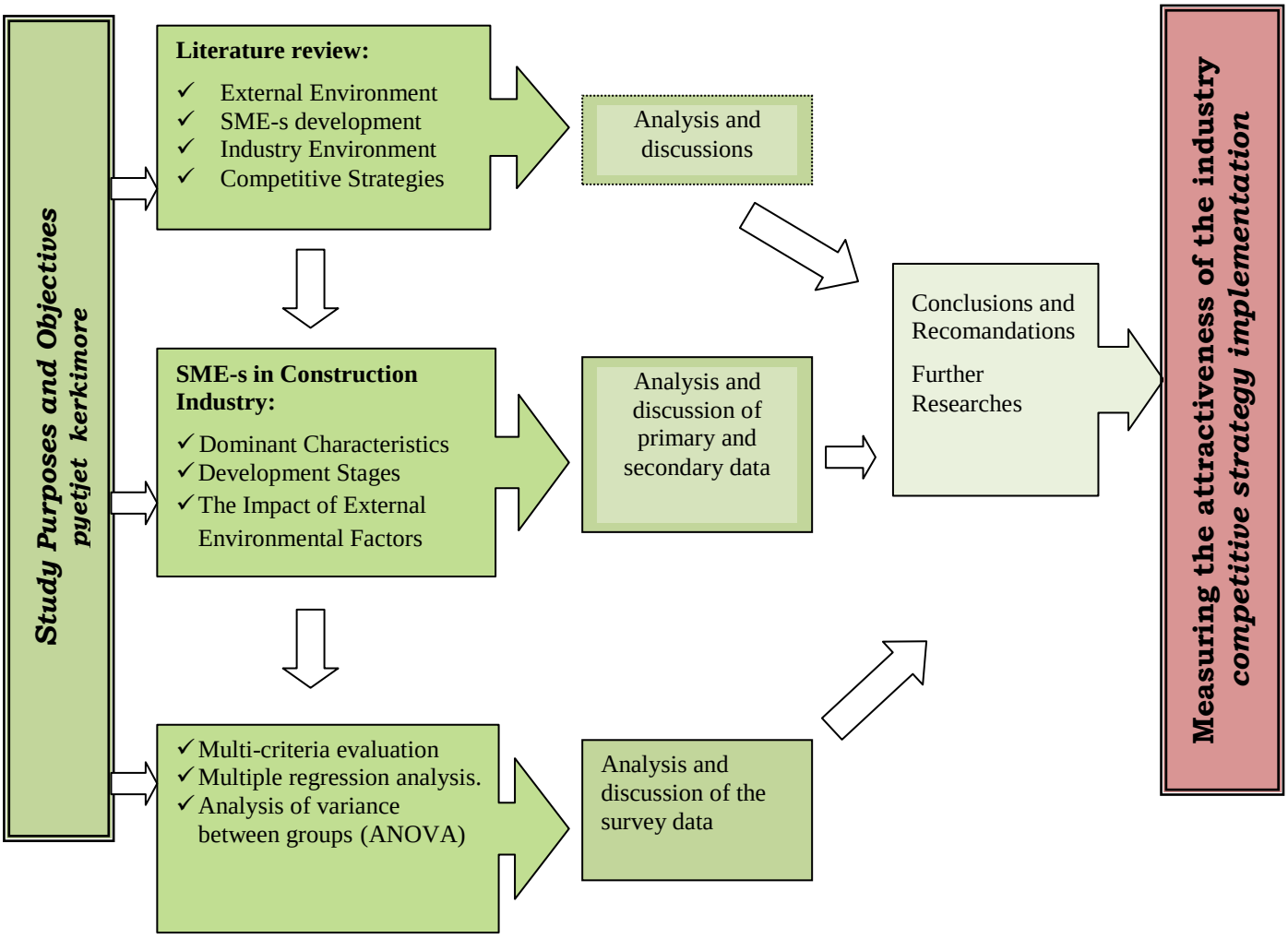


Fig. 1: *Schematic representation of the study and research objectives*

During the first phase have been identified SME-s problems through the first questionnaire, qualitative empirical research. Results of the first phase served as input for the design and implementation of the second phase, quantitative research. To achieve this, in the first phase is developed a more detailed and structured questionnaire, through interviews conducted with a sample selected.

The questionnaire was pilot tested with a sample of 20 SME-s; with a response rate of 55%, with two phases of follow-up of non-respondents. Hoelter (1983) recommends that the sample size should be between 100 and 200 responses, when using a quantitative method. Given the fact that we intend to have approximately 510 responses (questionnaires) from 550 distributed, and then the extent of the selection is acceptable to carry out statistical analysis. The period of the field study was six months from January 2016 to Juner, 2016.

Descriptive statistics were obtained for the sample using the SPSS statistical analysis package. Frequency results were collated in tabular and graphical form to identify patterns and trends; mean values were used for interval scale data (Alrech and Settle, 1985).

1.6 IMPORTANCE OF THE STUDY

Why was this theme chosen?

Given the fact that the development and growth of SMEs is an important factor for the economy of Kosovo as a developing country, assessing trends and potential of this industry and investigating factors that will create sustainable competitive advantage are of great interest and very important for increasing SME-s performance.

SMEs find it difficult to cope with competition in the market and change the way of doing business. They find it difficult to cope with increasing competition, or being creative. Such a topic is important to be studied in order to help SMEs to create competitive advantage in a market with fierce competition, domestic and foreign.

On the other hand, competitive advantage and competitive strategies that lead to success of SMEs in construction industry is an unstudied field in Kosovo country. Therefore, we emphasize that the purpose of this study is to review and analyze the

factors that will impact positively on the sustainable integration of SMEs in the economy of our country.

The main pillars which supported this study are: (1) industry analysis based on Porter's model consisting of five competitive forces, and (2) Porter competitive strategies.

Naturally, two questions arise:

1. Why Porter theory?
2. Why SME-s in the construction industry?

Why Porter theory?

There are many theories on management discipline which orient their focus towards organizational success (Galbraith & Schendel, 1983; Wissem et al, 1980; Abell, 1980; Miles & Snow, 1978; Gale et al, 1975). The business world is diverse and typologies created to characterize companies, make them recognize their strengths, weaknesses and other features. Thus, many business organizations benefit from the competitive advantage created to move over and successfully in this dynamic and complex environment.

Porter (1980, p.6) in his book "Competitive Strategy" put a fundamental quest for strategic management theory by stating that,

"The essence of formulating strategy is relating a company to its environment"

From this statement there are three conceptual entities that clarify relationships between economics and strategic management, i.e. (1) strategy; (2) company (firm); and (3) environment (market). These three are interdependent and interacting. Strategy is formed to fit and connect various organizational and/or environmental characteristics. In other words, the theory of strategic management requires theory of market and theory of the firm to explain strategic phenomena.

Porter's theory is widely used because of the many merits it carries:

First, the five forces model serves as the pillar upon which the analysis of the competitive environment exalted.

Second, the model recommends competitive weapons through strategic orientations that companies choose to adapt to the environment in which they operate.

Porter suggests that industry characteristics define the competition, affect company positioning and protect it from the influence of competitive forces in the industry (Porter, 1980.1985).

What was interesting during the study of this literature was the debate created by researchers divided into two major groups, for and against the view that Porter wants to bring. Finally, another strategic alternative is the Ocean Blue, another strategy that in most discussions is positioned to oppose Porter theory of competitive strategy.

Why SME-s in construction industry?

There are many reasons to argue why it is chosen the construction industry as area on which this study is realized.

First, the construction sector in Kosovo is currently in transition – namely, it's moving away from the supply-driven and poorly regulated market system that emerged in the post - conflict period and becoming more of a demand - driven market in which clients are increasingly looking for quality, legal certainty and affordable financing, before making a costly investment such as buying a house. This transition period is marked by several bottlenecks, which constrain both demand and supply on the construction market which is defined here as the relation between the suppliers of construction services and residential buyers, identified as the biggest source of demand for construction services

Second, the past literature on the different schools of thought in strategy, the strategy theories related to the construction in general and current research of Kosovo construction industry confirm that there is a lack of research on the strategy of Kosovo construction companies. In order to fill this gap, some theories are reviewed in order to set up the basic theoretical foundations for subsequent development of SME-s model.

Third, the construction industry is one of the engines of economic development in our country. It is an industry which contributes to social and economic development of the country, offering various constructions that serve as the basis for the production of goods and services vital to all of us. Moreover, the construction industry is closely linked to the labor market, and employs a significant number of employees from which are noted its impact on income and purchasing power in other markets of products and services.

With a share of 9.5%, the construction sector was the fourth largest employer in Kosovo in 2014, employing about 39,000 people. This sector (15 percent of total FDI) also represented important sectors for the attraction of FDI in Kosovo after 2010.

Fourth, there is a relationship of interdependence between the construction industry and other industries. Demand for services/products in this industry generates demand for inputs in other related industries.

Based on all the above arguments, through this paper is intended to provide a modest contribution to the summary of the literature on the debate regarding Porter theory, in choosing competitive strategies of SME-s in construction industry and creating a special premise for a proper analysis of other industries in future studies.

Through this study is intended to provide a modest contribution, theoretical and practical. Referring to the theoretical value, besides the compilation of literature that includes the opinions of the authors in recent years, this paper will serve as a guide to how the forces acting outside SME-s, should be included in the analysis of the attractiveness of the industry to find out the right competitive strategy.

In terms of practical values, this paper aims to serve to business community, other researchers in the field of management, current investors and individuals who seek to enter the field of business (construction). Also, in this work is treated the real situation of the construction industry in Kosovo, which will serve students for illustration in text books, and case studies.

1.7 LIMITATIONS OF THE STUDY

Despite the importance and contributions, this paper is accompanied by a number of restrictions which in summary are listed as follows:

1. The study was conducted in a certain industry, construction industry. Therefore, care should be taken in trying to generalize the data of this work in other industries.
2. Selected sample size of the study includes only SME-s that operate in the construction industry. This can be considered a small number compared to the total construction firms registered in the General Directorate of Taxation.

3. The study performance (despite subjective and objective indications or reports used) is measured on the basis of comparative studies within a given period of time and not through explicit expression of financial data, due to difficulties in finding and securing these data and confidential nature they represent. Most of the managers often refuse to provide financial data because they feel unsure how this data will be used. Even if they give information on financial reports, these do not represent the company's current situation.

4. Using the questionnaire as a tool to collect data also has its doubts about the sincerity of the answers given by representatives of companies.

5. The questionnaires are distributed and data are collected for a limited period of time, about 6 months. The data have not a larger time span, in order to express the dynamics of events.

1.8 THE ORGANIZATION OF THE STUDY

The study is organized in 7 chapters.

In the *first chapter* is given a general description of the subject, the purpose of study, research questions, a brief description of the methodology used, the importance of the study and its limitations. *The main purpose of this study is an examination of the competitive advantages and their impact on the success of SMEs in the construction sector and proposing appropriate strategies for achieving competitive advantage and increases the performances.*

In the second chapter is provided a depth overview of the literature used. As mentioned above there is a logical flow between issues. Treatment begins with theoretical analysis of the external environment, construction industry and forces that comprise it (competitive rivalry, new entrants and barriers to entry, power supplier and customer, substitution products). An important part in the study takes the treatment of competitiveness and competitive strategies in light of the two schools of thought.

Dependence on external environment is not a problem in itself, as long as this environment that surrounds the company appears static and simple. The problem arises when growing uncertainty and its dynamics. The high degree of uncertainty and the impact of changes of the factors in the external environment require an ongoing review by

the company, which can be achieved through detailed analysis of the macro-environment while continuing further towards its operating environment. Numerous economic studies have affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure. Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates.

In the third chapter is developed an overview at the development of SMEs in the world, in Europe, in the region and in Kosovo, providing at the same time a comparative perspective. This chapter provides some important notions and concepts in relation to SMEs, barriers to the development of SMEs and their positive macroeconomic impacts.

In the *fourth chapter* is presented the situation of external environment in our country and the impact on the construction industry, the dominant characteristics and development of the construction industry in recent years, determining the degree of concentration and the situation of the industry in Kosovo, where the study took place.

As an important location for business development, Kosovo offers a number of comparative advantages: the young and very well qualified population, where the average age is very young, natural resources, favorable climate, new infrastructure, fiscal policy with lowest tax in the region, geographical location, etc. We shall look at the origin of change in the nature of Kosovo construction industry from three different angles, highlighting construction as an investment, production, and labor process, each with its own dynamics. This approach implicitly denies the supply–demand dichotomy in economic development analysis as well as, notably, the all-too-familiar concept of construction being driven predominantly by demand.

In *the fifth chapter* is presented research methodology. In this chapter are detailed the reasons for selecting the questionnaire, the principles that served to build its demographics choice, definition of size selection, procedures for data collection and analysis of each independent and dependent variable involved in the study.

The methodology used is a function of the goals set out in this study. First, research is based on literature review, in order to verify the findings of studies conducted

by different authors in countries that are characterized by different political, social and economic developments.

In *chapter six* are described the results of research and data analysis generated by testing the model used and research hypotheses. First, was conducted a descriptive analysis of the sample, based on a number of criteria. Descriptive analysis of the company distribution, frequencies and percentages was conducted by primary data obtained through questionnaires distributed to SME-s that operate in Kosovo construction industry, and secondary data, obtained from annual reports and statistics (IMF, World Bank, Central Bank of Kosovo).

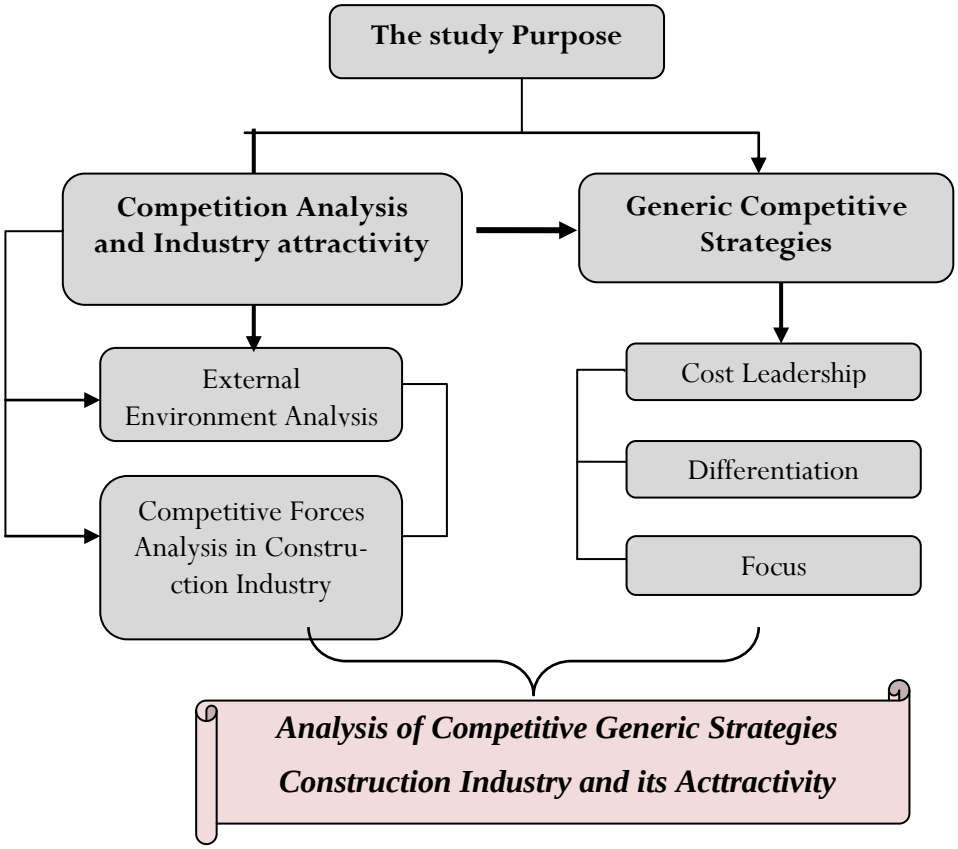


Figure 2: *Graphic presentation of the issues treated in the study*

Further analysis was conducted through statistical models respectively: Multi-Criteria Evaluation, analysis of variance (ANOVA), multiple regression and other statistical tests. Data processing was done by SPSS (Statistical Package for Social Sciences).

In the *seventh chapter* are summarized research findings and their practical importance. At the end of the study appear limitations and recommendations for further research in the future.

CHAPTER II:
LITERATURE REVIEW: ENVIRONMENTAL ANALYSIS - THEORIES, CONCEPTS, RESEARCH FINDINGS

Success and failure of many companies depends on factors that impact on them, which are not always under the control of the company. Numerous, these factors appear sometimes static and sometimes more dynamic, some of them conceivable and measurable while others expressed in qualitative terms. Analysis of factors changes depending in the importance, because its specificity refers to the company, the industry and the goods or services it offers. This chapter serves to give an overview of the external environment in which each company operates. Definitions and an overview of the opinions of some authors on the external environment are object of study of this chapter, which will help us next for the comparisons with the situation and the Kosovo environment.

2.1 EXTERNAL ENVIRONMENT

Studies have proven that to be economically valuable and enduring in the market, organizations must adapt to the external environment. This environment refers to factors located outside influence and control of the organization but that should be an important part of the decision-making process and developing competitive strategies. No organization operates in a vacuum, no organization survives alone (Mortensen, 2012). In this context, the organization operates as an open system, located in a certain field and connected directly to the influence of factors that make up this environment. Despite industry in which a company operates, whether provides products or services, whether for-profit or non-profit umbrella, corporation or SME, if we talk about the same period, the external environment affects all businesses in the same way or trend (positive or negative), but the extent and degree of impact varies and is specific for each industry. Significant changes are observed in the performance of companies as a result of environmental instability and uncertainties that associate economies around the world (Ishak et al., 2008). Naturally, organizational processes systems and strategies should be based and adapt to the external environment. This is because organizational choices

depend on the rate of change of the factors that characterize the external environment (Child, 1972).

The business may face, or have a decrease in its performance from threatening changes, as these environmental changes can lead the company towards opportunities (opportunities) previously unused. In this way, the performance will be inclined to increase, when the changes and strategic choices of the company are consistent with changes that it faces in the external environment (Kraatz, et al., 2000).

Dependence on external environment is not a problem in itself, as long as the environment surrounding the company appears static and simple. The problem arises when uncertainty and dynamics is increased. Environmental uncertainty can be defined as the extent beyond which the future state of the environment cannot be predicted (Pfeffer and Salancik, 1978). The high degree of unpredictability of the changing factors in the external environment requires constant analysis by the company, which can be achieved through detailed analysis of the macro-environment, approaching more and more of its operating environment.

PEST analysis is considered as the framework within which can be analyzed the impact of macro-environmental factors. According to Duncan (1972), the business environment can be defined as the entirety of physical and social factors featuring in the external environment of the company, that should be taken into consideration during the decision-making behavior of individuals in an organization (Duncan, 1972). While according to Rivani & Ward (2005), PEST analysis includes specific environmental conditions outside the organization that influence organizational capacity to produce value. The only course of action by companies is their knowledge, information collection and timely response to turn them into future opportunities. According to this view, PEST analysis is paralleled with "the view from the satellite," which provides information on the external environment (Rivani and Ward, 2005). This analysis has been and is used for many reasons: first, helps to analyze the position of an organization or industry in the mega-environment that surrounds them (Moitra et al., 2007); secondly, serves to analyze the validity of management decisions if they meet the eligibility requirement of external environmental factors (Neblett, 2007).

The goal of PEST analysis is to develop and explain the impact of any external environmental factor in longevity, profitability or performance of the company. However, we can say that the analysis is not static, because the parameters and variables that participate in it are varied. Organizations, regardless of different industries in which they operate, are exposed to the pressure of a significant number of factors (Epstein & Roy, 2001). PEST is the acronym of the terms of the legal-political, economic, social-cultural and technological environment. Finally, to this analysis are added ecological, environmental and international factors. Ethics, social responsibility and globalization of markets have brought the inclusion of ecological and environmental factors on the performance of the international economy, industries, sectors and individual businesses.

2.1.1 Political-legal environment

The political arena has a huge influence on the way the business activity is regulated, on the purchasing power of consumers and competitors. In any initiative to analyze the factors that make up the political environment, naturally raise some questions:

•What are the government policies and their impact on the economy?

• How stable the political environment appears?

Political factors determine the legal and regulatory framework within which firms operate. These factors represent how companies influence government and how they are influenced by governmental institutions (Hitt et al., 1999). Political factors include regulation and environmental protection, tax policy, consumer protection, political stability, government grants and incentives for business, rules on the security of individuals and not only. Porter notes that new industries which serve as fruitful ground for developing technologies, or have a high impact on society, should be directly subsidized (Porter 1980). Subsidy is a policy of the government which attributes directly to businesses in the form of grants or indirectly through the rate of taxation.

However, despite the positive impact that brings this factor, there is the possibility of creating business dependency on political decisions that time has shown that they have changed or modified rapidly due to changes in the political environment in certain countries. Also, political stability plays an important role in the activity of a company, because this factor affects the substantial investment, the safety of personnel and the

creation of an infrastructure that allows the transfer of goods, services and financial assets inside the country or between countries.

2.1.2 Economic environment

Economic factors are related to the nature and direction of the economy where the company operates (Fahey and Narayanan, 1986). According to Ward and Rivani (2005), economic factors include economic growth, interest rates and monetary policy, government spending, policies to promote employment, taxation, exchange rates, interest rates, business cycles, etc.

The economic environment consists of external factors that can influence a business. Economic factors are related to the nature and direction of the economy where the firm operates. Since consumption is different for different market segments, each firm's strategic planning should take into account economic trends in the market segments of its industry. Both nationally as well as internationally, the firm must review the overall effectiveness of credit, income level and trend of the population available to spend. Inflation rates, interest rates and growth trends of the overall product are also other economic factors that should be considered by the firm.

But how the economic environment affects the firm's sales and profits? The level of economic development directly impacts on these factors, in some ways. Stage of the economic cycle has a direct impact on GDP, income level, the level of investments and sales. It is easy to grow sales in a period of "economic boom" than in "decline". Therefore strategies that can be successful in boom periods, may fail in recession periods.

What is the economic impact on the firm's profits and sales? The economy has a significant impact on the company's strategy, because it affects the cost of capital, the purchasing power of the organization as well as the purchasing power of consumers of goods and services. The level of economic development directly affects the factors that make up this environment. Stage of the economic cycle has a direct impact on GDP, income level, the level of investments and sales (Kume, 2010).

2.1.3 Social Environment

Social factors include the beliefs, values, attitudes, opinions and lifestyle of individuals who take part in the company's external environment. Social forces are dynamic and in a constant process of change, as a result of the efforts of individuals to meet the desires and needs, through the control and adjustment of external environmental factors (Kume, 2010). Porter notes that the demand for products is influenced by changes in life style, tastes, philosophy and social conditions which every society experiences in different periods of time (Porter, 1980). Also, Epstein and Roy (2001), argue that companies must identify the social environmental factors that affect industries and specifically their location. In his study, Shrivastava (1995) concludes that most people express a desire to be active in social issues pertaining to environment. Some of the social environmental factors that affect business organizations are consumer behavior, evolution of new industries, which provide products and services, entirely new and previously unknown by consumers.

Another important factor that operates within the social environment is the culture. Culture, as defined by Hofstede (1997), is "collective programming of the mind which distinguishes the members of one group or category of people from others". According to Hofstede (1997), culture shapes human behavior, way of thinking, feelings and action, the way of making decisions. In this context, there are two major groups of culture, national culture of a country and organization's culture.

2.1.4 Technological Environment

According to Ward and Rivani (2005), technological factors include government spending on research and development, focus on technological development in the industry, innovation, technology transfer rate, life cycle and the speed with which a technology obsolete, etc. Technological factors play an important role in the growth of industries. One way to ensure a stable performance is the investment in new technologies, redesigning products and processes or in spending on research and development (Epstein & Roy, 2001). Also, Shrivastava (1995) argues that companies need to update their

technologies when they realize new standards and improved technological environmental factors.

If companies possess technological advantages, it provides them with a competitive advantage and gives the opportunity to create new product markets, adapt to customer demand in existing markets thus gaining social legitimacy. So, technological environment helps companies to achieve economic goals as well as social ones. Another factor that affects companies in the technological environment is "technological uncertainty". Dasgupta & Stiglitz (1980) argue that in an uncertain environment, the budget for research is increasingly higher. It is evident that, during the phase of development and growth, industries suffer from a lack of product standardization. Thus, companies decide if they want to offer unique and standard products and or differentiate their products from competitors (Farrell and Besen, 1994).

2.1.5 Global Environment

Today, because of technological, cultural, telecommunication advances and information systems, the world has become a small global place, which can be served with a single market and a product or service only, regardless of languages and cultures that different segments of the market may have. Many authors have written about globalization, strengths and difficulties during implementation of strategies in global markets. According to the GCSP (Geneva Center for Security Policy) there are about 114 definitions of globalization, 67 of whom rely on the economic dimension. Today we have a more comprehensive framework of what is globalization, thanks to the research and debate on this concept (Kumar, 2003), and its definition is not a simple task.

Some Scholars describe globalization as a "phenomenon" (Berry, 1998), others as a "benchmark" or "period" in the accumulation of long technological developments which gave individuals the opportunity to act in the world (Langhorne , 2001), or "process" of the movement of products and factors of production between countries (Easterly, 2004), the intensification of social relations (Beerkens, 2004), which effects the transformation in the environment of many countries to adapt changes (Marginson, 2006). Global environment and its definition has been part of studies in many disciplines. In the view of sociologist Santos B., S. (1995) there are two definitions of globalization. The first is called localization globalized which refers to the process in which a local phenomenon is

globalized successfully. The second is called globalization localized, which refers to the practices of different countries that were adapted to specific and local conditions in order to adapt to changes in the global arena.

Major debates are caused during approaches that economic theorists have made about globalization. According to Bhalla (1998), in his summary of the papers about this concept, he asserts that there are sufficient five economic factors and only two non-economic factors which may explain globalization. These factors include: first, market growth of different countries, secondly, increased foreign direct investment, third, increasing production and consumption worldwide, fourth, global competitiveness, and finally the opening of markets and liberal investment policies that affect more than one country. While non-economic factors that fit this concept are, weakening of national sovereignty and standardization of values and culture.

Table 1. *External environmental factors. PEST analysis*

Political Environment	***Economic Environment***
• Monopolies legislation • Laws on environmental protection • Tax policy • Law on external trade • Employment Law • Political stability • Governmental organizations	• Economic Growth • Interest rates and monetary policy • Government spending • Unemployment policies • Taxation • Exchange rates • Inflation • Business Cycles
Social Environment	***Technological Environment***
• The distribution of incomes • Demography/Population growth rate • Social mobility / work • Changes in the life cycle • Attitudes towards work / career and leisure. • Levels of education • Living conditions	• Government expenditures for research • Technological efforts of industry • Inventions and product developments • Speed of technology transfer • The pace of obsolescence • Energy use and cost • Changes in information technology / Internet

Source: Ward-Rivani Model

2.2 COMPETITIVE ADVANTAGE - THEORIES, CONCEPTS, RESEARCH FINDINGS

Competitiveness is a concept that economists, industrialists, politicians, journalists and academics frequently refer to, debate and worry about. The European Union, the US and governments worldwide set up competitiveness councils and produce white papers on 'competitiveness'. The World Economic Forum (WEF) and the International Institute of Management Development (IMD) annually produce competitiveness reports to measure and benchmark nations' 'competitiveness'. Industry bodies and firms are as eager to measure and benchmark their 'competitiveness' against their peers.

Competitiveness is one of the most important terms and discussed by different researchers. Despite growing interest in research on competition, our knowledge is still limited about the content, the exact meaning and competitiveness factors. It seems that in this regard top four challenges are:

- *definition of competitiveness*
- *level of competitiveness,*
- *factors of competitiveness*
- *effectiveness of public policies*

Everywhere in the business world, and not only, we talk about competition. And while discussing about this concept, it is natural to ask, "what is the competition?" and why there are so many definitions about it?

2.2.1 Competition and its types

Despite growing attention and literature, competitiveness or competition definitely remain an unclear concept, because there is no single definition for them. Thus, in some cases, this concept is the subject of many other definitions and misrepresentations. This is because the competition is a multidimensional concept (Porter, 1980). If you refer a rough chronological definitions, competition has been written by classical and modern economists, like Adam Smith (The Wealth of Nations, 1776), David Ricardo (The theory

of competitive advantage, 1817), Max Weber (the Theory of Social and Economic Organization, 1920), etc., up to today's organizations like the Special Commission for Competitiveness US, Competitiveness Advisory Group, International Institute of Management Development and World Economic Forum, etc. Feurer and Chaharbaghi (1994) have proposed the definition of competition taking into account the sustainability feature. According to them, the competition is relative and not absolute. It depends on the value of the shareholders and customers, on financial strength which determines the ability to operate in a difficult environment, and on the potential of people and technologies to adapt successfully to strategic change. Competition can achieve stability only if it is a proper balance between those factors that have conflicting character. In the view of Waheeduzzan and Ryans (1996), the competition is a reason or tool to achieve objectives (Flanagan et al., 2005).

Other researchers shed light on competitiveness as a concept that includes three dimensions: price, location and product/service (Wassenhove and Corbett, 1993). According to the logic of inclusive features, Lau et al. (2002) suggest a definition of competition through four of its features, such as long-term orientation (focusing on long-term performance than mastery temporary competitive advantage), control (continued management of resources and capacities), relativity (the competitive position of the firm to firms rival) and dynamism (involvement in dynamic processes to generate profits). According to Lu (2006), "Competition is a broad concept beyond the traditional financial indicators such as profitability, productivity or market share." The same line of thought appears in the definition of Flanagan et al., (2005), under which the competition is the target towards a high level of living for individuals and high rate of return curve on investment for owners. Based on the financial indicators of performance, Momaya and Selby (1998), define the competition among companies within an industry as a vehicle which meets the needs of the customer as a result of a combination of characteristics of the product/service (as price, quality, innovation), satisfies the needs of stakeholders and offers high levels of return and potential growth."

In this context, many authors are involved in debates about the competition by bringing a comprehensive framework on these dimensions and features that characterize the competition:

- *Diversity of definitions.* There is no unique single and general definition of competition, causing in some cases misunderstanding and confusion among the authors' views (Porter 1990, Chaharbaghi & Feurer, 1994, Cho & Moon, 2000, Momaya 2004, Balkytė & Tvaronavičienė 2010).
- *Diversity of meters.* According to the authors' perspectives on competition and keywords used in their definitions we can say that there are several variables that measure the level of competition (Belkacem, 2002; Blake, Croon, & Hastings 2004 Henricsson & Ericsson 2005).
- *Scope.* The concept of competitiveness extends the analysis of studies at national, industry and firm level (Nelson 1992, Momaya 2004).
- *Dependence.* Understanding and assessing the competition depends on the value of the business unit stakeholders studied (Chaharbaghi & Feurer, 1994).
- *The dynamism.* Factors affecting competition vary over time (Chaharbaghi & Feurer, 1994, Cho & Moon, 2000).
- *Continuous process.* Competition is seen as the instigator of the process by which assets are transformed into performance; a process that helps to identify the importance and create a stable balance of functions within the company.

Beyond this diversity of definitions and measurements of the level of competition, Buckley et al. 1988 distinguished three different dimensions to understand and explain the competition: the ability to perform well, resources` provision and management process. In the coming years, this view of the competition was developed by World Economic Forum (WEF) reports published since 1979, and International Institute for Management Development (IMD) with its origins in 1990, being published in the periodical report 1993 (World Competitiveness Report) as the formula of measuring competitiveness in the whole world: Assets x Competitive Processes = Performance.

Despite that there is no unique definition on competition; this concept is an important part of management and economic analysis together with other indicators such as profitability, market share or productivity. Thus, the competition has been and remains an attractive concept for different levels of study, including firm, industry (micro) and national (macro) level of competitiveness (Nelson, 1992; McFetridge, 1995).

Competition is the key factor of success or failure of businesses (Porter 1985). It has grown a lot in these days of globalization. A competitive firm must know how to use strengths to exploit the opportunities of the environment and to reduce the negative influence of some external environmental factors (Danaiata et.al, 2006). But, as stated by Ganesh & Mehta (2010), no matter if your organization is large or small, being competitive is the main factor that leads to success. According to Johansson (2008) the competition for SMEs is often intense.

Porter (1990) defines competition in three levels:

- Business/firm level
- Industry level
- National level

Measuring firm-level competitiveness, according to Porter (1990), includes the profit, the firm exports and market share. Measuring the level of competition in the industry includes profit, the industry's trade balance and foreign direct investment. While at the national level, competition means the ability of citizens to achieve high standards and sustainable growth.

Varian (2000) stated that a market in which prices are beyond the control of individual producers is called the competitive market. There are some types of markets: market of perfect competition, market of imperfect competition, monopolistic competition, oligopoly and monopoly.

Krugman (1994) defines competitiveness as "..nothing more but a different way of expressing productivity, taking into account the growth rate of a firm in relation to other firms." Porter (1980) states that competitiveness is determined by productivity, depends on the strategies of firms, and is, in part, a result of the relationship between firms and local business environments, depends on the social and economic objectives and is influenced by factors of the external environment. By (Bibu et al. 2009), the competitive position of an enterprise in the industry where it operates depends on many factors: the market, the quality of resource utilization, response to market pressures, financial performance, etc.

While Porter (1985) states that intense rivalry is associated with the existence of several factors. Some of these factors are:

- Growth rate and industry capacity;
- Fixed costs and value added;
- Characteristics of products/services;
- Change of costs;
- Diversity of information;
- Diversity of competition.

According to Kotze (2002), the new century needs a competition based on the following components, which are presented in Table 2.

Table 2. *Important components of a competition.*

Value	-Products and services are bought for the values they offer. Consumers ask for more.
Time	-The ability and speed to make decisions is critical**.**
Knowledge and intellectual capital	-Ideas and information are a driving force for the economy
Flexibility	-In a very competitive time, to be profitable requires a perfect organization
Innovation	-Continuous improvements of products and services, business operations and organizational processes are the bases of value creation for consumers.
Business size	- It is not important to be a big business, but more important is to be fast and innovative.

Source *:Kotze (2002)*

Chikan (2006) states about the competition (cited from Gal 2010):

- Business competition cannot be separated from competition of products / services generated by the businesses themselves.
- The competition is a combination of several factors that shape it and should not be tested in a given moment, but should be evaluated taking into account dynamic change trends.

There are different measures of competitiveness, ranging from simple indices to relatively complex. It is worth noting that the range of the index is very sensitive to the validity and availability of data. According to various theories, there are different assessments of the factors of competitiveness. Some views consider the structure of the organization a key factor of competitiveness; pyramidal model identifies economic output, profitability, employee productivity and associated processes as potential factors.

RBV- Resource based view asserts that the competitive position of a company has been much affected by the internal environment than by the external environment. The firm that possess more rare resources, with precious value, unrepeatable and not imitable, is considered with better competitive position in the market.

2.2.1.1 Competitiveness on a national level

A pioneering definition of competitiveness on a national level was formulated by Scott and Lodge (1985) as: "a country's ability to create, produce, distribute products and/or services in international trade while earning rising returns on its resources". The US commission on Industrial Competitiveness defined competitiveness as "the ability of a country to produce goods and services that meet the test of international markets and simultaneously to maintain and expand the real income" (Tyson 1992). The OECD (1997) adopted this definition, and thereby developed the arguably most frequently cited one, but added the criteria that competitiveness is to be proved "under free trade and fair market conditions" and "over the long-term".

These definitions all include an international element in the sense that products and services are exposed to international trade, competing with products and services produced by countries with different cost structures and/or more sophisticated features. At the same time, competitiveness of a nation implies rising returns on resources and rising real income for the citizens. This highlights the challenge to meet global market requirements, where cost is often a key factor, and simultaneously achieve rising real incomes. In other words, this challenge questions the ability of high-wage countries to compete in international markets with low-wage countries. The key to simultaneously achieving both low costs and high wages is productivity (Belkacem 2002). Productivity is crucial also to the WEF, as they define competitiveness as "the ability of a national

economy to achieve sustained rates of economic growth as measured by the annual changes in per capita GDP." (World Economic Forun, WEF 1996).

Based on the thinking that nations themselves do not produce products or services, Storper et. al (1993) take a different approach to a nation's competitiveness by stating: "competitiveness reflects the capability of an economy to attract and maintain firms with stable or rising shares in activity, while maintaining or increasing standards of living for those who participate in it."

Global Competition Index GCI – national indicator

How global analysis can be used to understand a country's competitiveness and the directions where he needs to progress? After many years of growth without many surprises, the profile of the world economy is changing. Rise in prices of food and energy, the international financial crisis and the slowdown that is happening in the economies of the world economic leaders, created new challenges of economic management for policy-makers. Today's volatility underscores the importance of an economic environment that supports competitiveness and that can help national economies to successfully cope with these fluctuations, to ensure a positive impact on future performance.

Competitiveness at the national level describes the extent to which the nation is able to offer a growing prosperity for its citizens. Since 1979, the Global Competitiveness Report of the World Economic Forum examined numerous factors that provide national economies chance to reach a long-term economic growth and prosperity. The purpose of this forum was to provide comparative tools for business leaders and policy makers in order to encourage the discussion of strategies. For several years this forum has conducted competitive analysis by means of the Global Competitiveness Index (GCI), an aggregate index to measure a country's competitiveness.

GCI offers the weighted average of many different components, each of which reflects one aspect of the complex reality that we call competitiveness. GCI is calculated based on 12 key indicators of competitiveness of economy: institutions, infrastructure, macroeconomic stability, health and primary education, high education and training, efficiency of market goods, efficiency of the labor market, sophistication of financial market, technological level, market size, business sophistication, and innovation.

Twelve Pillars of competitiveness are interconnected, but also reinforce each other. For example, innovation is not possible in a world without institutions that guarantee intellectual property. It cannot be carried out in countries with poor education and untrained manpower, and cannot take place in the market economy with inefficient or without an extensive and efficient infrastructure. Although the index itself derived from the aggregation of 12 main indicators, each of which is again measured and explained in itself, because this procedure helps in the analysis separately for each country and for each component. They show clearly, to what extent a country should be improved.

It is clear that different pillars impact different countries in different ways. The best way to improve competitiveness of Kosovo, is not the same as that of Italy, etc. This is because Kosovo and Italy are at different stages of development. When countries move along the path toward development, wages tend to rise and, in order that this growth is sustained, labor productivity should be higher.

According to the GCI, in the first stage the economy depends on the factors of production and countries compete on the basis of their talents and natural resources. Companies compete on the basis of prices and sold products and basic commodities, with their low productivity that leads to lower payments. Achieving competitiveness at this stage of development requires well-functioning of public and private institutions, well-developed infrastructure, a stable macroeconomic framework, and an educated and healthy work force.

Meanwhile, with the advancement of development, wages rise and the countries move into the stage of efficiency- oriented development, where they must begin to develop more efficient production processes and increase product quality. At this point, competitiveness is directed mostly by higher education and training (5), efficient markets of goods (6), labor markets that function properly (7), sophisticated financial markets (8), an extensive domestic and foreign market (10), and the ability to take advantage of the benefits of existing technologies (9).

Finally, as countries move into the innovation-driven stage, they are able to afford higher wages and living standards, only if their businesses are able to compete with new and unique products. At this stage, companies must compete through innovation (12),

producing new and sophisticated products, and using new and sophisticated processes (11).

The concept of stages of development is integrated in the Index, attributing high relative weights those pillars that are relatively more important for a given country at a given stage of its development.

2.2.1.2 Competitiveness in industry level

The field of Industrial Organization studies the behavior of firms and interaction between them. After Cournot, theories focused on behavior of firms in various competitive structures and mathematical models were not preferred. The earlier most notable empirical model was developed by Bain (1956) and is called the Structure-Conduct-Performance Paradigm. The S-C-P paradigm investigates whether a highly concentrated market causes a collusive behavior among large firms resulting in superior market performance. The S-C-P paradigm treated the number of firms or the concentration of firms as an exogenous shifter in regressions of industrial profitability, thus relating profitability to structure. S-C-P was criticized, arguing that if an industry has no entry and exit barriers, there can be high level of competition in a highly concentrated market. A firm would work at high efficiency levels to prevent entry of newer firms. This argument came to be known as Baumol's theory and later on this debate was taken over by game theoretic models. Game theory was used with S-C-P paradigm to develop more robust models. Strategic models were developed based on repeated Game Theory.

However, the use of Game Theory led to inter-industry comparisons which had a major flaw and led to significant interest in this domain and many models enunciated. The accounting standards of different industries differed and inter-industry comparison based on accounting data was flawed. These models were not able to provide empirical analysis, capable of estimating the magnitude of welfare or losses.

Research into competitiveness at this level is relatively less reported compared to the firm or the project level. One possible reason is that scholars struggle with whether they have asked the right question: 'Is there a research domain for competitiveness of industry?' Porter (1990) argued that seeking to explain competitiveness at the nation level is to answer the wrong question. Instead, investigation of competitiveness of nations

should focus on specific industries or industry segments rather than on the economy as a whole. It is not nations or industries themselves but their firms that compete in the international market. Investigating the competitiveness of a nation per se is to examine how an industry fosters the firms to compete against the world's best competitors in a particular field.

Competitiveness research at the construction industry level has witnessed a rigorous debate between productivity and competitiveness. Some research (e.g. Ive et al., 2004) treats competitiveness as a modern word, and uses productivity to stand for competitiveness without recognizing the difference between the two concepts. Krugman (1993) mentioned that people who use the term 'competitiveness' do so without a second thought. Some research, partly supported by Porter's (1990) argument that productivity is the true source of competitive advantage, defines competitiveness by using productivity. While various productivity measurements, i.e. labor productivity, capital productivity or total factor productivity, have captured the cornerstone of research on achieving excellence in the construction industry (e.g. Arditi, 1985; Chau, 1988; Arditi and Mochtar, 2000; Allmon et al., 2000). Researchers (e.g. Cattell et al., 2004) have recommended a shift from looking just at productivity to the wider concept of competitiveness. Advocates of competitiveness argued that measuring productivity is problematic while competitiveness is more informative. The limitations of measuring productivity include lack of availability and reliability of data; failure to measure more important things (e.g. the effectiveness of project management, the quality level achieved, and the innovations); the difficulty of productivity comparisons between industries, etc. (Cattell et al., 2004).

In a study conducted to measure productivity of the UK construction industry, it was also admitted that 'the measurement of industrial productivity generally is problematic and the measurement of productivity in the construction industry is particularly difficult' (Ive et al., 2004). While measuring it in the construction industry does not seem to be easier, the concept of competitiveness sounds more promising. This has formulated one of the rationales behind the research that has been conducted to investigate competitiveness of the construction industry. Measuring and benchmarking competitiveness among different countries' construction industries has been undertaken.

Momaya and Selby (1998) conducted a comparison of competitiveness of the construction industry in three different countries: Canada, USA and Japan. Their research adopted a framework developed by Buckley et al. (1988), which was also used by the WEF (2004) and IMD (2004) in formulating the so called 'competitiveness formula'. A more recent research was conducted to measure the competitiveness of the construction industry in three selected countries: UK, Sweden and Finland (Flanagan et al., 2005). An interesting point made by this study is about the stakeholders' perspective of competitiveness. There are different stakeholders in the construction industry: investors, employees, clients and society. While one measure of competitiveness may appear quite satisfactory from the perspective of one stakeholder, it may fail to recognize the viewpoints of others. This study recognized the diversity of participants and stakeholders and maintained that the measurement of competitiveness is a very difficult task; a single measure of competitiveness of the construction industry is inadequate (Flanagan et al., 2005).

Numerous challenges are faced by the competitiveness research at the construction industry level, so measuring the competitiveness of the construction industry remains a challenge. There is no 'quick' method, such as a composite index that could be used to indicate different levels of competitiveness of a given construction industry. Although it is clear that productivity is not a surrogate for competitiveness as the latter is more encompassing, a pervasive argument about what is competitiveness at the construction industry level has yet to be readily accepted. Moreover, even though it is frequently used, the term 'the construction industry' is very complex, and there is no agreed definition of it and its components. Some assume it to be an aggregated term for a number of subcategories while others take it as a substantial entity. Some take an international perspective while others focus on a regional market by arguing that the majority of firms in this industry are SMEs. The others stress out that major players are contractors (either main contractors or subcontractors) while others are interested in players such as consultants, bankers, lawyers, and so on.

More discussions about the conceptual foundation of the construction industry and the competitiveness at this level are envisaged. An investigation of how an industry can foster its construction firms competing in the market seems to be of central interest. For

example, Oz (2001) identified the competitive advantages that had made Turkish contractors so successful in the international market by incorporating Porter's diamond. Many organizations and various institutions work hard to encourage competitiveness from an industry perspective. These efforts may include regulating market competition, promoting best practice in the whole industry, benchmarking the competitiveness of the construction industry in different countries, and so forth. In short, there is a pressing need to explore the mechanisms for a construction industry to foster competitive advantage for all its firms. There are some essential research questions awaiting further investigation:

(1) What is the competitiveness at the construction industry level? Is it meaningful to use a composite index to indicate the competitiveness of a given construction industry?

(2) What is a healthy construction industry, for example, with good business environment, reasonable intensity of competition, or proper economic policy?

(3) How can the construction industry as a community foster the development of competitiveness of its firms?

Industry analysis model proposed by Porter takes into account the 5 forces: competitive rivalry, threats of new entrants and substitute products and the power of suppliers and buyers. While other authors suggest that the evolution of Porter theories refers to the existence of the sixth force affecting industry analysis and competitive strategy selection.

2.2.1.3 Competitiveness on a firm level

Achievement of competitive advantage for firms has received considerable attention over the past decades. The period from the 1960s to the early 1990s has seen a plethora of theories explaining how this could be done. Among them three main schools are dominant: the competitive advantage and competitive strategy models (Porter, 1980, 1985), the resource-based view and core competence approach (hereafter the RBV) (e.g. Wernerfelt, 1984; Prahalad and Hamel, 1990; Barney, 1991), and the strategic management approach (e.g. Chandler, 1962; Ansoff, 1965). Porter's theory for firm's competitiveness is characterized as the industrial organization view of competitive advantage, which was grounded on the earlier works of Bain (1959) and Mason (1986) in

the area of industrial organization economics (Kale, 2002). It was postulated that competitive advantage comes from the competitive strategy a firm adopted to neutralize threats or to exploit opportunities presented by an industry (Porter, 1980, 1985). Major components in Porter's theory are (1) the five competitive forces model; (2) the three generic competitive strategies; and (3) the value chain. In analyzing the competitiveness of firms, Porter's theory has been the dominant tool for the past two decades. Its various merits include its simplicity (Miller & Dess, 1993), its strong theoretical underpinnings (White, 1986), etc.

However, due to the openness of Porter's theory, the criticism directed towards it is almost as great as the acclaim it has received. For example, it does not address the internal mechanisms by which a company converts the influence of a challenging external environment into useful internal abilities (Lado et al., 1992). For some companies, the pursuit of more than one generic strategy simultaneously is viable (Hambrick, 1983). The strengths and weaknesses of Porter's theory are discussed frequently in several prominent management/ organization journals such as the Strategic Management Journal and the "Academy of Management Journal". The RBV shifts the focus from the industry structure to the resources developed by a firm. It is mainly based on Selznick's (1957) seminal work on 'distinctive competences' and on Penrose's (1959) early argument that a firm is a collection of resources and its performance depends on its ability to use them (Ambrosini, 2003).

The perspective really took off in the 1990s, when a number of conceptual papers were published (e.g. Barney, 1991; Conner, 1991; Mahoney& Pandian, 1992; Peteraf, 1993). The principles were popularized by Prahalad and Hamel (1990; Hamel and Prahalad, 1994), who propose that firms should develop unique resources and so achieve core competence to sustain growth. The main propositions of the RBV are:

(1) A firm can be viewed as a collection of resources. (2) Competitive advantage does not depend on market and industry structures but stems from the resources inside a firm. (3) Not all resources are necessarily the source of a firm's competitive advantage, there are only the firms specific resources that meet the criteria of valuable, rare, non-substitutable, imperfect limitability and imperfectly mobile. (4) A firm must identify and strengthen those firms' specific resources in developing its core competence. (5) Usually, 'resources'

here refer to not only the possession of firm-specific resources, but also to the effective utilization of these resources to achieve competitive advantage.

A major contribution of the RBV is that it provides valuable suggestions for a firm to focus on those firms specific internal resources. Therefore, it largely complements the limitations that are inherent in Porter's theory (Miller and Shamsie, 1996). However, the concept of resources remains an amorphous one that is rarely operationally defined and tested in different competitive environments (Miller and Shamsie, 1996). The future of the RBV relies heavily on the search for clear empirical evidence. There is also a need to know which resources are valuable in which contexts and how resources can be managed in such a way as to sustain competitive advantage. Critics also pointed out that its inward focus may risk ignoring the nature of market conditions (Hooley et al., 1998).

It appears that the strengths of the RBV are the aspects where Porter's theory presents limitations. The two schools of theories were developed from different bases and had different assertions from the very beginning. It is interesting to see that they showed certain similarities in their propositions as they evolved. For example, the value activities such as firm infrastructure and human resources, in Porter's value chain per se are the 'resources' referred to in the RBV. Indeed, by expanding the scope of some key concepts and softening some propositions, a greater robustness of the theories has been achieved. As a consequence, differences between them are not remarkable, and distinctions are blurred. It would be more appropriate to consider the two theories as complementing rather than contradicting each other in supporting the achievement of competitive advantage (Lu, 2006).

The third school of theory on firms' competitiveness is the strategic management approach. The discipline, originating in the 1950s and 1960s, with its heyday in the 1970s had Alfred Chandler, Philip Selznick, Igor Ansoff, as its most influential pioneers. Mintzberg (1990) located 10 'schools' of strategy research that have developed the emergence of strategic management as a field of study. Generally speaking, strategic management refers to a set of managerial decisions and actions that determine the long-run performance of a corporation (Wheelen and Hunger, 2002). It comprises some generic procedures such as environmental scanning, strategy formulation, strategy implementation, and evaluation and control (Wheelen and Hunger, 2002). Each generic

procedure in turn, comprises different tools for conducting the corresponding functions. For example, for scanning the competitive environment, the five forces model, value chain analysis and resource-based approach are all possible tools. For formulating strategies, the SWOT matrix (Learned et al., 1965; Weihrich, 1982), and the three generic strategies, are approaches that are frequently used.

RBV is now frequently used as an approach for achieving a firm's competitive advantage. Interestingly, the evolution of the strategic management theory has embraced Porter's theories and the RBV as components (e.g. Wheelen and Hunger, 2002; Lancaster and Massingham, 1993). Indeed, because the environment is constantly changing, effective strategic management requires a continuous flow of new theories, suitable for new circumstances. In spite of the criticism that the strategic management field is too pluralistic (Foss, 1998), it seems that a greater consistency among the three schools has been achieved. Nonetheless, none of the three schools of theories can be the panacea for explaining the competitiveness of organizations. They are all useful in their own right for achieving competitive advantage for firms.

Applying general theories on firms' competitiveness in the construction sector

As they gained prominence quickly, the general theories on firms' competitiveness have been introduced into the construction sector. Introduction, adaptation and application of these theories into this sector has attracted enduring research interest as the industry has long been viewed as heterogeneous. Porter's theory for firm competitiveness has had certain popularity in the construction industry (e.g. Male and Stocks, 1991; Betts and Ofori, 1992, 1994; Langford and Male, 2001). The RBV has also been explored in the construction sector. Haan et al. (2002) demonstrate its validity in construction. Kale et.al., (2002) engage it as an essential part of his framework for identifying the sources of competitiveness for construction firms.

The strategic management approach is also used to achieve construction firms' competitive advantage. Typical works on strategic management in construction include Fellows et al. (1983), Newcombe et al. (1990), Warszawski (1996), Venegas and Alarcon (1997). The above-reviewed studies have provided different levels of insight into the achievement of competitive advantage for construction firms. Nonetheless they were criticized for having adopted an anecdotal or descriptive research approach (Kale and

Arditi, 2002). The lack of rigorous empirical data has resulted in minimal improvement in our realistic understanding. This leads to recent empirical competitiveness research at the construction firm level. Some findings that are different from Porter's original propositions have been reported. For example, contractors in the US market who adopt a neutral strategy that falls between a narrow and a broad strategy can also achieve competitive advantage (Kale and Arditi, 2002), whereas according to Porter (1980, 1985) contractors with such a neutral strategy (also called 'stuck in the middle'), possess no competitive advantage.

Measuring competitiveness of construction companies

The cliché´ 'you cannot improve what you cannot measure' offers a rationale for the research conducted to measure competitiveness of construction companies. Inescapably, previous general theories on firms' competitiveness provided the theoretical basis for this stream of studies. Lu's study (2006) is a typical one. The study starts from the basis that competitiveness remains a concept that is not well understood. Measuring it is an effective way to understand it, in turn, to enhance it and to improve performance. A model was developed to measure a contractor's competitiveness as an index.

The model utilized a combination of Porter's theory and RBV as a vehicle to identify the sources for contractors' competitiveness. A noteworthy achievement is that it developed an IT program to facilitate the measurement of competitiveness. It is claimed that the system can be used for three typical construction activities: diagnosing contractors' competitiveness, ranking contractors in order of competitiveness, and for pre-qualifying contractors in a bidding process. However, it is accepted that the study is only valid for measuring competitiveness of Chinese general contractors that are operating in their indigenous construction market.

Limitations of the above study have been largely overcome by a recent study (Flanagan et al., 2005). The study assumes that a contractor's competitiveness was affected by six areas: factor conditions, demand conditions, government, industry characteristics, firm strategy and management, and human resources. The six areas, based on Porter's diamond, are organized in a hexagonal model. By considering macro factors such as demand conditions and industry characteristics, this approach enables the measurement of contractors' competitiveness in a broader context, i.e. an international

construction market. It is declared that the hexagonal model can be used to analyze a contractor's competitiveness under different market conditions, or to analyze different contractors' competitiveness within the same construction market (Flanagan et al., 2005). However, this study did not investigate robust sub factors under each macro area, which to a certain extent has constrained it from wider applications.

Challenges faced by competitiveness research at the construction firm level

Research into competitiveness at the construction firm level shows an imbalance in the research methodology. There has been no shortage of theories on competitiveness of firms over the past decades, but in implementing them in construction, more anecdotal methods have been adopted, compared to the few empirical studies that have been conducted. The imbalance is partly derived from the descriptive nature of the theories themselves. However, confidence about the various competitiveness theories comes from empirical evidence that they can be operationally and firmly tested in the construction context. More empirical studies on construction competitiveness must be initiated in the future. Measuring contractors' competitiveness is empirical study which, to some extent, has improved the imbalance. The research undertaken uses a 'standard' procedure: (1) identifying competitiveness indicators; (2) collecting data for the indicators; and (3) calculating a competitiveness index. Research adopts such a methodology but does not reconsider whether the calculated index has reflected the sustained performance of firms, as was declared by the definitions of competitiveness. Whether or not measuring the results can help map the long-term performance of construction firms is not proven. Will a contractor's performance be better if its competitiveness index is higher?

As mentioned earlier, remapping a competitiveness index on the construction firms' long-term performance is not easy, probably because of the vague definitions of 'long-term performance' and 'competitiveness'. But it is essential to do the work otherwise the results will be criticized as 'self-evident'. Compared to various methods for measuring the competitiveness of contractors, not much attention has been given to competitiveness of other types of firms, e.g. design firms, international contractors, etc. In addition, research does not go much further to help these firms to improve their competitiveness. Measuring competitiveness is not the ultimate purpose; improving it and achieving a better long-term performance for the firm is another purpose. There needs to

be more research that helps firms to formulate competitive strategy or tactics. The following research issues are likely to be addressed in the future:

(1) How to prove the applicability of general competitiveness theories in the construction context by finding more empirical evidences.

(2) How to measure competitiveness of design firms, international contractors, subcontractors, or other types of companies in the construction sector.

(3) What is the long-term performance of construction firms? What is the correlation between competitiveness and long-term performance?

(4) How to help firms to improve their competitive advantage based on the understanding of competitiveness achieved so far.

In 1988, Buckley, Pass and Prescott found that only a few definitions in the literature were tailored to describe competitiveness at a firm level. Of those which do, the Aldington Report (1985) provided the most complete picture by stating; "a firm is competitive if it can produce products and services of superior quality and lower costs than its domestic and international competitors. Competitiveness is synonymous with a firm's long-term profit performance and its ability to compensate its employees and provide superior returns to its owners."

In the same line of thinking, but without stressing neither long-term nor the ability to compensate employees or owners, the Department of Trade and Industry (DTI 1998) states that; "for a firm, competitiveness is the ability to produce the right goods and services, at the right price, at the right time. It means meeting customers' needs more efficiently and more effectively than other firms."

To summarize, firm competitiveness is related to market performance, with high productivity and low costs being the keys to success. However, not enough is said about any principal objective for a firm, like the standard of living for a nation. Logically, survival would be the principal objective of a firm, immediately followed by rising returns on its resources and rising returns to its owners.

2.3 COMPETITIVENESS IN INDUSTRY LEVEL: FIVE FORCES MODEL

The industry is "arena" in which competition takes place. In this environment there are a number of factors which together with competitive forces determine industry structure, intensity of competition, the ability of the organization to be positioned against its rivals and affect the profitability of the company. In this part of the study will be given a theoretical introduction of competitive forces that are described in Porter model (1980) and the degree of their impact on investing profitability and attractiveness in an industry.

2.3.1 Industry analysis. Five forces model.

Porter five forces model has become known to all researchers, from his book "Competitive Strategies", Porter 1980. For more than 30 years, this model is considered as an important tool for understanding the structure of the industry and its attractiveness.

Industry analysis model proposed by Porter takes into account the 5 forces: competitive rivalry, threats of new entrants and substitute products and the power of suppliers and buyers. While other authors suggest that the evolution of Porter theories refers to the existence of the sixth force, affecting industry analysis and competitive strategy selection. The sixth force refers to the level of interaction with complementary products (Brandenburger & Nalebuff, 1990; Grove, 1996; Ghemawat, 2000). The importance of this factor was further developed on the model of Hax and Wilde (2001). One of the strategies they suggest is "lock-in", under which the company is seen as a system, not only in the traditional product-client relationship but including suppliers and substitute/complementary products. While according to Besanko, Dranov and Shanley (2000), the sixth force can be the impact of the government as a regulatory agent.

According to Porter, in any industry, regardless of the extent and intensity of competition, regardless of what it offers or manufactures, operate 5 major competitive forces. Their power and influence is different in different industries and firms.

Taking as its starting point another model, developed in the 1930s, Structure-Conduct-Performance (SCP model), which explains the connection market structure - conduct – performance, Porter model (1980) explains that the company profits are indicators that competitive position in the market and its performance depends on the

structure of the industry. Naturally, for the analysis of the industry is required to be answered some questions:

- How much industry appear attractive?
- Why some industries are more attractive than others?
- Why some companies within the same industry are more profitable than others?

The degree of attractiveness and profitability of the industry depends on the impact of competitive forces and the level of the opportunities and threats presented by the direct impact on firm performance.

If a company wants to analyze the potential profitability of the industry and to define the nature of competition, competitive forces model helps in the process of gathering information and processing it. This model has inside his analysis, competitive rivalry, threat of new entrants, threat of substitute products, bargaining power of suppliers, bargaining power of buyers.

The importance and interest of Porter 5 forces model is the understanding of connection between the environment and strategies that firm applies in accordance with these factors. Another reason why this model is used as a tool of analysis, is the opportunity it creates to managers to think about the concrete situation, formulate strategies, and serves as a starting point for other detailed analysis.

Many authors have agreed to the validity of 5 competitive forces model in some of the basic aspects of the strategic planning process:

- Static Analysis - Model helps in decision-making related to the entry or exit from the market in a given industry and comparison with competitors.
- Dynamic Analysis - combined with the analysis of the external environment, the model serves as a forecasting tool on the profitability of the industry, the establishment of scenarios and generation of revenue for future periods.
- Analysis of Possibilities - In conjunction with statistical and dynamic analysis, companies can determine opportunities to be pursued to achieve competitive advantage.

- Micro/Macroeconomic Analysis. This model takes into account demand and supply of the product/service of rival companies in market and substitute products, the relation between cost and volume of production, market structure and behavior of the company by the nature of competition.

Source: Porter 1980. Competitive Strategy

Figure 3. *Five forces that determine the competition in the industry*

Although the 5 forces model which helps in analyzing the industry was widely accepted and served as a starting point for the evolution of new theories of management at the time of publication, he had some criticism among which we can mention:

- The model does not include and does not take into account the strategic alliances that businesses can create, as well as electronic links through information systems. However, Porter (2001) explains the role of the Internet as the main supplier of information on customers and rival firms, without having to change the model.
- The model is more suitable to be used in markets with a simple structure that resembles perfect competition, but in real terms it seems to be impossible to be achieved.

- Whittington (2001) raises the question of how Porter (1980) focuses industry analysis only on five competitive forces, skipping the role of government and labor market.

Michael Porter theories (1980, 1985), belong to the school according to which the industry structure and positioning within it are key elements to generate higher profits. According to him, positioning within the industry influences on maximizing opportunities, to create competitive advantage, by giving the company the lead over other competitors. Otherwise, Hax (2002), through Delta Model explains that greater importance should be given to strategy than positioning in industry. Criticism coming from the same author related to answer the question: Which industries should analyze managers of companies? According to Porter's traditional model, managers should look at the industry in which they operate. While, according to Delta Model, it is need for extended analysis, including supplier industries / key customers and complementary products. As a result, the nature of the industry analysis is affected by the selection of strategic business choices (strategies).

2.3.1.1. Competitive Rivalry

It is important for firms to increase their knowledge and understanding on the degree of competition within the industry. In this way, competitors test each other's strengths, fight for positions and use their resources to gain competitive advantage (Kume, 2010) in order to be profitable and durable in the market.

It seems that the rivalry between firms takes the form of a game to be better positioned, using the tactics of competition through price or launching of new products. This rivalry is because companies feel pressure from existing companies or industries that are constantly changing strategies to improve competitive position. Intense rivalry relates to the presence of factors such as:

- *Competitors are numerous or have almost the same size and strength.* If rival companies are few in number or almost the same size, firms are more attentive to the movements of rival companies. If their market power is the same, the only strategy is the imitation of rival companies.

- *Industry growth rates.* If the growth of the industry is slow, the struggle between existing companies for market share will increase.

- *Characteristics of the product / service.* Many individuals choose to buy a product depending on the location, price, after-sales service, variation in choice, etc. More the products appear homogeneous among companies, more severe becomes competitive rivalry to generate sales and profits. Products which have different characteristics from rival companies tend to weaken the competitive rivalry because of differentiation

- *High fixed costs.* If a company has high fixed costs, this will be reflected in higher total cost for the company. Thus, many companies increase their production volume to obtain low unit fixed cost by delivering a greater number of products / services. But this entire accumulated product should be launched in market, pressing other companies to low prices.

- *High exit barriers.* If the exit barriers are high, the number of companies leaving the industry is small and vice versa.

- *The diversity of companies.* Companies that operate in a particular industry have different ideas on competition and strategies chosen to fight their rivals. Many firms look at the competitors as development opportunities by creating competitive advantage. Likely, there are companies that want to "destroy" their rivals by reducing the number of firms and taking their market share.

2.3.1.2. New entrants and entry barriers

The number of firms is the main indicator for the level of concentration and performance within the industry. In the long term the number of competing firms is affected by the ease with which they can enter and exit the market. In the five forces model, the threat of new entrants refers to new firms which are potentially ready to enter the market (Porter, 1980). The threat of new entrants depends on entry barriers and potential reaction of existing companies in the industry.

According to a narrow definition, barriers to entry are obstacles that hinder the entry of the company into an industry. Among the first authors that studied the barriers to

entry is Bain (1956), according to whom these barriers allow existing firms to ensure high profits without encouraging new firms to enter the industry. Barney states that there is a correlation between economies of scale and capital requirements with higher benefits that existing companies provide. Another definition, according to Stigler (1968) explains that the entry barrier is the cost of production and should be borne by new entrants, but not by firms that already exist in the industry.

The views on the concept of entry barriers have sparked debate and further developments. Ferguson (1974) sees barriers to entry as the factor that characterizes nonprofits entering of new firms and allows existing firms to set prices below marginal costs and ensure consistently high profits of monopoly.

Hofer (1975) presented the barriers to entry as the main variable in the structure of the industry. Later, the importance that had barriers to entry in the profitability of existing firms was the motive for their classification into two categories:

(1) Barriers to entry created as a result of the structural characteristics of industries, and

(2) Barriers to entry created as a threat for the elimination of new firms by existing firms.

Despite the different definitions of entry barriers, it is important to identify which are the barriers that existing firms create and to what extent these barriers inhibit or encourage new entrants.

Some of the barriers to entry into the 5 forces competitive model are: economy of scale, product differentiation, requirements for capital, access in distribution channels, cost advantages, governmental policies, expected reaction, level of concentration, trademarks, reputation, etc.

Results of studies done by Biggadike (1979) and Hobson & Morrison (1983), have shown that the entry of new companies have been more successful if the leading company in the industry owns large market, than when it has less than 25% of the market . Thus, the high concentration in the industry besides being a barrier to entry, can be a factor that facilitates access. Given that, because new entrants avoid direct competition

with the industry leader, they tend to compete successfully with existing small companies in the market which are relatively weak and vulnerable.

But according to Peters (1987), there is another explanation why concentrated industries easily submit new entrants, compared with industries that are characterized by low concentration. Peters suggests that in industries which are owned by large firms, each of them constantly fights for the increase of market share. In order to serve a greater number of potential buyers, these firms often left out attention uncovered market segments. These market segments, which are not covered, provide opportunities for new entrants that are able to serve small markets and ensure profit.

2.3.1.3. Negotiating power of suppliers/buyers

According to Porter's model, it is important that through its strategy the company must establish a balance between power of suppliers and power of buyers.

Suppliers. The selection of suppliers is an important factor for the success of the company (Marvin & et al, 2004; Lasch & Janker, 2005; Shahroudi, H. Rouydel, 2012), because the quality and cost of products / services that the company offers is directly related to the quality and cost of products / services purchased from suppliers. The selection of suppliers is one of the activities, critical to the company due to (1) the number of suppliers and variety of them, (2) cost of raw materials which for manufacturing companies is up to 70% of the cost of the product (Demirtas & Ustun , 2008), (3) the influence that they represent in the performance of the company (Aguezzoul & Lade 2007).

According to Dixon (1966) and some other authors there are identified 23 different criteria, tangible and intangible, which help in choosing between suppliers and influence the position, performance and power of supplier (Dixon, 1966). These criteria include: quality, delivery and distribution conditions, history of performance, price, security provided, technical capabilities, financial position, etc.

The power of suppliers is associated with the ability to easily change input prices and decrease quality of products / services they offer. The power of suppliers depends on: number of suppliers, the lack of substitute products, merger and integration of suppliers, differentiated products

According to Porter (1980), *buyers* influence the industry trough their ability to impose low prices. The power of buyers is increased if the following circumstances are confirmed:

- The number of buyers. Large groups, focused customers have purchasing power that enables them to negotiate for lower prices and better sales conditions.
- Switching suppliers does not cost much. As easy as the opportunity to change suppliers, the higher is the competition which could reduce prices, and buyers will appear more powerful.
- Buyers require standard and undifferentiated product. In this case, buyers are willing to switch suppliers and seek price reductions.
- Buyers or purchasing companies provide low profit margin, doing pressure to reduce the cost of purchase.
- Companies buy a big quantity of the product.
- Buyers have the ability to apply later integration, assuming the role of supplier.

2.3.1.4. Substitute Products

Not only rival firms and new entrants are the main forces that determine the attractiveness of the industry, but also the threat of substitute products which replace the company's products and meet consumer demand.

Firms in an industry can compete with companies in other industries that offer substitute products, products that satisfy the same needs but differentiate from specific characteristics.

The factors to be taken into account when analyzing the industry and the threat of substitute products or services are: Customer's stability, prices of substitute products, level of customer's needs fulfillment, customers switching cost from one product to another, the number of substitute product that companies offer.

In the light of this analysis, the sum of the impacts of competitive forces determines the intensity of competition in any industry. As a result, profitability and

attractiveness of investing in each of the industries stay in inverse relation with the capacity of Porter forces. The greater the power of forces the smaller expected profitability.

2.4 THEORIES IN FIRM'S COMPETITIVE ADVANTAGE

What the competitive advantage is?

Many economists have used the concept of competitive advantage even before Porter, but Porter (1979, 1980, 1985 and 1990) for the first time launches the theories of creation of competitive advantage. Penrose (1959), Ansoff (1965), Day (1984) and Barney (1986) used the concept of competitive advantage. Competitive advantage is considered as the target of Porter strategies (1985).

- Competitive advantage is the ability of an organization to carry out its activity in one or more ways that competitors will not manage to realize (Kotler, 2000).
- The importance of competitive advantage has increased significantly in recent decades (Coplin, 2002).

A firm has a competitive advantage when it is able to create more economic value than rival firms (Barney, and Hesterly, 2006).

An individual has a comparative advantage in the production of something if the opportunity cost of that production is lower to that of other people (Krugman 1996 and Mankiw 2007).

The same can be said for firms and economies in general. An individual can have absolute advantage in an activity if he or she can do it better than others (Krugman 1996).

Thompson & Strickland (1998) argue that firms have great chances to become profitable and to succeed in their industry, if they establish and maintain a sustainable competitive advantage.

The concept of competitive advantage is a determinant factor in the performance of firms, because firms need to respond to global competition and economic recessions by providing consistently lower cost and higher efficiency in order to provide an attractive position against stronger rivals (Sen et. al., 2006).

Two basic models of competitive advantage are:

The first is built upon the traditional economic theory and tradition of industrial organizations, where competitive advantage is described based on external features of the company rather than in domestic ones (Porter, 1981; Prahlad & Hamel, 1994).

The second model is rooted in the company RBV (Resource Based View) where specialized resources are used to provide preferential market position (Barney, 1986).

2.4.1 Contemporary thoughts about the competitive advantage

Competitive advantage is described as unique position that an organization undertakes to other competitors using its resources (Hofer & Schender, 1978). Competitive advantage is based on a good strategy and a good strategy creates competitive advantage (Analoui & Karami, 2003). The concept of competitive advantage is given by Barney (1991) who states: "A firm has a sustained competitive advantage when implements a strategy of creating value that is not implemented by any competitor and so that other companies are not able to have the benefits of this strategy".

It is said that a firm has a competitive advantage, if it is able to create more economic value than its competitors in the product (Petraf & Barney, 2003). Thomson et. al., (2001) similarly define as "the ability of an organization to add more value to customers, compared with its rivals."

Rumelt (2003) recalls the sayings of Besanko et al. (2000): "When a company has an economic profit at a higher rate than the average rate of economic profits of other firms within the same market, the firm has a competitive advantage in the market."

Porter (1985) used the term sustainable competitive advantage without giving a definition of this concept. Understanding of sustainable competitive advantage for firms has been a major research area in the field of strategic management (Porter, 1985; Rumelt 1984). Firms achieve sustainable competitive advantage by implementing strategies that utilize internal strengths, using their internal options, neutralizing external threats and avoiding internal weaknesses (Barney, 1991). Issues of achieving and maintaining sustainable competitive advantage, have often been the subject of various researchers.

From the research of Wheelen & Hunger (2012) results that if a firm is able to use the resources, skills and competences to develop a competitive advantage, it does not mean that it will be able to have a sustainable advantage.

Grant (1998) states that in order for firms to create sustainable competitive advantage is very important to assess the following factors:

- Identification of resources - identification and classification of resources as strengths or weaknesses;
- Identification and assessment of skills - the return of strengths in skills;
- Assessing the sustainability of resources;
- Formulation of strategy;
- Identification of problems related to resources.

Analou & Karami (2003), describe 7 factors very important in the acquisition of competitive advantage for small firms (Table 3)

Table 3. *Important factors for achieving competitive advantage*

✓ *Leadership*	- May be an important source of competitive advantage for SME-s.
✓ *Strategic Planning*	- Refers to vision and objectives of SME-s
✓ *Customers and market focus*	- For SMEs, customers should be in the centre of strategies.
✓ *Information and analysis*	- An effective use of information leads to continuous improvement of performance and competitiveness (Malhota, 1999).
✓ *Human Resources*	- Are considered as a competitive advantage of the firm.
✓ *Management process*	- Effective and efficient processes in order to turn idea in reality.
✓ *Business performance*	- The information regarding customers' satisfaction, finances, supplies and firm operations.

Source: *Analou & Karami (2003)*

For SMEs, it is very important the evaluation and consideration of these factors, which are very important for creating, maintaining and increasing competitive advantage. Porter (1996) states that a firm will be able to provide better results than its rivals if it will create a specific factor, sustainable and innovative, as the main means of creating competitive advantage. Ramsey et al (2008), among others, says that competitive advantage reflects the ability of the firms to answer, timely and appropriately, to external challenges through the development of skills and innovation.

According to Ogrean et. al, (2009), the main objective of the strategic management of a company is to provide and know how to maintain sustainable competitive advantage - identifying, combining, developing and exploiting unique resources and capabilities of the firm and constantly maintaining and strengthening these links.

In their research study (Bibu et. al., 2009) about the impact of the external and internal environment in the development of SME-s strategy in order to cope with competition in the region of western Romania, they chose 1000 firms. After the analysis of these businesses, they concluded that external environment which is complex and unstable, influences competitiveness and managerial decisions to SMEs in the study. From their research they identified several external factors with positive influence on business, like increased demand for their products in domestic and foreign markets, greater opportunities for investments, etc.

Is it good for the society the competitive advantage? Of course, if we talk about businesses or specific companies, their interest is to possess competitive advantage. Competition in fact brings progress, development, increased initiative, enhances creative thinking, innovation, and productivity. But if only a small number of firms possess the competitive advantage, of course it would be good for the business, but social welfare will fall. We are aware that SME-s are constantly searching, creating, maintaining and evaluating competitive advantage. This is because the competition is very strong, tough, and sometimes unfair. Sometimes the environment is not supportive and friendly with new entrants, because numerous firms possess the competitive advantage for the long term, and it is difficult to "kidnap" their advantage. It hurts our prosperity.

Table 4. *Summary of theories regarding strategies for competitive advantage.*

The author, Year	***Theory***	***Overview***
Wheelen & Hunger (1998)	Strategic management models and competitive advantage	They have proposed a modified version of strategic management model for SME-s.
Zahradnickova& Vacik (2011)	Strategies for achieving competitive advantage and modes of implementation	It is not enough to develop a good and successful strategy. It is need for an efficient implementation phase.
Porter (1981), Prahlad& Hamel (1990)	Competitive advantage models	Is built upon traditional economic theory and industrial organization tradition, where competitive advantage is based on external factors rather than internal ones.
Barney (1986)	Competitive advantage models	It is rooted in the capacity of the firm, where specialized resources are used to provide privileged market position.
Analou&Karemi (2003)	Competitive advantage	Important factors in order to have competitive advantage: leadership, strategic planning, focus on customers and market, information and analysis, human resources, process management, business results.
Kotler, (2000)	Competitive advantage	The ability of an organization to carry out the activity in one or more ways that competitors will not manage to realize
Petaraf & Barnesy,(2003)	Competitive advantage	A firm creates more economic value when there is a competitive advantage
Wheelen&Hunger, (2012)	Sustainable competitive advantage	Sustainability is used as a term to describe the competitive advantage.

Table 5. *Summary of empirical studies regarding competitive advantage*

Author, Year	***Description***	***Comments***
Bibu, et. al. (2009)	Study of the impact of external and internal environment in the competitive advantage of SME -s	From the study and analysis of these businesses they concluded that external environment which is complex and volatile, influences competitiveness and managerial decisions of SMEs in the study.
Naghia, M (2011)	Study of the situation of SMEs in Romania	He concludes that small firms are flexible, but the size influences the decision-making and the level of uncertainty of the external environment is high.
Gal, (2008)	Study of the competitiveness of SME-s in Slovakia and Hungary	He concludes that external factors (such as political, economical, social, cultural, ecological, technological, demographic) "cannot be controlled" by the company but the only thing companies can do is to adapt them.
Henderson & Cockburn (1994)	They studied pharmaceutical firms	They argued that organizational capacity is a valued and rare resource that helps in the creation of competitive advantage.
Zou, Fang & Zhao, (2003)	Resources - Skills	Their combination creates opportunity for competitive advantage and performance improvement
Bontis et. al., (2000)	They studied service industries	It shows a positive link between intangible resources and performance
Hooley et al. (2005),	They tested the variable called: 'human resources assets'.	They tested the relationship between the HR assets and market performance and concluded that there exists a close relationship between them.

2.4.2 Analysis of Porter competitive strategies

The way how firms compete and choose their strategies are the main issues raised during the analysis of the industry and explanation of the firm's behavior. Understanding the behavior of the firm serves as input to improve practices that refer to competition for the achievement of a high performance and a sustainable competitive advantage.

Competitive strategies are an important part of any business (Allen & Helms, 2006), to create a unique and valuable position by integrating various activities (Porter, 1996). Porter's model and generic strategies are considered as an important pillar of the theories of management, through which the firm explains the behavior of competitors in a given industry. The term "generic strategies" refers to the wide scope of use and ability to create competitive advantage, regardless of industry.

However, despite the support that Porter model had (Porter, 1980, 1985) and popularity in various literature as a profound and compelling model that analysis the competitive behavior of the firm, already exist debates and criticism that oppose it.

It is important, before the study of competitive strategies, to give a description of the model, "Structure-Conduct-Performance" (SCP model), on which Porter model laid the roots. SCP Model is one of the leading models in the years 1940-1960 (developed by Edward Mason and Joseph Bain, founders of Industrial Organization IO) which refers to the causal connection that exists between industry structure and performance of the companies operating in it. Components of this model are:

- *The industry structure* which includes the firm's competitive environment, and measured by the degree of concentration, distribution of market share, new entrants and barriers to entry, the opportunity for diversification, etc.

- *The behavior of firms*, which includes the firm's actions regarding pricing, advertising, technology research and development expenses.

- *The performance of the firm* / industry which is determined by profitability, product quality, operational efficiency, allocate efficiency of resources, etc;

Given the criticism of the model, for the lack of an explicit analysis of the actions of the firm, Porter launched his paper on strategies for competitive advantage and ensuring the supremacy of the firm. According to him, the strategies for gaining and

strengthening competitive advantage are: (1) cost leadership, (2) differentiation and (3) focus (Porter, 1980, 1985). Their selection depends on factors inside and outside the company (Weber & Polo, 2010) including the type of industry in which the company operates, the cost of raw materials, organizational structure, human resources, technology, customers, etc. According to Porter's argument (1980), connected with the competition, companies can choose generic strategies for a favorable competitive position within the industry, through the integration of two dimensions: the scope (decision of the firm to extend its activities) and the type of competitive advantage (the decision of the firm how to develop competitive advantage).

	Competitive Advantage	
Competitive Scope	*Differentiation*	*Low Cost*
Wide	*Differentiation Strategy*	*Cost leadership*
Narrow	*Differentiation Focus*	*Cost Focus*

Figure 4. *Porter model of generic strategies*
Source: Competitive strategy, Porter (1980, p. 39); Porter (1985, p. 12)

2.4.2.1 Cost Leadership

"Low cost" strategy emphasizes the organizational efficiency. This strategy, known as cost leadership, includes the process by which the company is able to produce or distribute goods and services at a lower cost than competitors within the industry. Porter defines the cost leadership strategy as marketing of standard products (Porter 1985) combined with aggressive prices (Porter 1980). However, it is not to be confused in any way that the product / service offered is an inferior product. The product / service offered has the same quality, comparable, with competitors and at the same time, the best price. Cost leadership strategy was proposed by Porter (1985), as a successful way to achieve sustainable competitive advantage by reducing and controlling the costs.

To understand how the cost leadership strategy helps to realize higher revenues and providing competitive advantage, is enough to mention the benefits arising during the implementation of this strategy. As Porter (1985) suggests:

❖ Cost leadership strategy protects the company from competitive rivalry. For the sake of lower costs, the company is able to sell products and services with lower price, while still providing the same level of profit like other companies. On the other hand, the leader of the cost can be defended by potential customers that vigorously exercise constant pressure to reduce prices.

❖ Cost leader can be protected from powerful suppliers by providing the necessary flexibility within the profit space, to cope with the rising prices of inputs.

❖ Low cost positioning, serves like a barrier to entry in terms of economies of scale. Taking this perspective, the realization of products and services at low cost gives the company a strong position against substitute products.

It seems clear that the effects of the cost leadership strategy create value for the company by reducing the impact of five competitive forces. Otherwise, this strategy can be defined as a way of increasing the profitability of the firm owning the dominant competitive position.

The implementation of this strategy by the firm requires some specific conditions related to the construction of facilities to increase efficiency, reduction of costs through experience, reduction of administrative costs, minimization of costs in areas such as R & D, services, advertising, distribution system (Allen & Helms, 2006).

Some of the ways to realize the low cost strategy and achieve the required performance, are:

Economy of scale. It is defined as the process whereby the increased volume of products reduces the cost per unit of product produced. The realization of low-cost production per unit enables the firm to sell its products at a lower price than competitors, while maintaining the same profit margin per unit. A second way is to monitor, control and trim administrative costs which are expected to increase the cost per unit of product. This includes reducing the expenses on advertising.

The experience curve plays an important role in the implementation of "low cost" strategy. The effect of the experience curve is defined as the percentage by which decreases the cost of a task that is repeated whenever the cumulative production volume doubled (Wright, 1936).

Technology is one of the conditions for the implementation of low cost strategy. Advanced technology ensures production of lower cost products and reduces the number of defects.

However, it is important to note that, despite the advantages deriving from the implementation of low cost strategy, it creates a low level of customer loyalty. To avoid adverse effects, the company must protect the competitive position, cost leadership, because any reduction of the price by the company will be accompanied by leakage of customers and immediate reduction of market share (Cross 1999).

2.4.2.2 Differentiation strategy

Another strategy, suggested by Porter, is differentiation (Porter, 1980). Differentiation refers to the development of a unique product or service (Porter 1985 Torgovicky et al. 2005). These products are regarded as such, when compared with competing products because of the features that distinguish them. As the low cost strategy, in the strategy of differentiation there are many ways and dimensions by which firms can differentiate their product from rival companies (Thompson et al, 2009). These dimensions are categorized into 3 groups.

• Differentiation connected directly *to the product*, where we can mention: which are product features, product complexity, time to market launch, and location. During the implementation of differentiation strategy, image and customer perception is a very important element (Allen & Helms, 2006), because only if the change or new features of the product are perceived, this product will be accepted by consumers. So, it is important to note distinguishable features. The simplest way of differentiating the product is the change of product features.

• Differentiation created by *the connection* between the company and the customer through product personalization and adaptation to customer requirements. Under this approach, the firm is able to provide the features and form what customers are demanding. To succeed, the company should be aware of any change in the needs and desires of consumers.

- Finally, differentiation can be achieved by focusing the link between functions within the firm or the connection established with other companies such as product mix, distribution channels, after-sales service, etc.

Brand and image of the firm are an important element of differentiation. But the success of this way of differentiation depends on the perception of consumers. If consumers perceive the product as a famous brand which offers high quality, then they are likely to buy the product or service. This differentiation is the appropriate way to be used in situations where the promotion and advertising campaigns have been intense to inform consumers about the difference between the product offering and rival products on the market.

Companies that decide to use the differentiation strategy must provide and update their products and invest more in research & development, so that the standards set by them should not easily be imitated by competitors. Despite the way they achieve competitive advantage, important for the differentiation strategy remains expectancy and risk of imitating the dimension or feature that enables it being unique.

Firms that successfully differentiate their product / service determine a higher price than competitors to justify the higher costs. According to Porter (1985), the advantages of the firms which implement differentiation strategy are higher profits compared to competitors because of brand loyalty, quality unique features. In the context of industry analysis, implementation of differentiation strategy affects the power of suppliers and buyers. High profit margin gives the company the necessary flexibility to negotiate with suppliers, such as differentiation and unique product offering reduces the power of the customer company as a result of the lack of alternative products. The same can be said of the impact of the differentiation strategy in reducing power of substitute products (Porter 1988). In short, the strategy of differentiation is a successful way to compete in an industry and to ensure long-term competitive advantage.

Like cost leadership strategy, differentiation strategy is successful if it is costly to imitate by competitors. Barney & Hesterley (2006) explain that the product differentiation is an expression of individual and group creativity within the firm, which means that the risk of imitation depends on the firm's ability to be creative in finding ways to make the product unique.

2.3.3.3 Focus strategy

The last strategy proposed by Porter (1985) is focus strategy. A company that is engaged in the focus strategy, serves to a narrow market segment, implementing low cost or differentiation (Porter 1980). Implementation of this strategy means, integrating a activities related to the differentiation and low cost in a narrow market segment from which the company generates higher profits.

The advantages during implementation of focus strategy are numerous. One of the advantages is the ability of the firm to react quickly and to adapt to environmental changes, tastes and preferences of customers. Focusing on a specific market with special needs from the rest of the market, creates the company superiority over the rivals, because of knowledge and experience in areas related to its distinctive competencies as low cost or differentiation.

However, the focus strategy is accompanied with risks and advantages in the same time. . Situation that may appear unfavorable for the company is the case of too narrow focus on a particular market, or if the company decides to focus on a small sector. If changes such as declining demand or reducing population of the segment focused happen, then the company faces another danger. To avoid this situation the company should study the best segment of the market in order to verify the change in preferences between narrow market segments in relation to the general segment. Based on the arguments presented, we must say that the choice of focus strategy is appropriate if the following conditions are met:

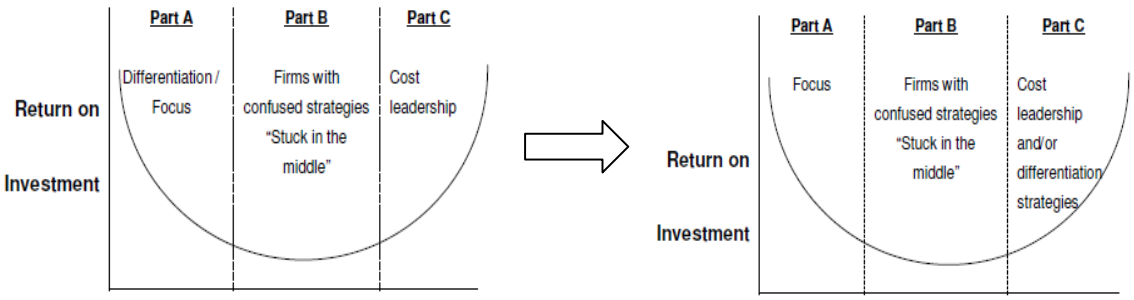
- The niche market, where the company focuses is sufficiently profitable and offers potential for growth.
- Leaders within the industry do not look attractive the competition in some niches of the market, thus avoiding competitive rivalry in these market segments.
- There is a high degree of difficulty to compete successfully in some segments of the market, adapting to the needs of customers with entirely specialized or personalized for each segment focus.

2.3.3.4 Hybrid Strategy (mix)

Porter (1985) argues that: "[...] recently, the firm will reach a point where further cost reduction requires a sacrifice in differentiation. At this point, the generic strategies contradict each other, so the company must make a choice ".

A lot of debates and controversy and objections are made on whether the company can choose at the same time, different generic strategies?! This debate has in centre the dilemma over the exclusion or inclusion of generic strategies between each other.

There are two schools of thought regarding the choice of competitive strategies. The first school, advocates Porter idea and proposes that the low cost and differentiation are incompatible (Dess & Davis, 1984; Nayyar, 1993; Parker and Helms, 1992; Porter, 1980, 1985). According to this trend of thought, to have a high performance, low cost or differentiation are primary strategies for success, but cannot be applied concurrently. Porter (1985) explains the incompatibility between the low cost strategy and differentiation as a result of: (1) size of the market share (See figure 5 changed from Wright 1987), (2) the orientation of resources in strategies they believe will achieve competitive advantage, (3) the conflict of objectives of the firm, if pursued both strategies simultaneously.



Source: Porter, 1980

Source: Wright, 1987

Figure 5. *The link between the accumulated volume of production/market share and ROI*

In support of this theory, Hambrick (1983) excluded the possibility of competition from the company with more than a strategy. According to him, "environmental characteristics limit the range of possible strategies, so it is fair to say that all competitive strategies (generic) are applicable within the industry at the same time."

Another school of thought argues that to have high performance, low cost strategy and differentiation strategy can be used simultaneously (Buzzell and Wiersema, 1981; Hill, 1988; Miller and Friesen, 1986; Murray, 1988 ; Phillips et al., 1983; White, 1986; Wright, 1987). According to these authors, differentiation strategy means that the company offers a unique product, with high quality and as a result of higher price than competitors. High product quality promotes high demand and increased market share. Increasing market share by the company that implements the strategy of differentiation is associated with reduction of production cost as a result with economies of scale.

In other words, differentiation impacts indirectly on profitability through the positive effect that creates increased market share. According to this logic, Hill (1988) proposes that differentiation allows the company to position itself via low cost. In the short term, effect of expenses for differentiation leads to increased production costs, however, if costs decline with increasing production volume, the effect of this strategy in the long term can result in lower unit costs. Therefore, the existence of problems and risks associated with the selection and implementation of only one of the strategies, low cost or differentiation, has intensified the need to pursue the hybrid strategy (combination of strategies), to raise the level of performance (Miller, 1992).

Combining strategy of low cost and differentiation is found in the literature as a "mix", "hybrid" or "integrated" strategy (Kim, et al., 2004) and differs from "stuck-in-the-middle" strategy (Porter, 1980: 41), where firms fail during implementation of low cost, differentiation or differentiation and low cost simultaneously (Acquaah & Yasai-Ardekani, 2006).

Porter (1980) argues that companies that choose "stuck in the middle" strategy by combining both strategies at the same time, have an inferior position in the market. Consequently, positioning through "stuck in the middle" strategy is derived from the company's inability to choose a clear strategic option (Porter, 1980).

In summary what we explained above, Porter stressed out that when an organization demonstrates profits that are above average for the industry, this organization is believed to have some form of competitive advantage over the competition. As we mentioned above, there were two basic forms of competitive advantage, that deriving from a cost advantage and a differentiation advantage. A cost

advantage occurs when an organization is able to provide a product or service with similar benefits, but at a lower cost than their competitors. A differentiation advantage occurs when an organization's product or service provides benefits beyond those of their competitors. In either case, the organization provides a superior level of value to its customers. These positional advantages are created by using resources and capabilities to either provide a differentiated offering, or an offering with a lower cost structure (Porter, 2006). However, not all strategic management authorities feel Porter has not provided a good understanding of the idea of competitive advantage.

2.3.4 Pros and Cons! Criticism of Porter theory

Porter's contribution and the typology of generic strategies it proposes have a major impact on business theories and management practices. The importance of competitive strategies is great and this is evident in their application in many industries (Hambrick, 1983) and involvement in a number of articles by different authors who, despite pro or against, decided to study Porter model and competitive strategies. Alternatively, we can say that generic competitive strategies fit a wide range of situations (Chrisman & Hofer, 1988) where are applicable even if the environment is complex (Miller & Dess, 1993).

Porter's model appears as a bridge between many other models and theories. This is due to the treatment as a continuation and the improvement of the earliest models, SCP and Miles and Snow model (1978). It often appears as the basis on which arise and develop new models. Here it suffices to mention Thompson and Strickland model (2009) which took place on Porter strategies by increasing the number of competitive generic strategies from three to five, including basic strategies: cost, differentiation, and focus.

In the contrary to the idea that Porter defends, many authors were criticizing and reappraising Porter's work (Datta, 2009, Wright, 1987, Klein, 2001). Speed (1989) in his article states that O'Shaughnessy criticizes five environmental forces for two reasons: firstly because the choice appears to be arbitrary and secondly that Porter gives no indication of how to operationalize any analysis based on these forces, there is no any counteraction proposed (Speed, 1989, p. 9). Furthermore Kippenberger in a period of 1997 - 1998 published three consecutive articles written as a remark of Porter's "Competitive Strategy" book. He emphasizes the richness in depth and detail of Porter's

work, which many could underestimate (Kippenberger, 1998, p. 2). In year 1985, Porter's book entitled "Competitive Advantage" made another great contribution to the literature in management science. In his book he introduces the model of value chain and contributes through two main competitive approaches of cost and differentiation as channels for reaching competitive advantage (Porter, 1985).

However other scholars were writing on this topic as well. Best practice of a company is competitive advantage (Welch, 2005), but also competitive advantage can be derived from internal or external forces; making resource and environment based view of competitive advantage (Barney, 1991). Many researchers were questioning viability of Porter's models and theories (Downes, 2010, Recklies, 2011). The main contribution was given by another professor from Harvard Business School, Joan Magretta who argues that Porter became victim of his own success (Magretta, 2012, Robert J. Allio, 2012). Finally merit of Porters' work cannot be denied, however one cannot rely solely on it when deciding upon strategy and competitive advantage (Recklies, 2011).

As Aktouf, Chenoufi, and Holford (2011), note that "Porter's framework does provide a basic, systematic approach to strategic management, but fails to provide any scientific rigor. It is characterized by an environmental determinism, and a linear Cartesian attitude towards complex problems that assume that a business is merely the sum of its parts, as opposed to a complex, uncertain and ever-changing relationship amongst its parts. This, along with a positivistic approach in the use of case studies of relatively limited realities, has resulted in generalizations and 'universal rules' which have simply served to legitimize three general trends inherent to the dominant financial capitalism: domination by large corporations towards situations of monopolies or oligopolies, the concentration of capital and an interdiction of any movement towards true participatory management (p. 183)."

Hill (1988) explains that the differentiation can be realized through cost reduction. Thus, he argues that it is a low cost way to obtain differentiation especially in industries that are developing new technologies. There are many other studies, Wright (1987), Murray (1988), which argued that a combination of strategies (hybrid strategy) carries less risk that the strategy of keeping the cost or differentiation and remains the best choice to have a high performance, which is inconsistent with Porter's proposal (Miller &

Friesen, 1986). It seems that the choice of the cost leadership strategy, to its own definition, is more oriented towards operational than the customer side. Orientation to cost more than the value of the customer, blurs the importance of low cost strategy and supports the ability to combine simultaneously generic strategies for a high performance (Peters & Waterman, 1982).

Another critic of the typology of competitive strategies is the link between the strategy of differentiation and market share. Porter (1980), suggests that due to the high costs associated with differentiation and the high price of the product, the market share is not high. In contrast, Hill (1988) argues that the strategy of differentiation, in the long run, often positions the company to lower costs segments. This advantageous position is achieved through increased sales volume, the experience curve and economies of scale which directly affect the growth of the market share. According to this logic flow, it seems that between differentiation strategy and market share exists a positive correlation.

Although the model and Porter's strategies are used significantly, it seems that there is still confusion about the questions: "where shall we compete?" and "how shall we compete?" (Bowman, 2008). According to this author, Porter gives a broad definition for industries using terminology like "pharmaceuticals", "cosmetics" (Porter 1985), and the choice of strategies like cost leadership, differentiation or focus, which appear to give more answers to the question "where to compete". On the other hand this argument justify that cost strategy requires low cost production and competitive pricing, so firms that choose this strategy are market-oriented to the segments sensitive to price. Meanwhile, the differentiation strategy aimed at market segments that afford the price increase, to justify the difference in quality and features. So, in a way, it seems that the strategies proposed by Porter, answer to the question "where to compete" through selection of the target market (Bowman, 2008).

Furthermore critiques have been imposed on Porter's cost leadership theory in terms of heavy reliance on modern equipment in order to achieve it. Porter states that "heavy up - front capital investment in the state - of the-art equipment" is required (Porter, 1998, p. 40). But investing a big fortune in state-of the - art equipment when one is not clear about its advantage, for sure would lead to investing a majority of money in something that may not be profitable at all (Datta, 2009, p. 6).

There is no doubt that Porters' model contributed a lot in the period when it was proposed, that on the edge of 20th century. However the time is changing, the world is experiencing shift towards globalization, economic downturns and more demanding customers wherefore companies are striving to survive against strong competitors. Therefore there is a question rising, whether Porters theories of competitiveness as well as his five forces model are still applicable in the 21st century.

CHAPTER III

THE DEVELOPMENT OF ENTREPRENEURSHIP IN TRANSITION ECONOMIES. BUSINESS ENVIRONMENT IN KOSOVO

3.1 SME-s AN ECONOMIC PERSPECTIVE

Certainly, different countries may use different definitions in relation to micro, small and medium enterprises. Despite different definitions around the world, the importance of SMEs in the global economy is widely recognized (Birch, 1989; Storey, 1994).

The term SME by Herts, L (1982) refers to a variety of firms. According to Keskin & Senturk (2010), most countries agree that the number of employees is the common measure of SMEs. Storey (1994) argued that there is no single, distinct and uniform definition acceptable.

According to the European Commission (2003), we have 3 categories of SMEs - micro, small and medium enterprises. In England, a small company is that which has a turnover of not more than £ 6.5 million, a balance of no more than £ 3.26 million. In America, the definition of SMEs is provided by the Office of Standards of the Small Business Administration. This definition determines the size by activities.

Scott & Bruce (1987) provided qualitative definition of an SME. SME is it that has these features:

1. Management is independent, usually managers are also owners;
2. Provided capital and ownership is held by one or a small group of individuals;
3. The area of operations is mainly local. Employees and owners are a community, but markets should be located in the same community.

Despite different definitions of SMEs everywhere in the world, the importance of SMEs in global economies is known (Birch, 1989).

Often the question arises why firms exist? Alcian & Demsetz (1972) suggest that firms may be formed when benefits are provided by individuals working together in a team. Sometimes what individuals can achieve as a team is greater than the sum of what they can achieve individually. Many governments have promoted and encouraged the activities of SMEs in their agenda of economic development (Abdullah and Bakar, 2000).

SMEs dominate many key industry sectors such as retail, services and construction, and form strong links in the chain of supply (Robinson & Pearce (1984)). A small business is one that has a small part of the market, which is managed by the owner and not by an elaborate management structure (Bannock (1981)).

Johansson (2008) states that SMEs are often the missing links in the form of financial resources, knowledge management and limited basis, however, SMEs often have processes and products that are difficult to imitate, and where we have a competition achievement. Small and micro enterprises mainly operate under the control and the supervision of the owner which is the main decision maker in these cases.

There are several stages of development of SMEs by (Hair et al, 1998):

- First, a theoretical model must be built;
- Secondly, a diagram of causal relationships must be built;
- Thirdly, a diagram must be converted into a set of measurable and structural models;
- Fourth, it should be selected type of the matrix of inputs and evaluation of the proposed model;
- Fifth, the identification of the structural model should be assessed;
- Sixth, it must assess the suitability of criteria;
- Finally, the model should be interpreted and modified.

According to Deeks (1973) organizational structure and policy-making of an SME can be of three types:

- Monacratic - where most decisions are made by the owners or shareholders of the company and their presence is absolutely necessary in the daily operation of the company.

- Oligarchic - where company policy is decided by two or three managers or owners, where each has a specialization.
- Patrician- where the owner or major shareholder and his family are not involved in the daily management of the company.

One of the organizational characteristics that gives SMEs a significant advantage in the markets, is simple organizational structure when compared with large companies.

3.2 THE IMPORTANCE OF SMES IN THE ECONOMY OF A COUNTRY

The importance of SMEs by Ibelski (1997, quoted in Hashim & Abdullah 2000, 193, Wang et al. 2007) is summarized as follows:

SME-s reflect the competitive spirit that a market economy needs to have efficiency; they provide a wide range of consumer goods and services, inefficiency of monopoly control, a source of innovation and are the basis for new industries; they allow an economy to be more suitable for structural changes through the continuation of the initiative, including technology, skills, processes or new products.

SMEs are the most important part and they make up the majority of Kosovo's economy. SMEs play an important role in generating employment, promoting innovation, creating competition and generating a healthy economy (Bannock, 1981). SMEs play an important role in the economy of countries with a developed private sector and competitive markets (Bestvinova et al, 2011). SMEs face the same competitive problems as larger organizations, but however these have the resources, experience and staff with limited capabilities (Nelson & Millet (2001)).

Sultan, S. (2007) in his paper described a summary of the political and economic benefits mentioned by Tolento (2000) for SMEs, stating:

- create jobs with lower capital cost,
- contribute positively to GDP,
- create opportunities to broaden the base of entrepreneurship,
- provide the flexibility required to adapt to market changes,
- provide support to enterprises that have extension;

- contribute to the development policies that are more oriented towards decentralization and rural development.

3.3 THE GROWTH AND SUCCESS OF SME-S

SME success is linked to their performance. Success is linked to achieving the goal and objectives of the firm. The art of business success is often associated with management skills. Starting the right business at the right time requires more than luck. It requires a structured process of entrepreneurial vision, market research, analysis, and decision-making balance (Kao 1995, Thompson et. al., 2009).

Often is used the business success term to refer to a good financial performance. But as we know the performance of the companies is very complex. SME performance is characterized by having the ability to create satisfactory results. Authors Linder & Cantrell (2001) point out that there are three characteristics of a successful model for SMEs:

- They offer unique value;
- It is difficult to imitate what they offer;
- They rely on reality.

Success and failure are associated with the management, and they can be interpreted as a measure of a good and complex management.

According to Analou, F. & Karami, A. (2003), usually SME-s fail:

- Because managers often do not know how to manage the business;
- Small businesses are not able to adapt themselves to frequent changes in technology and markets;
- In some seasons the sales are higher in others they are still;
- Fail to develop managerial skills, and competence in all aspects of the business;
- Fluctuations in the market, technology, customer expectations dramatically affect consumers;
- Finally, the failed small business owners are also financially ruined because all the capital they have invested in the business.

One of the reasons that could lead to the failure of SMEs is a poor management team. SMEs need to see and keep track of all the factors affecting business success to

reduce thus the risk of failure and increase the chances of success. Another reason that can lead to failure are lack of investment, poor planning or lack of business experience. But the main reasons are managerial.

According to Keskin & Senturk (2010) SMEs have some disadvantages:

- The lack of general management,
- The total absence of participation of low-level employees in decision-making, carried out by the owners and partners.
- Non-employment of specialists and financial people in the enterprise.

3.3.1 Positive macroeconomic impacts of SMEs

SME-s today, play an important role in economic development worldwide. They are considered more flexible, more effective, more progressive and more important in an economy (Gal, 2007). As in America and in other industrialized countries such as Japan, Australia, Germany, France and Canada, SMEs, are an important factor in economic growth and technological progress (Thournburg, 1993).

Macroeconomic factors affect the development of SMEs in Kosovo, as elsewhere in the world. SMEs are recognized as an important contributor to creating jobs and economic growth (Analoui & Karami (2003)). We can also say that SMEs have great importance because of their impact on GDP growth and in reduction of unemployment.

Referring to macroeconomic indicators in Kosovo, we see their consistency, which is a necessity for a sustainable and long term development of SMEs. There is also a banking system that has seen progress, consolidation and offers a range of services, funding opportunities and improving legal infrastructure.

There is also a strong link between the SMEs and the informal sector. SMEs are private enterprises that not only provide jobs, but also contribute to the restructuring of the sector, increasing services and manufacturing goods. They lead to increased competition, and promote the presence of Kosovo products in European markets. However SMEs productivity in Kosovo is lower than the average of those of the EU.

SMEs adapt to changing demand in a shorter and quicker time (Keskin & Senturk (2010)). SMEs play an important role in economic growth, and are the engine for the economy (Huang, S. K.; Wang, Y.-L. 2011). SMEs increasingly generate economic

activities in various sectors and contribute to the economic development of countries (Culkin & Smith 2000). Even in Kosovo economy, SMEs influence and affect the economic growth of the country, GDP growth, employment growth, etc. This is the sector that significantly affects our economy. SMEs are very active in research & development and are important sources of technological changes.

At a time when Eastern European countries face numerous challenges to the process of globalization, entrepreneurs become key drivers of economic development. Economic development is not a matter of the government and of macroeconomic policy. It is not a matter of large firms and their development strategies. Hiding success lies in the development of SMEs.

This is the first part of the truth, while the second is more simple. SMEs depend on entrepreneurs (entrepreneurs) that have their philosophy of progress and development of the enterprise. So we can *say: small business and medium business is the backbone of innovative development and national employment of the country.*

The forms of organization of these enterprises under the law of registration of the companies are:

1. Individual enterprise can be considered generally businesses registered as enterprises, which are known as the business of one man (one man business).
2. Micro-enterprises, can be considered enterprises which does not exceed 10 employees.
3. Small enterprises are considered all those enterprises that employ up to 50 workers.
4. Medium enterprises are considered all those enterprises that employ up to 250 workers.

Table. 6: *Criteria for defining SMEs by the EU and the World Bank*

Nr	Nomination	Nr of employees, (World Bank)	Nr of employees, (Acc. EU)
1	Micro	1-5	1-9
2	Small	6-25	10- 49
3	Medium	25-250	50- 250

The term Small and Medium Enterprises (SMEs) means enterprises of private ownership, which support competition in a free and open market, independent contacts with the market and profit oriented.

3.4 DEVELOPMENT OF SMES IN TRANSITION ECONOMIES

In this fourth part of the third chapter, it is argued that the development of entrepreneurship and small business are extremely important but they face many constraints in transition economies. They are limited mainly because of insufficient development of market-based institutions. As we discussed in the first paragraph, the term economies in transition in this paper will consider the economies that have worked with the planning system, socialistic for "a relatively long period of time" (Peng, 2000: 14); Such economy include the Soviet Union, Albania, Bulgaria, the former Czechoslovakia, Hungary, Poland, Romania, Kosovo (Peng, 2000).

The creation and growth of new enterprises is central to the process of transition. This is because the change in the economic system, from communism to capitalism, implies a redistribution of resources in which new firms should be the main actors. While economists have emphasized the three pillars of the "Consensus of Washington" - stabilization, liberalization and privatization (World Bank 1996) - analysts as Kornai (1990), McMillan and Woodruff (2002) argue that the creation of new firms will be the primary mechanism of transition.

Development of entrepreneurship and small business are important for the economies in transition for a number of reasons, some of which are related to the unique environment of transition and others are more general. The creation and growth of new firms in transition economies is regarded as a critical component for economic transformation of these countries (McMillan and Woodruff, 2002). It turns out that new businesses assist the restructuring process by providing a "breathing" during the recession (de-monopolization and employment) (Winiecki, 2003). Along with the creation of new jobs, new firms encourage better working practices, compared with former state-owned enterprises. Furthermore, they respond to 'bad practice' sanctions or even layoffs (Winiecki, 2003: 13). Also, small enterprises contribute in providing a wider range of products and services and create employment opportunities for those who are socially marginalized (Scase, 1997: Smallbone and Welter, 2001).

However, many new businesses in transition economies, have not been able to grow and have failed in their transformational role (Johnson and Loveman, 1995). The development of entrepreneurship in transition economies is quite sensitive to the institutional environment (Estrin, and Bytchkova, Meyer, 2006). Institutions offer 'rules of the game" that shape economic activities. They include legal and regulatory institutions, customs and norms. According to Kolodko (2000), institution building is the 'cornerstone' of economic transition (p. 273); It represents one of three parallel processes of transition, from a planned economy to a market economy, together with the liberalization of prices and micro-economic restructuring of the existing capacities. However, institution building is a gradual process and therefore, in transition economies, institutions tend to be "partially installed" (Smallbone and Welter, 2006: 196). On the other hand, insufficient development of institutions, is considered a factor in slower progress of transition in some countries (Kontorovich, 1999); and on failing to reach a level of development comparable to those in Western Europe (Bartlett and Bukvić, 2001; Hanley, 2000).

As a period of deep economic and institutional changes, the transition period creates many opportunities for entrepreneurs to transfer resources from low productivity activities to higher productivity ones. Incentives for innovation are an important factor in this process (Kontorovich, 1999).

However, emerging economies began their reforms with the lack of institutional and policy framework, conducive to create the basis for a market economy. Rather, the institutional environment has created many new obstacles to entry, some general and others unique of transition. These entrepreneurs have been prevented by the full use of the opportunities created by the transition. Moreover, the institutional environment is in constant evolution and reform process does not respond to market changes. Indeed, in many countries in transition, the chaos associated with transformational reforms has led to a fortification of the former elite (Kogut 2000).

Despite inadequate environment in the former communist economies, there was a rapid expansion of the private sector. The share of private sector in GDP, rose from almost zero in 1990, at least in centralized economies such as Czechoslovakia and the Soviet Union, to 62 percent in 2001. Therefore these economies experienced a similar

transformation as in China, as Deng Xiaoping declared, that in the first eight years of Chinese reform flowered "all kinds of small villages, like a strange army appeared suddenly from nowhere" (cited by McMillan and Woodruff, 2002).

Baumol (1990) argues that the definition of entrepreneurs should reflect local structures. In transition economies, this includes 'onslaught' of the rapid changes that result in an environment of high uncertainty, the wide range of opportunities arising from the restructuring of planned economies, the disparity between supply and demand, the fragile institutions or only part of the market and a variety of informal rules and behaviors that are remnants of the communist past. However, while market institutions lack the level of skills and education, and in some cases investment in technology were on par with the developed world.

The transition process can be divided into several stages which gave rise to different types of entrepreneurship. In the first phase, at the beginning of the transition, balancing supply and demand is manifested in the relative price adjustment, mainly to create opportunities for Kirznerian type of entrepreneurs. This is a period of extreme uncertainty, as there is no previous market information. Macroeconomic stabilization, which is reflected by reduced inflation and the resumption of economic growth, reduces somewhat the extreme uncertainty and increases the incentive to Schumpeterian entrepreneurs. In this second phase, the price mechanism can be used to convey information about supply and demand and macroeconomic stability reduces business risks. This allows investment in longer-term projects and reveals needs for projects and new technology.

In the third phase, market institutions are further developed and provide better mechanisms for coordination of resources, gathering information and respect their contractual obligations.

Birth of a market economy from a planned economy means a major change in the allocation of resources from industry to services, from domestic production in global production, from semi-finished products to final goods. Planned economies were "over-industrialized" - the share of industry in GDP was around 45-50 percent compared with less than 30 percent in developed market economies, and the production was focused on the production of intermediate products. Moreover, although the majority of communist

countries were small, they were very open, especially to Western European neighbors. Communist planners had concentrated only trade within the Communist bloc. So reforms created many opportunities in services, final products and international trade.

The new market economy arose from the "gray and black" activities. Planning had led to shortages of consumer goods, which created a favorable environment for smugglers, illegal activities and criminals (McMillan and Woodruff, 2002).

3.5 THE BUSINESS ENVIRONMENT IN KOSOVO

Eastern European countries have gone through the economic crisis like the other euro zone countries, and as a result of the high level of economic integration of the region with countries of the euro zone. During the crisis years the economies of all countries of Eastern Europe have been falling, the highest increase of 5.8% (Croatia) at the lower of 0.8% in FYROM. The year 2010 has not resulted in positive growth in the region, where Croatia, Romania and Montenegro continued negative growth of GDP (IMF, 2010). Despite economic growth, the current level of GDP in Kosovo was 4.2 billion euro, which is twice less than Albania and three times less than Bosnia and Herzegovina (IMF, 2010).

Despite the fragile situation in the external sector, Kosovo's economy in the coming years continued to expand, recording (2014) a real growth rate of about 5 percent. The main carrier in the country's economic growth was the private sector, through increased consumption and investment, while an important role had investments in public sector. The rise in prices at the global level, was reflected in the economy of Kosovo, where the average inflation rate for 2014 amounted to 7.3 percent. The main causes of the increase in overall prices was the rise in prices of food products and oil derivatives, those that are mainly imported products. Kosovo's economy continues to be characterized by a high level of current account deficit, which is mainly caused by the trade deficit. The relatively low level of exports of goods and high import value in 2014 caused that trade deficit to reach a value of around 2.2 billion euro.

Unlike trade balance in goods, trade in services is characterized by a positive balance, thus preventing further deepening of the deficit. Significant contribution to narrowing the current account deficit continue to make transfers from abroad, especially

remittances. Within the capital and financial account, the main category continues to consist of foreign direct investments, which in 2014 recorded a growth of 14.4 per cent.

3.5.1 Leading Economic Indicators and private sector growth

Records show that the Government's decision in 2008 to increase the level of public investment over 120% was the main driver for growth. Furthermore, this shift of resources towards public investment has been a stimulus to the economy in the following years, enabling an increase of over 3 per cent, at a time when most countries in the region are faced with economic decline. Due to the relatively low level of integration into the global economy and weak fiscal policy, its economy has been significantly protected from the global economic crisis.

Based on the reports of the World Bank, a large part of economic progress has recently been based on donor aid and remittances, which could be the basis for sustainable economic strategy. Poverty remains a problem in Kosovo. Based on the reports of UNDP, the unemployment rate in Kosovo is about 43 percent, when 34 percent of people live in poverty, on less than 1:41 euro per day. Eighteen percent live in extreme poverty on less than 0.94 euro a day.

The number of new entrants in the labor market is very high in comparison with countries in the region. It is estimated that the number of young people who enter every year in the labor market is such that requires at least a real economic growth of 7.0 percent, in order to facilitate the absorption of these new entrants and to contribute to reducing the number of unemployed people. According to the EC Progress Report for Kosovo in 2014, despite the economic growth, the economy is not creating enough jobs to absorb new entrants and reduce pressure on the labor market. Since in a large number of countries, new jobs can be created by SMEs, through the creation of new SMEs and growing existing ones, the successful implementation of the Strategy for SMEs will be the main contributor to the growth of economic situation in Kosovo.

Table 7: *Key macro indicators scheduled for 2010-2016, in mil / euro*

Description	2010	2011	2012	2013	2014	2015	2016
Consumption	4345	4280	4760	5074	5336	5545	5819
Investments	1094	1166	1213	1433	1620	1704	1756
Net Exports	-1587	-1534	-1684	-1867	-1979	-2035	-2075

Export of goods and services	612	820	875	933	995	1049	1049
Import of goods and services	-2156	-2146	-2504	-2742	2912	-3030	-3124
GDP	3905	3912	4289	4639	4978	5214	5501
Real GDP growth in %	6.9	2.9	4.0	5.3	5.1	5.4	6.0
GDP per capita	1847	1848	1966	2127	2249	2321	2412
Inflation	9.2	-2.4	3.5	5.3	2.1	1.5	1.4

Source: Department of Macroeconomics, MF

3.5.2 Strategy for SME Development in Kosovo

Starting from 2005, the Government of Kosovo has adopted a number of substantial strategies. Among the most important we can mention the Employment Strategy, the Energy Strategy, Strategy for Development of Higher Education, Government Programme and Action Plan for the Prevention of Informal Economy in Kosovo, etc. Strategy for the Development of the Private Sector was prepared in 2008, but was not approved by the Government. Development of SMEs mentioned in the Strategy for Development of the Private Sector as one of its components, but it is not associated with any implementation plan.

During the preparation of the Strategy for SMEs are consulted all relevant strategies. All strategies adopted so far are associated with implementation plans. The possibility of successful implementation of the strategy is a function of the connection between the activities described in the Implementation Plan and relevant targets.

Strategy for development of SMEs in Kosovo is based on the European Chart for Small Businesses (ABV). SBA is the key policy document for the development of SMEs in Europe. Kosovo respects the guidelines and rules of the EU since 2002, when it created the Department for the Development of the Private Sector. Since the establishment of the Agency for SMEs support in 2006, Kosovo has been officially included in the European Chart for SMEs that rely on the same document in 2000. The success of the European Chart for SMEs is reflected in the European Chart for Small Businesses, who has put SME policy at the centre of economic and administrative decision of the European Union, and is a success for the EU and SMEs in Europe. In fact, this strategy is an important tool for the implementation of the Small Business Act and the leadership of the reform process of Kosovo's economy and the establishment of SMEs at the centre of economic and

administrative decision-making in Kosovo. SMEs are and will be the engine of economic development that will provide new working places, economic growth and prosperity only under a suitable economic framework.

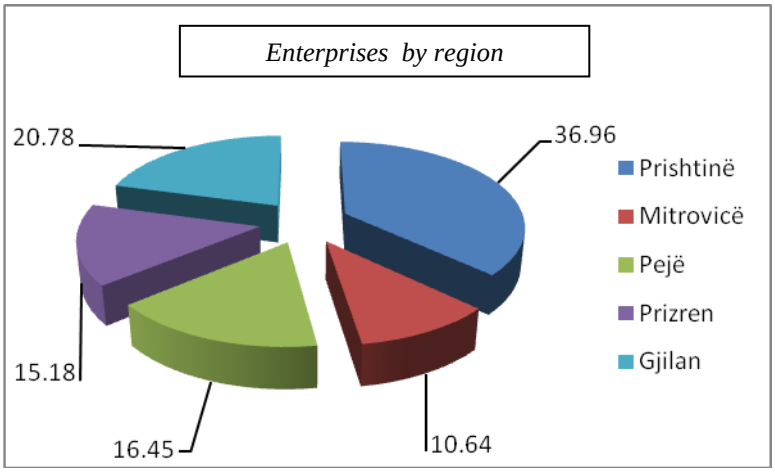
According to the Agency for Registration of Businesses in Kosovo - ARBK - the number of SMEs registered on December 31, 2011 was 103.755, which employ 216,799 workers, or 79.59% of total employees in the private sector and 62.24% of total employees in Kosovo.

SMEs size in Kosovo is defined by the Law no. 2005/02-L5 and no. 03 / L-031 for supporting Small and Medium Enterprises. The number of employees is the sole criterion for classification of enterprises by size in Kosovo. This differs with the EU countries, where in addition to the number of employees, annual turnover is taken into account. In the following table is given the spectrum of registered enterprises in Kosovo on the basis of number of employees.

Table 8: *Registered Enterprises in Kosovo based on Numbers of Workers - 2014*

Classification by size	According to nr. of employees	Nr. of enterprises	% /total
Micro	1 – 9	102,070	98.37
Small	10 – 49	1,406	1.35
Medium	50 – 249	221	0.22
Big	250 and more	58	0.06
Total		*103,755*	*100.00*

Source: ARBK/MTI



Source: ARBK / MTI, designed by author

Figure 6: *Registered Enterprises in Kosovo by Region in %*

If we give an overview of registered enterprises by classifying them by region, it was noted that the region of Pristine has about 36.96 percent of registered businesses at the national level, then follow the region of Gjilan with 20.78 percent, of Prizren with 15:18 percent, of Peja 16:45, and finally of Mitrovica with 10.64 percent.

Data of ARBK (Regional Agency for Business in Kosovo), presented in the table nr. 9, provide information related to the ownership structure of registered enterprises in Kosovo. Individual businesses clearly dominate the ownership structure with 90 percent. The rest of the companies are general partnership (3.2 percent) and limited liability companies (5.8 percent), foreign-owned enterprises and joint stock respectively 0,46 and 0,35 percent.

Certainly the type of ownership presented below shows the shortcomings of SMEs in Kosovo, because it shows the reluctance of SME owners to bring together financial and human capital in the most advanced forms of business.

Table 9*: SMEs by ownership in Kosovo*

Type/ number	Type of ownership	Nr of enterprises	% in total
1.	*Individual business*	*93,129*	*90.00*
2.	*General partnership*	*3,383*	*3.20*
3.	*Limited partnership*	*90*	*0.08*
4.	*Limited liability*	*6170*	*5.80*
5.	Joint stock company	368	0.35
6.	*Foreign owned*	*486*	*0.46*
7.	*Social enterprises*	*16*	*0.01*
8.	*Public enterprises*	*12*	*0.01*
9.	*Agricultural cooperatives*	*68*	*0.06*
10.	*others*	*33*	*0.03*
Total		*103,755*	*100.00*

Source : ARBK/MTI

But if we analyze the business registration time periods from 1999-2005 and 2005-2014, there is a noticeable positive change in the structure of business registration in the second period. This positive change is the result of the awareness of businesses to more advanced forms of the union of capital and assets in favor of the overall partnership,

joint ventures and particularly significant increase of limited liability societies (see table nr 10).

Table 10: *Businesses registered in the period 2005-2014*

	According ownership	Nr of businesses	%	Nr of employees
1	Individual business	40,568	82.95	63,012
2	Foreign company	464	0.95	4,860
3	Agricultural cooperative	58	0.12	427
4	Public enterprise	5	0.01	867
5	Social enterprise	11	0.02	1,268
6	Limited partnership	4	0.01	14
7	General partnership	1,667	3.41	4,622
8	Joint stock company	159	0.33	14,136
9	Limited liability	5,970	12.21	28,983
10	Total	48,906	100.00	118,189
11	Businesses closed	4,177	8.54	7,392

Source: ARBK/MTI – processed by author

Businesses closed in the period 2005-2014 were 4.177, namely 8:54 percent of total of businesses registered in this period. Regarding businesses failed or unsubscribed, we must emphasize that this data should be taken with great reserve because under applicable law, if a business wants to change the form of ownership, must first be cleared (out), then recorded in another form.

Table 11: *Businesses registered in the period 2005-2014, by the number of workers*

Classification by size	By the nr. of employees	Number of enterprises	%	Nr of employees	%
Micro	1 – 9	47,999	98.14	75,580	63.95
Small	10 – 49	756	1.55	12,779	10.81
Medium	50 – 249	129	0.26	14,137	11.96
Big	250 and more	24	0.05	15,693	13.28
Total		48,908	100.00	118,189	100.00

Source: ARBK / MTI - processed by author

Informal economy prevents fair competition and increases the relative costs of enterprises operating in the formal sector. Informal labor contracts and systematic evasion of social security contributions weaken the protection of workers and their social benefits. They also have a negative impact on the fiscal budget and the entire social infrastructure due to falling revenues and a subsequent reduction of proper public services.

According to the report of 'Government Programme for Prevention of Informal Economy in Kosovo 2010-2012' the estimated size of the informal economy ranges from 39% to 50% of GDP.

Table 12: *Annual Turnover by Size of Enterprise and Share of GDP, 2014*

Size of enterprises	Nr of enterprises	Turnover (€)	Share of GDP (%)
Micro	14,968	656,885,164.33	16.79
Small	1210	667,585,914.82	17.07
Medium	185	369,455,655.16	9.44
Big	58	528,558,359.84	13.51
Total	16,421	2,222,485,094.15	56.81

Source: ATK

Based on data of the Tax Administration of Kosovo (TAK), presented in the table nr. 12, the total SME turnover in 2014 was EUR 1.693 million, or 43.3 percent of GDP. Total turnover of all businesses including big businesses was 2.222 million, or 56.81% of GDP.

In the EC Progress Report for Kosovo 2014, are identified three main barriers faced by businesses in Kosovo. The first barrier is related to the unreliable supply of electricity and water, which are particularly serious for manufacturing SMEs. Also, as one of the main barriers to the rapid development of SMEs is also considered limited access to financial resources. The third important barrier is insufficient rule of law, which affects all citizens.

Since 2008, we have a number of important achievements which have resulted in the improvement of the business environment for SMEs in Kosovo. In the past three years it is realized the tax reform and streamlined the collection of VAT through fiscal cash, despite some opposition from business associations. These were important developments in terms of reducing the level of informality in the SME sector and the improvement of relations between the business community and the state. Tax revenues are significantly increased due to the reduction of the tax rate from 20 to 10 percent as well as the progress the rule of law.

Significant improvements have been made in legal and administrative matters and SMEs can now register through the Center "One Stop Shop" in the respective municipalities, established with the support of the World Bank and the European

Commission. Business Registration Agency in Kosovo (BRAK) makes online business registration, application for fiscal number, the VAT and import-export permits for small businesses.

For the first time since Kosovo's involvement in the World Bank report "Doing Business", Kosovo marks the greatest progress in the ranking of this list. Compared to last year, when the country was in position 117, this year our country is listed as the 98th country on the ease of doing business among 185 countries of the world. So, Kosovo has a 19 point improvement in business indicators report, which was released in late 2014 by the World Bank.

Assessment of this report is based on 11 indicators: starting a business, obtaining construction permit, provision of electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and employing workers.

Kosovo has made progress in starting business by eliminating initial capital requirement, and payment for business registration. Investor protection is strengthened and accelerated and is simplified business registration process "- stress out the report of the Doing Business 2014.

According to the World Bank, the protection of investors is improved by 74 positions, resulting in the largest increase, compared with other indicators in this report. While, progress has been made in the index of the ease of opening a new business, where we were postponed from 168 positions (in 2013) in 126 positions (in 2014).

CHAPTER 4:

ANALYSIS OF EXTERNAL ENVIRONMENT IN THE CONSTRUCTION INDUSTRY IN KOSOVO

Dependence on external environment is not a problem in itself, as long as this environment that surrounds the company appears static and simple. The problem arises when it increases uncertainty and dynamics. The high degree of uncertainty and the impact of changes have in the external environment factors requires an ongoing analysis by the company, which can be achieved through detailed analysis of the macro-environment.

For demographers, a widespread phenomenon is the impact that political and economic changes in the behavior of the population (Kupisezewski et al. 1994). In early 2000, while Kosovo launched a series of economic and political change towards democracy, he predicted that the combination of these changes will also bring about reformatted behavior of individuals (Caro & Wissen, 2007). We can say that the development of Kosovo society, given the cultural aspect, seems to have been somewhat confusing. Legal and political changes and economic ones, over the years, despite the dynamics of development seem to have affected the alignment of Kosovo society behavior to begin construction of a set of norms and values suited to the new conditions created.

Kosovo's economy is new and dynamic. Situated in South Eastern Europe, Kosovo's economy has become part of the region's economic integrations, which provide opportunities for market expansion in a very wide area. The increase of competitiveness of the economy is one of the main concerns for state and private entities in Kosovo. As an important location for business development, Kosovo offers a range of comparative advantages such as: a young and very qualified population, where the average age is very young, natural resources, favorable climate conditions, new infrastructure, fiscal policy with the lowest taxes in the region, geographical location with access to the CEFTA and the European Union regional market. In addition to being a member of CEFTA, in June

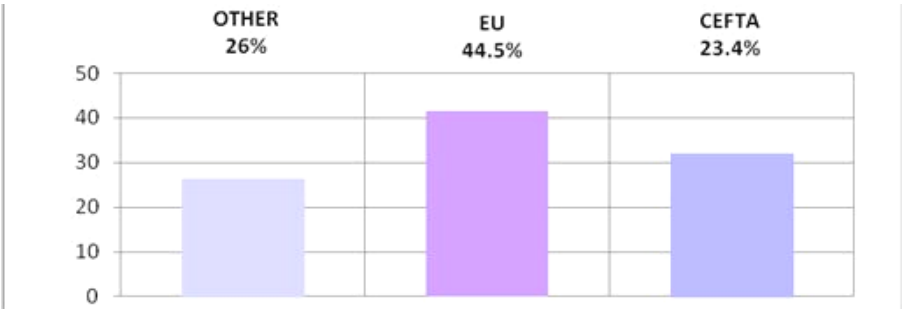
2013 Kosovo has joined the IMF (International Monetary Fund) and WB (World Bank) and aspires to join other powerful economic and financial mechanisms such as EBRD, World Trade Organization (WTO etc.).

4.1 THE IMPACT OF EXTERNAL ENVIRONMENT IN CONSTRUCTION INDUSTRY

4.1.1 A general overview of Kosovo's Economy

During 2015 Kosovo reached an amount of around 2.45 billion Euros in trade flows, which compared with a year ago noted an increase of such exchange by about 17%. Imports of Kosovo goods during year 2014 achieved an amount of about 2.16 billion Euros, representing nominal growth of 11.48%.

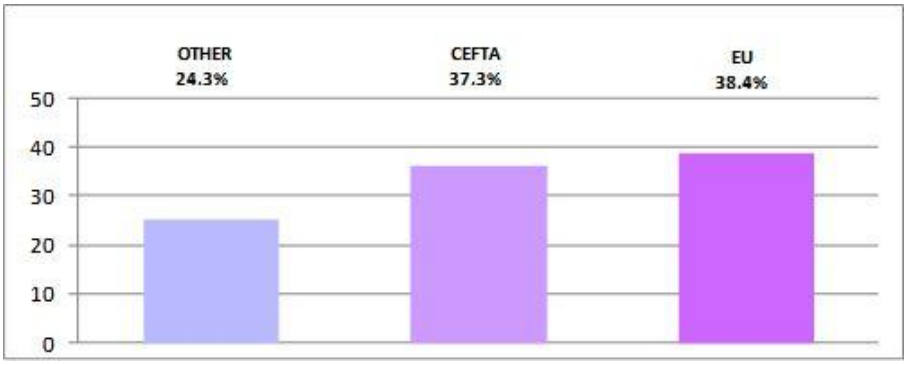
Kosovo Exports to the EU countries were 44.7% of the overall total exports, which compared with the previous year, are increased by 3.71%. Exports to CEFTA countries were 24.1% of total value, compared with the previous year there was a decrease of 25.39%, while exports to other countries include 31.2% of the total amount.



Source: ABRN Kosovo

Figure 7: *Kosovo exports by country group for year 2014*

Kosovo imports from EU countries were 38.4% of the overall total. Imports from CEFTA countries were 37.3% of total value, while imports from other countries include 24.3% of the total amount.



Source: ABRN Kosovo

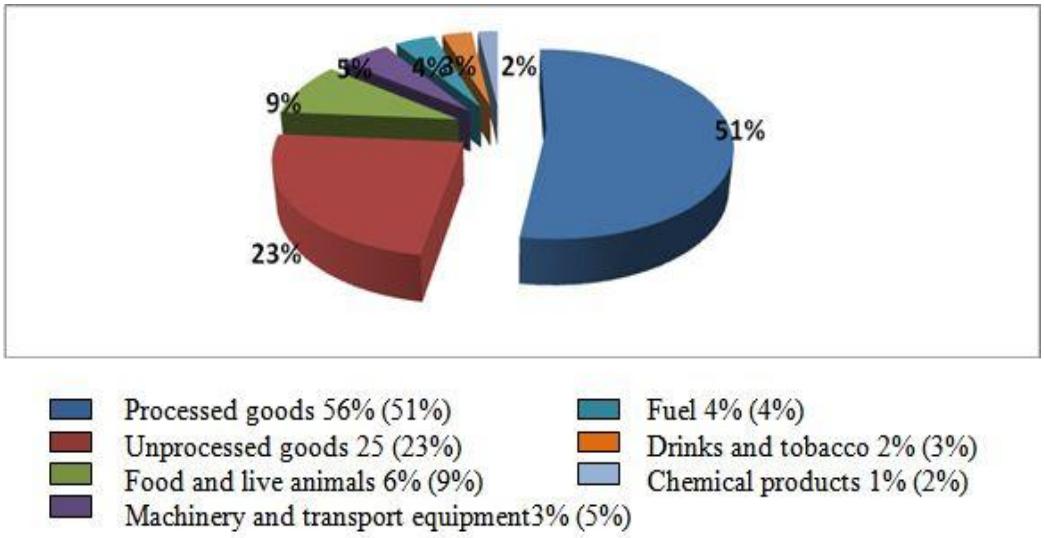
Figure 8: *Kosovo imports by country group for year 2014*

Table 13. *Main partners of Kosovo in export and import*

No.	Countries	Export (000) €	Participation % in the total	Import (000) €	Participation % in the total
1.	Italy	80.193	27.1	100.603	4.7
2.	Albania	30.841	10.4	69.714	3.2
3.	Macedonia	26.308	8.9	319.313	14.8
4.	Switzerland	17.786	6.0	20.981	1.0
5.	Germany	15.587	5.3	280.617	13.0
6.	China	14.779	5.0	135.406	6.3
7.	Serbia	3.941	1.3	260.471	12.1

Source: ABRN Kosovo

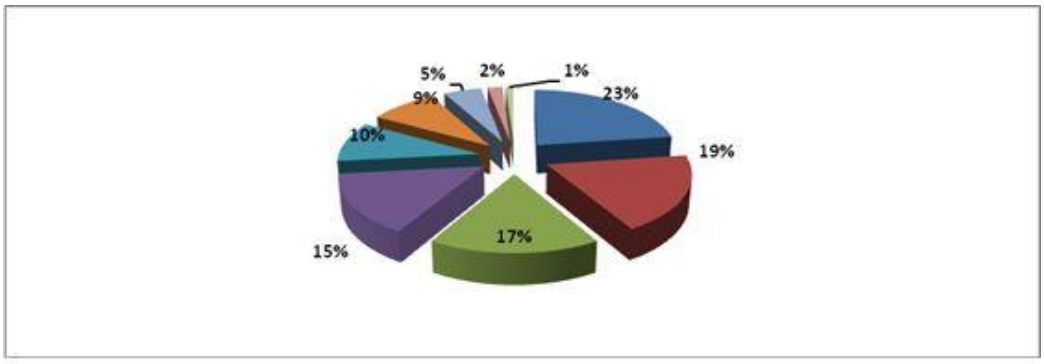
The greater share of exports in 2010 with 51% accounted for processed goods, worth about 150.9m €, other unprocessed goods included 25% of exports amounting to 60.1 million. The rest includes: food and live animals 6%, fuel 4%, machinery and equipment 3%, beverages and tobacco 2%, chemical products 1% of the total value of exports. Below are comparisons with the previous year (fig. 9).



Source: ABRN Kosovo

Figure 9. *Export by product groups for year 2015 (2014)*

Imports in 2014 consisted of machinery and transport equipment 21% at a value of around 453.1 million €, processed goods at 20% at a value of 431.5 million €, food and live animals 16% or 345.2 million €, fuel 16% or 345.2milion €, chemicals 10% with 215.8 million €, other processed goods 9% at € 194.2 million €, beverages and tobacco 5% with 107.9 million €, unprocessed materials at 3% at a value of about 64.7 million €, animal and vegetable fats 1% or € 21.6 million**.**



Source: ABRN Kosovo

Figure 10*. Imports by product group for year 2015 (2014)*

Kosovo has great underground assets, with 14.700 million tons. It ranks fifth in the world for lignite reserves from which it also produces the highest amount of electricity.

The country is rich in agricultural land, 53 percent of the total area is arable land. Currently the agricultural sector contributes only 19 percent to the overall GDP and 15 percent of the export value.

Vineyards cultivation and wine production is an old tradition in Kosovo. In the golden years the wine industry in Rahovec alone had production capacity of up to 50 million liters per year.

In recent years the construction industry has become one of the most important sectors in the Kosovo economy. This sector continues to be a great economic potential for Kosovo, taking into account the need for construction of new settlements and road infrastructure. Government of Kosovo itself has decided to connect the country with the most important corridors in Macedonia and Serbia.

Textile sector has been the second largest in Kosovo, while at the peak of its development, 15 textile production social enterprises employed more than 1,000 people and achieved sales up to 35 million euro.

Kosovo's tourism potential is closely linked to Kosovo's geographical position. Surrounded on all sides by mountains, and being in the centre of Balkans, the country has the potential for winter tourism. Mountains in the south of Kosovo, resorts such as Brezovica and Sharr Mountains are very interesting opportunities for investors.

The banking sector in Kosovo is estimated to be among the sectors with the best performance in the economy. Bank deposits and loans are increasing, while the range of financial services is expanding.

4.1.2 Political-Legal Environment

The transition to a market economy has not been easy, and the country is still in a period of reforms to raise living standards and welfare.

Since the proclamation of independence in 2008, Kosovo adopted its new Constitution and various new laws. At the same time, part of the legal framework has been inherited from the UN Interim Administration Mission in Kosovo (UNMIK), which administered Kosovo throughout the previous decade. In general, owing both, being a young state and governed in the past by the UN and the EU, whose experts assisted in drafting laws for Kosovo, Kosovo's legislation is by and large modern and compatible with European and international standards.

However, certain gaps still need to be filled with new laws and secondary legislation. More importantly, the gap needs to be bridged between the relatively advanced legislation and the level of its implementation.

In particular, the access to finance legal regime has undergone a major reform in the past decade and the laws in place generally satisfy international standards of best practice. Legal framework for taking security looks satisfactory enough and the main challenges come from the uncertainty or registered titles or unregistered immovable property.

Corporate governance is a relatively new concept in Kosovo. The Government has made reforms to enhance the business environment a policy priority. Consequently, the legal framework regulating corporate governance was improved in the recent years. However, implementation is still lagging behind.

The EBRD Judicial Decisions Assessment 2012, found that the quality and predictability of court judgments in commercial law matters in Kosovo was generally poor. Weak reasoning was prevalent. This was considered to be linked to judges' lack of knowledge and experience in specialized areas of law. There is a general need for judicial capacity building in the country.

The Public-Private Partnership (PPP) Law was drafted with a view to further harmonizing the national legislation with the EU *acquis* as part of the country's efforts

towards becoming a EU member candidate. Progress made was acknowledged by the EU in its analytical report issued in October 2012, which noted, inter alia, that "Kosovo's legislation on public-private partnerships establishes a consistent legal framework on work concessions and is largely compatible with EU legislation."

In the energy sector, Kosovo has adopted a number of recent laws, however further efforts are required to promote energy efficiency and renewable energy in practice.

Taking and enforcing security (proprietary security rights) over immovable property (mortgage) and movable property and intangible rights (pledge) in Kosovo is regulated by the Law No. 03/L-154, on Property and Other Real Rights, introduced on 25 June 2009 (the "Property Law").

There is no capital market in Kosovo. Moreover, neither there is a stock exchange in Pristine nor is there a Securities Market Law or its equivalent. In terms of the legal framework, indirectly applicable to capital markets, these would include: the Law of 29 December 2009 Nr. 03/L- 175 on Public Debt that regulates procedures for public debt assurance by the government of the Republic of Kosovo; the Law of 27 September 2007 Nr. 02/L-123 on Business Organizations that in Title VII (joint stock companies), Chapter III regulates the matter of shares and other securities, and the Law of 30 April 2012 Nr. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions.

The new Law on Public Private Partnership No. 04L-045 was promulgated on 15 November 2011 (the "PPP Law") and replaced the previous Law on Public-Private-Partnerships and Concessions in Infrastructure and the Procedures for Their Award No. 03-L-090 dated 25 June 2009. The PPP Law entered into force in December 2011.

The Law on Business Organizations entered into force on 27 May 2008. The Law specifies the types of business organization through which business activity can be conducted in Kosovo, establishes the applicable registration requirements for each type of business organization and details the rights and obligations of owners, shareholders, managers, directors, legal representatives and third parties.

The main body governing the construction sector in Kosovo, is the Ministry of Environment and Spatial Planning. The legal system that deals with the construction

sector in Kosovo is organized in three levels: the Law on construction, technical regulations, bylaws and standards and regulations issued by local municipalities.

Regulation of standards for construction products is the responsibility of the Ministry of Trade and Industry. Law on Construction Products no. 04/L-181 was approved by Parliament in July 2013. The Law Nr. 02/L-62 for control of construction products, adopted in 2005 under the administration of UNMIK authority aimed to regulate the inspection of all construction products.

Some of the administrative procedures that construction firms should provide are:

- *Certificate of building permit.* Construction of a building or any other structure cannot be completed until each construction company to provide construction permit from the local authority based on the urban plan. Some of the concerns that construction firms face in this process have to do with deadlines, correctness of employees of state administration, lack of transparency and bureaucracy (obstacles) by institutions of public services (water, electricity). Kosovo is ranked 135 in the ranking of 189 economies in the world, in terms of ease of dealing with construction permits. Some steps have been taken by the authorities in the past two years in order to facilitate the procedures for issuing licenses.

- *Registration of property rights.* Resolving property issues and incorporation of informal settlements in local development plans continues to be an important factor in creating sustainable settlements in Kosovo. Kosovo Cadastral Agency (KCA) manages the registration of immovable properties. In 2014 Kosovo ranks 3rd regarding facilitating the procedures for registration of property rights.

- *Legislation for Energy Efficiency.* Law of the Republic of Kosovo for Construction defines the implementation of measures of energy efficiency in building construction. Construction development based on energy efficiency is now mandatory under the Law on Construction, where each resident of a newly built building is obliged to acquire the occupancy certificate, which is conditioned by energy efficiency measures.

- *Environmental regulations.* All construction wastes that are not hazardous waste should be treated according to the Law on Waste no. 04/L-060 and Administrative Instruction Nr. 05/07 for the treatment of wastes generated during construction or

destruction.

- *Labor market regulations.* The labor market in Kosovo is regulated by the Ministry of Labor and Social Welfare. Law No.03/L-212, approved by the Assembly in November 2010, laid the foundations of a legal framework to regulate the field of workers' rights. As in other sectors, delays in creating bylaws resulted in poor implementation of the law.

Because of the complexity, the large number of rules and regulations that govern the sector and the large number of taxes that is required of a construction project, according to the Survey S & D 2015, construction companies consider not regulated sufficiently the legislative framework of the sector: public procurement / tenders (47%), competition policy (41%), insurance and liability (37%), regulation of the labor market (36%), building permits (34%), the requirements for energy efficiency (31%) environmental legislation (31%) and construction rates (21%). The main problem is poor implementation of the law, lack of bylaws or incompetence of the authorities responsible for implementation.

Kosovo needs to continue to focus its efforts on strengthening the rule of law

4.1.3 Economic Environment

The economy has maintained a growth rate of 3-5% for about a decade up to 2015. The Kosovo Agency of Statistics (KAS) estimates that during the current three-year period (2013-2015), the economy will grow an average of 4.7%, the highest average estimated growth rate among South-eastern European economies. However, the pace of growth is not enough to have notable effects on poverty and unemployment. For example, the World Bank estimates that Kosovo would need to double its growth rate to 12% per year for an entire decade to reach Montenegro's current Gross Domestic Product (GDP) per capita level. In short, the income gap between Kosovo and other countries in Southeast Europe is likely to remain large despite higher growth. Kosovo is making steady and significant macroeconomic progress in both first-stage (price liberalization, trade and foreign exchange reforms, and privatization) and second-stage (competition policy, and enterprise, banking, infrastructure, and non-bank financial reforms).

Actually, more than 98% of businesses are family-owned, micro-, small-, and medium-sized enterprises (MSMEs). A recent UNDP report noted that Kosovo's marketplace is unbalanced. There has been a high emphasis on enterprise creation in an environment already saturated with low value-added, tertiary or service sector firms. To transform this very narrow pattern of growth into a much more dynamic and encompassing private sector, the report recommends, among other things, a leap in size from micro- and small- to medium-sized businesses and including improved access to finance for new and expanding businesses, particularly those run by women and youth. Encouraging an increase in the presence of medium-sized enterprises – and small-sized enterprises with the potential to grow – will be a major challenge that touches on, for example, greater value addition, improving access to credit, streamlining of regulatory frameworks, and enhancing efficiency of trade flows internally and beyond Kosovo's borders.

In a study for the Western Balkan attractiveness for FDI, (Matija R. and Slavica P. 2014) argues that the five priorities of the Western Balkan countries are stable macro environment, relatively developed financial system, rapid economic development, relatively low cost of skilled labor, as well as the Stabilization and Association Agreement with the EU and Central European Agreement on Free Trade Agreement (CEFTA). Weaknesses include small domestic markets and low purchasing power of the population, high risk, and slow progress in structural and institutional reforms, inefficient government bureaucracy and excessive administrative barriers. Based on this research, they argue that the main priority of biasing the largest number of FDI is to strengthen the structural and institutional reform.

Similarly, Roject and Penev (2011), Estrin and Uvalic (2013), argue that gravity model factors affect the flow of foreign direct investment in the Balkans. However, in their analysis of the "Western Balkans", they confirm the negative impact on the inflow of FDI. This shows that the influence of political factors and inadequate access of governments against them presents a barrier in itself. Therefore, the need for further development and institutional reform is evident.

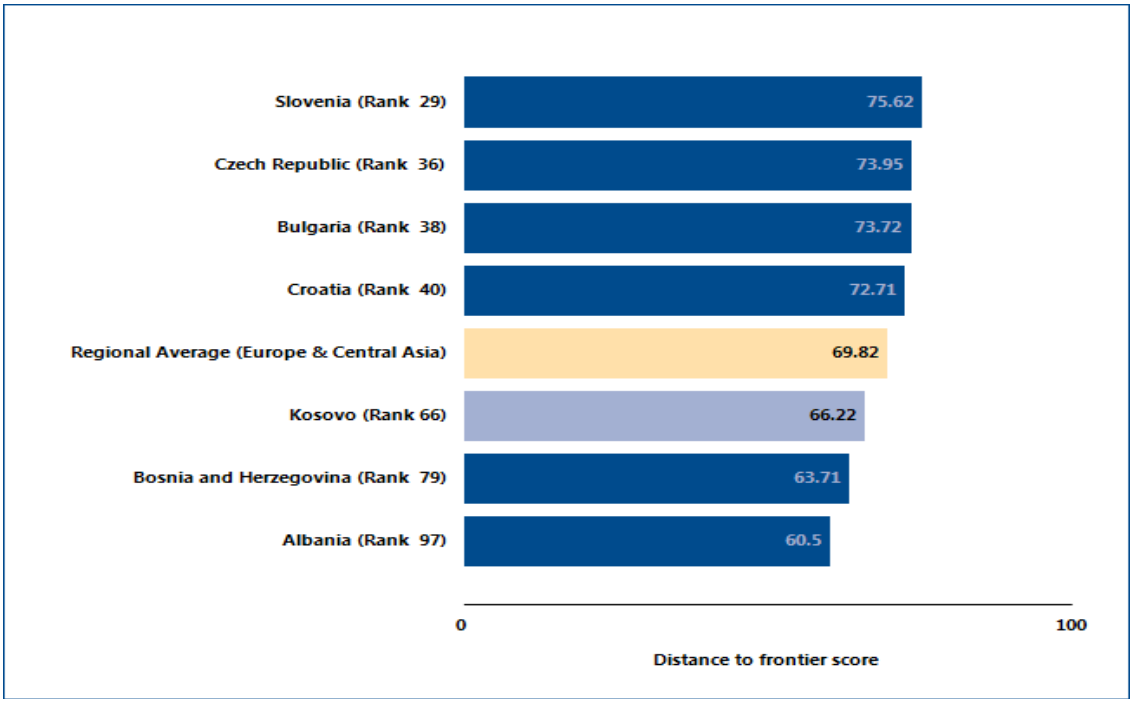
It is important to reduce the regulatory burden on SMEs, as these enterprises are disproportionately affected by problems such as complex tax systems, bureaucracy,

frequent inspections by the authorities, and the like. Attention is paid to best practices for promoting economic development that assists SMEs to gain access to markets, financing, and business support services: microfinance institutions, specialized microcredit banks and guarantees that provide alternative financing mechanisms for SMEs.

Over these past 10 years a lot of revolutionary changes happened to the ways of doing business due to information technology advantages. The scientists are trying to find the new modalities to adopt these changes. Big changes of information technology lunched necessity of changing method of doing business. It is a time for creation of the new mindset of entrepreneurship development, especially in the transition countries. Transition countries should create their own modality of entrepreneurship development and increase their own creativity based on the specific needs of their customers. As (Boyle, 2007) explains there have been multiple calls for educators at all levels to recognize the challenges and opportunities in today's economy and make the necessary changes to educational programs to ensure the students with "21st century "skills and abilities including: capabilities in problem solving, innovation and creativity, self-direction and initiative, flexibility and adaptability, critical thinking, communication and collaboration skills. Even in Kosovo these new modalities of doing business should apply as soon as possible in order to reach the pace of small business growth. It is need to foster steps forward using the information technology and skilled managers that can race in today's complicated trade.

The institutions that are responsible for maintaining macroeconomic stability have done an admirable job in ensuring that Kosovo remains one of the most fiscally and financially stable countries in the region. Significant progress has been made in the World Bank's *Doing Business Index*, with Kosovo's ranking improving from 128th in 2009 to 119th in 2011, 98th in 2012, 74th in 2014 and 68 in 2015. However, looking at its closest neighbors and competition, it is clear that Kosovo still has some way to go.

What does it take to start a business in Kosovo? According to data collected by *Doing Business*, starting a business there requires 5 procedures, takes 11 days, costs 1.1% of income per capita and requires paid-in minimum capital of 0.00% of income per capita (figure 11).

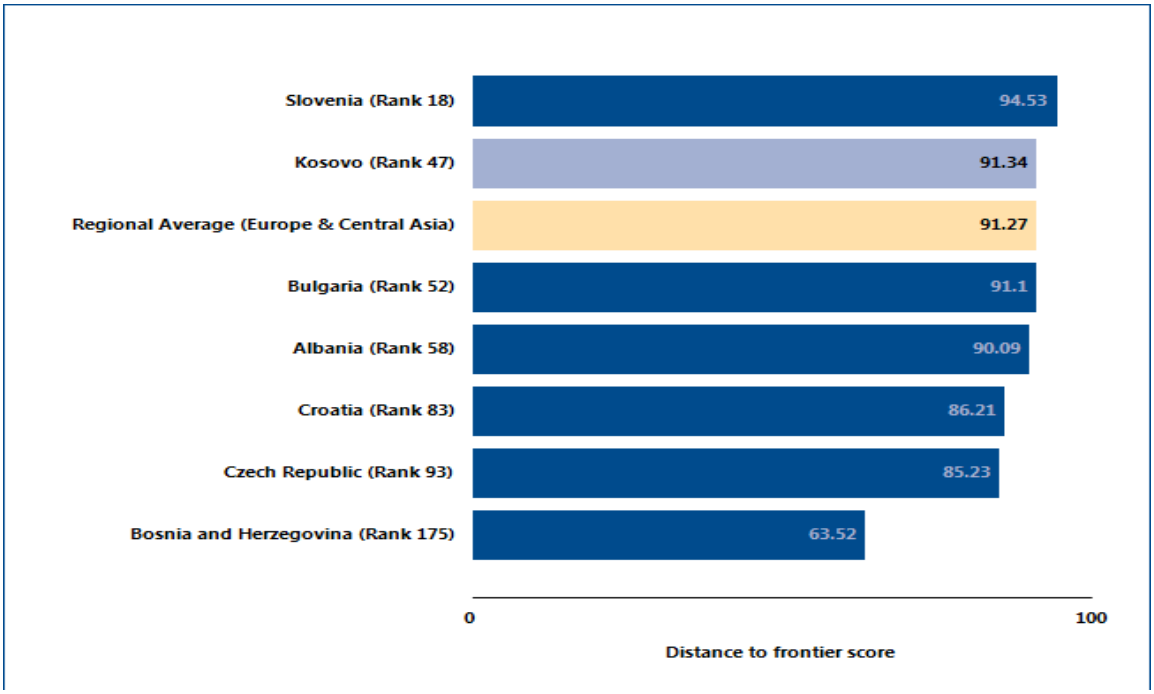


Source: World Bank, 2016 (http://www.doingbusiness.org).

***Figure 11.** Doing business ranking position of Kosovo and neighboring countries*

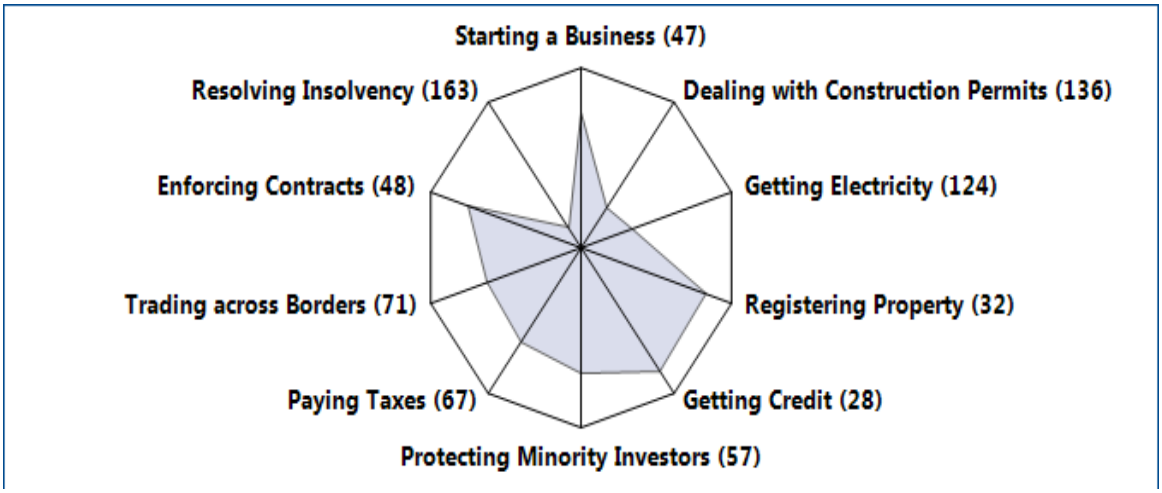
Globally, Kosovo stands at 47th place in the ranking of 189 economies on the ease of starting a business (figure 12). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Kosovo to start a business.

The challenge now is to ensure that more improvements are made in the overall regulatory environment, so that Kosovo can realize a robust private sector and ensure small business development.



Source: World Bank, 2016 (http://www.doingbusiness.org).

Figure 12. *How Kosovo and comparator economies rank on the ease of starting a business*



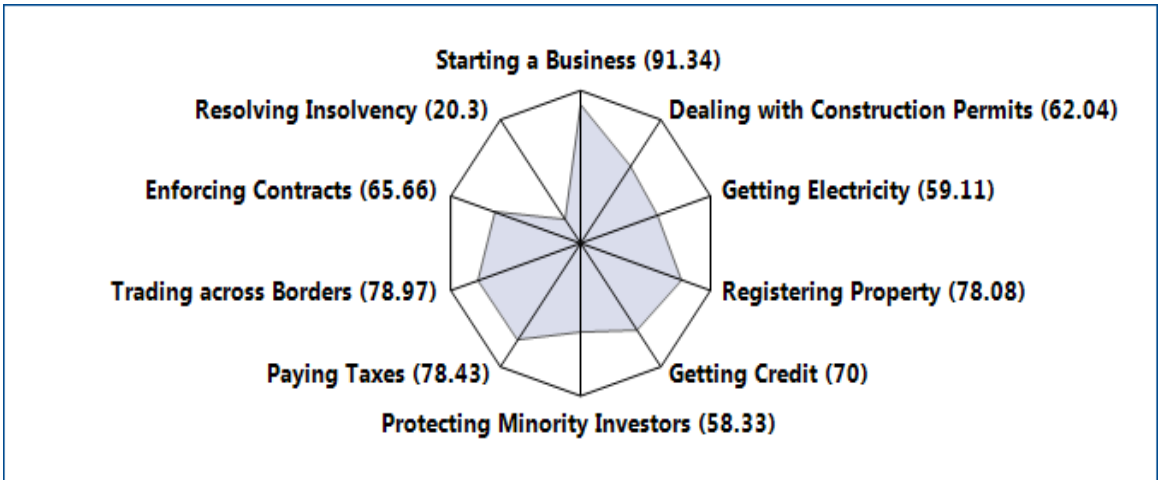
Source: World Bank, 2016 (http://www.doingbusiness.org).

Figure 13. *Rankings on Doing Business topics - Kosovo*

The main constraints identified by the business environment of companies surveyed for the purpose of this research are corruption, access to electricity, the informal economy and the functioning of the judicial system.

Corruption has been identified as a barrier by 80% of construction companies

surveyed, while 51% of them identified this as a major obstacle. Based on the Corruption Perceptions Index 2014, Kosovo remains among the countries with the highest level of corruption. Kosovo has 33 points in the index (where 100 is the most upright).



Source: World Bank, 2016 (http://www.doingbusiness.org).

***Figure 14** Distance to frontier scores on Doing Business topics - Kosovo*

Access to electricity is identified as a major obstacle by 37% of construction companies surveyed. According to another poll cited by the National Program for Economic Reform, about 50% of Kosovo firms in all sectors, identified access to electricity as a major obstacle to the development of their businesses, compared with only 5.8% in Montenegro, 8.1% in Serbia and 10.2% in Bosnia

Another factor affecting the construction industry is *informality*. Despite the legal framework and increasing control exerted in building businesses, due to the problematic nature referred informality, the construction industry expresses its presence in the informal market through: the low rate of implementation of the law on employment contracts, unpaid overtime work, and the concealment of real income that these companies have to declare. Informality has been identified as a barrier by 80% of construction companies, of which 37% regarded it as a major obstacle.

The functioning of the judicial system was ranked 4th by construction companies in connection with the business environment constraints. The World Bank Doing Business shows that Kosovo has not made any significant progress on the indication "the execution of the contract" in the past 5 years.

Other constraints of the sector, identified by the surveyed companies are delaying

payments and regulations on the construction permit, building regulations and availability rates of property / land, fluctuations in prices of raw materials and changes in demand,

4.1.4 Cultural-Social Environment

Every society constructs its own social environment. Some of the customs, beliefs, practices and behaviors are similar across cultures, and some are not. For example, an American travelling to Britain will find many familiar practices but not so much if travelling to China.

A business must utilize and adapt to its external social environment, or it will not survive. A business must be keenly aware of the society's social preferences regarding its needs and wants. These preferences and needs will be influenced by a population's values, beliefs and practices.

Let's look at some examples. A change in beliefs and values towards energy conservation and global climate change may create a change in consumer preference, away from gas guzzling SUVs to hybrid sedans. Some cultures treat the meal as a long social event, and fast food just won't cut it. Social preferences relating to fashion are constantly changing. Skirt lengths go up and down depending upon the years, as do the preference for single-breasted and double-breasted suits.

If a business refuses to adapt to changing social preferences, its sales will drop, and it will fail. Broader social values will also affect the success of a business. A society that values higher education will provide a better workforce that will lead to more productivity and innovation. Likewise, a society that supports investment in public infrastructure will have access to good transportation and communication systems. And if the social values of a community include a hard work ethic, a business will have access to productive workers and a population that has money to spend on goods and services.

For demographers, a widespread phenomenon is the impact of political and economic changes in the behavior of the population (Kupisezewski et al. 1994). In early 2000, while Kosovo launched a series of economic and political changes towards democracy, was predicted that the combination of these changes will also bring about a reformation of behavior of individuals (Caro & Wissen, 2007). We can say that the development of Kosovo society seems to have been somewhat confusing. Legal- political

changes and economic ones over the years, despite the dynamics of development seem to have affected the alignment of the behavior of Kosovo society, to begin creating a set of norms and values suited to the new conditions.

The pressure of social factors and their impact on the construction industry feels more compared with earlier periods (Muir, 2005). Some of the social factors that affect the construction industry in Kosovo are:

- *Skills and capacity of the workforce.* In 2014, the construction sector was the 4th largest employer in Kosovo.
- *Reliability of construction companies*, plays an important role during the sales process, because everyone wants to feel confident that the quality of construction works is quite good. Consequently, the task of building companies is to create the best image and reputation as well as to differentiate their products from other companies in order to create credibility in the eyes of all stakeholders.
- *Consumer behavior*. In most cases, the decision to buy or invest in real estate is influenced by proximity to the specific facilities, which we need in everyday life.
- *Awareness of individuals for inclusion of new products and services in the building.* Another trend noted is the increase of interest manifested by the customers and companies involved in the construction of various buildings and facilities: swimming pools, parks, gyms, markets, etc.
- *Demographic movements*. According to statistics there is a domestic movement of population from rural to urban areas.

4.1.5 Technological Environment

Environmental factors have influenced the awareness of Kosovo businesses to increase investment in technology, using innovative services to facilitate contacts and assist in the expansion of business activity worldwide. Today, electronic commerce affects daily business operations and strategy. It is evident that organizations that use new technologies have the opportunity to improve their competitive advantages.

Despite achievements in the information technology, many issues remain to be resolved and reformed within this sector. Here we can mention: internet coverage throughout the country, poor infrastructure communication because of limited access and high costs, limited research activities, preparation of specialists and their migration, lack of funding that limits small and medium businesses to adopt information and communication technology and poor legal framework that protects intellectual property.

Because of the nature that the process of building, technological changes in the environment affect the performance of construction firms. Technological developments are reflected in the continued and significant progress that characterizes the construction industry as one of the industries with significant impact on the economy. In all these years, as a result of the use of advanced technology, companies have benefited in terms of:

- *Advanced Technology*. The construction industry in Kosovo has access to the manufacturing process as well as other developed countries. New construction methods and transfer of knowledge are present in this industry.
- *Electronic commerce.* Currently the operating companies in the construction industry, not only receive information in real time via the internet, but also communicate with multiple buyers.
- *Increasing economic efficiency* and rapid communication;
- *Reducing costs* through more efficient business processes;
- *Improving the image* of the company through continuous marketing;
- *Improving relationships* with customers through profiling and personalized products by using advanced techniques and software;
- *The use of advanced technology* to create partnerships with foreign multinationals and domestic companies taking advantage of access to foreign markets, financing tools, new knowledge;
- *Reorganization and modernization* of business processes adapted to market activities and contemporary models;
- *Positive impact on sales volume* and creating a better image for the company through sale channels and marketing on line;
- *Cost reduction* through efficient transactions.

Table 14. *PEST Analysis for Kosovo*

Opportunities	Threats
Political-legal environment	
○ Aspirations for entrance in EU and implementation of policies in compliance with EU Standards ○ Favorable tax policy ○ Reforms in public institutions ○ Government initiatives to promote FDI ○ Law on privatization	○ Political instability ○ High level of corruption ○ Shortcomings in the correct interpretation of laws and regulations ○ Law on Property
Economic environment	
○ Growth interest in of foreign investors. ○ Development of infrastructure and energy sector ○ The development of the SME sector and their role in economy ○ FDI flows ○ Improved Conditions for doing business according to Doing Business report ○ Decrease of the interest rates	○ Macro-economic instability due to the global financial and economic crisis. ○ High Rate of Inflation ○ Distribution of income ○ High level of informality ○ Increasing prices
Social-cultural environment	
○ Young age of Kosovo population ○ The growing awareness of the quality of products and services ○ Changes in lifestyle ○ Increased demand for healthy food	○ High level of unemployment ○ Low purchasing power ○ Trends for professional education in decline ○ The average low income ○ Not enough qualified workers
Technological Environment	
○ Public investment in R & D	○ Insufficient investments in research and

increased o Use of electronic equipment communications. o Opportunities for finding new markets o Investments in companies increase automation and management information systems o Access to new technologies and transfer of technology	development o Poor communication infrastructure due to limited access and higher costs o Preparation of specialists and their migration o Lack of financing for SMEs to adopt ICT and fragile legal framework that protects intellectual property, electronic payments and information security issues. o Insufficient collaboration with Universities

4.2 CHARACTERISTICS OF CONSTRUCTION INDUSTRY IN KOSOVO

Kosovo is an economy in transition. Kosovo's non-membership in the United Nations (UN) remains a key obstacle to political integration and socioeconomic development. By mid-March 2014, 106 (out of 193) UN member countries have recognized Kosovo's independence. With a population of less than 2 million, and Gross Domestic Product (GDP) per capita estimated close to 2,800 Euros in 2013, Kosovo remains the poorest in the region. With an estimated unemployment rate of above 29% in 2014 and an employment rate of only 26%,

The economy has grown steadily averaging 3.4% during 2009-13 and growth outlook remains moderately buoyant. The growth has largely been attributed to public investments in infrastructure, donor assistance and remittances. Furthermore, the pace of growth is nowhere near enough to have significant impact of reducing poverty and unemployment.

Construction is one of the industries that despite stages of evolution, dates back very early in the history of mankind. Historically, the industry has been aimed at filling a basic need of housing. Nowadays, it contributes to the fulfillment of other important needs such as transportation and communication as an integral part of all components of a country's economy (Milford et al, 2002).

In the speech held by the Duke of Edinburgh (1984) on the 150th anniversary of the Chartered Institute of Building (CIOB) and the Royal Institute of British Architects (RIBA) is quoted:

> *"Everything that surrounds us and that is not part of the natural environment belongs to that, which we call the built environment. Many elements of the environment where we live and work is a product of people and the indicator of the impact that construction has in their life [...]"(Calvert et al, 2003).*

The construction industry is one of the biggest industries regardless of where they are studied (Hillebrandt, 2000). This is because the presence of the goods and services in the form of housing, transport and communication is high.

The construction sector has served as a major pillar of Kosovo's economy and despite the challenges this sector has continued to expand during the economic crisis in Kosovo. With a share of 9.5%, the construction sector was the 4th largest employer of Kosovo in 2014, employing about 39,000 people. The construction industry was the 6th largest contributor to national GDP in 2014. According to statistics obtained from the Institute of Statistics, in 2014, the industry accounted for about 14% of GDP and about 23.8% of new investments in the country. Besides it is an industry with a significant number of employees, the construction industry affects and controls the level of competitiveness of companies operating in various industries (Revayet, 1992). This is because the construction industry is closely linked to the labor market and significantly is observed its impact on income and purchasing power in other markets of products and services.

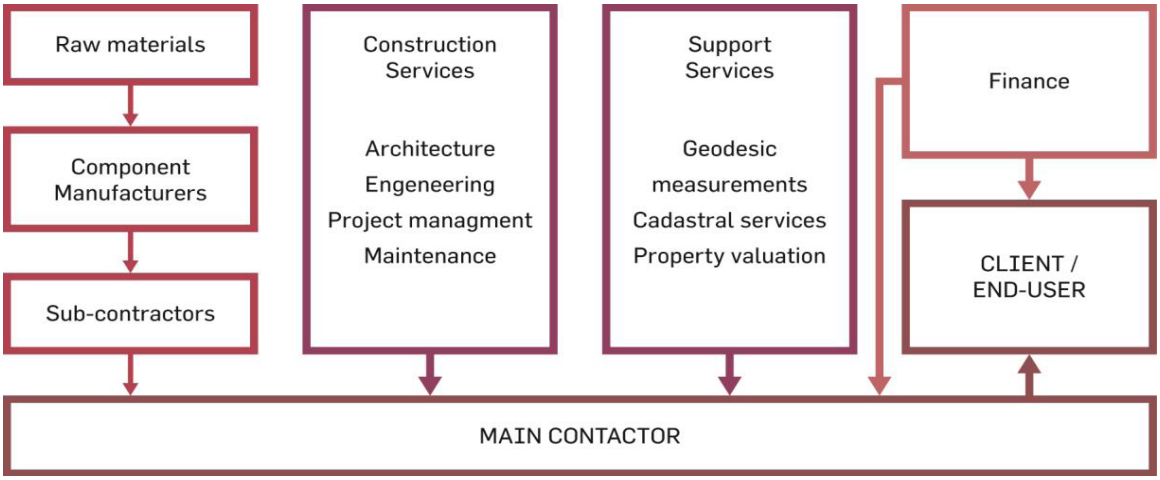
The construction industry is one of the sectors of the national economy, which has to do with issues of land development, construction, modification and repair of buildings, structures and other real estate (Business Dictionary). According to the project and type of activity, this industry is classified according to the following sectors (table 15).

Often, the key words we use when defining a specific industry also serve as a key factor for sorting and grouping its constituent elements. There are identified three main groups of industry components: (1) the factors of production; (2) markets (3) products/services.

Table 15. *Construction industry by sectors*

Sectors of construction	**Type of activity**
Infrastructure	Water supply & sanitation, energy & electricity network, roads, airports, ports & railways
Housing	The public sector (social housing) The private sector (private housing)
Public non-residential construction	Schools, universities, hospital centers, health centers, sports centers
Private industrial construction	Factories, plants, etc.
Private commercial buildings	Shopping centers, private schools, hotels, restaurants, etc..
Repairs and Maintenance	Housing repairs, additions and renovations, routine maintenance, etc.

Another element which completes this industry is the presence of market agents or intermediaries as a form of evolution that has undergone the operation of the industry. The construction sector is characterized by a complex value chain. It includes the basic production, supply of construction materials, as well as a range of services, intensive knowledge provided by private enterprises and public organizations.



Source: Processed by author

Figure 15. *Construction sector value chain*

There is a growing trend in the number of construction firms that have entered this industry in recent years. This upward trend is justified by economic development that made our country's high demand for housing market and the need for development of road infrastructure.

The construction industry can be considered as one of the most important sectors contributing to Kosovo's economic growth. Financed mainly through foreign aid, the construction sector in Kosovo has so far utilized several hundred million euro that were primarily used for the construction of new homes, or for the rehabilitation and development of the road infrastructure respectively (KIESA, 2016).

A further factor which is helping to boost the development of this sector is the demand for road and highway construction (KIESA, 2016). The Government of Kosovo has set itself a goal to connect the country in three main directions with the most important international road corridors in Macedonia, Albania and Serbia.

The construction industry remains a sector with highly promising economic potential for Kosovo. According to estimations (KIESA 2016) in the next five years Kosovo will need some 60,000 new apartments, including the associated infrastructure, such as roads, kindergartens, schools, leisure facilities, restaurants, etc. The construction of a highway, which will connect the northern and central parts of Kosovo with Skopje, is a mid-term goal of the Government.

Demand for real estate

Activities of real estate (defined as the purchase or sale of real estate, leasing and other services to real estate) are the 5th largest contributor to GDP of Kosovo in 2015, with an action of 8.9% and total value of 365 million euro, accounting an increase of 8.8% compared to last year. Moreover, during the first three months of 2016, real estate activities had a growth of 13% compared with the same period last year. FDI in real estate and construction, which are significantly driven by Diaspora investments have dominated FDI in all previous years, accounting for about 50% of all foreign direct investments.

Private spending dominate the construction sector in Kosovo with an average of 71%, while public spending (financed by the government or donors) represent less than

30% of the workload of the construction companies. Within private spending segment, the market is dominated by residential projects with 70% of shares. Non-residential buildings have a low market share of 8%.

Services on construction sites

The construction sector is very dynamic in Kosovo. This sector includes around 3,800 enterprises and accounts for about 20% of new businesses that join market every year. Between 2012 and 2015 the number of businesses in the sector was increased to approximately 30%. Between 2012 and 2015, the sector's contribution to GDP changed between 6.4% and 7.5%. In 2015, with a quota of 6.6%, the construction sector was the 6th largest contributor to GDP.

Supply of construction materials and equipment

The construction materials sector comprises all companies that are involved in either the manufacturing or provision of construction materials. These include manufacturers of cement, window & doorframes, steel reinforcements, prefabricated structures, bricks and tiles, roofing materials, plumbing material, etc.

Very few studies and reports regarding this sector are available for Kosovo. The 2015 National Economic Reform Programme identified the sector as a potential export market and it is expected that the sector will receive greater attention in the near future. Most recent data on the sector comes from the 2015 Potential Export Markets report commissioned by the Finish Government and the UNDP.

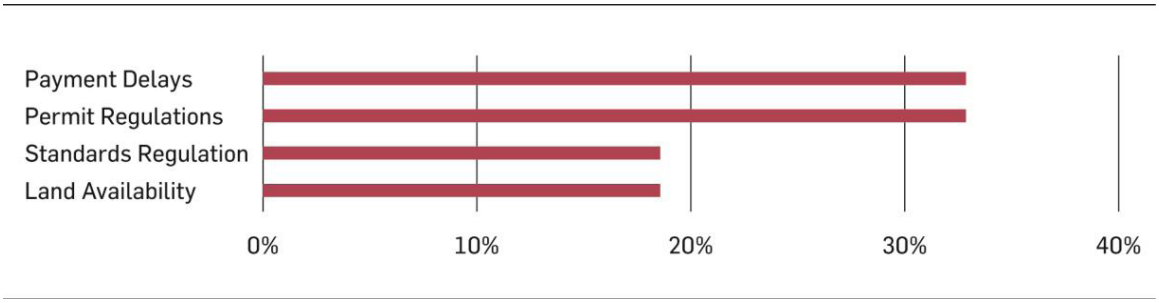
Professional construction services

Professional construction services include architecture and engineering services, cost controllers, property valuation, geodesic and cadastral services and building control bodies.

Currently there is no licensing system in Kosovo for *architecture and engineering services*. An attempt was made in 2011 to implement a licensing system for individual practitioners but the law was cancelled before it had a chance to come into effect. All higher education institutions providing engineering and architecture programs are licensed and accredited and have implemented the Bologna reform objectives and principles. Due to the lack of a mechanism for monitoring architecture and engineering

services carried out in the field, individuals and companies continue to exercise these professions without licenses.

Given the current economic setting and the difficulties encountered by companies in accessing loans many construction sector operators are facing increasing problems of delayed or non-payment for the work done. While this is an obstacle commonly found in the construction sector all over Europe, in Kosovo it is and has been since the beginning of the construction boom, a wide spread issue.



Source: S&D Survey Kosovo

Figure 16. *Main Constraints of the Construction Sector*

The issue of delayed or non-payment in the construction industry can be attributed to a variety of factors: difficulty in obtaining loans, lack of cash buyers on the market, practices such as oral contracts, "pay when paid" clauses, lack of clarity on payment dates and in some cases deliberate non-payment or slow-payment arrangements. Furthermore, irregular cash-flow and financial instability was identified as the main internal constraint by the construction companies in the S&D Survey.

4.3 OVERALL PICTURE OF CONSTRUCTION SECTOR

The construction sector is by nature volatile and dependent on the cycles of the economy. Nonetheless, it is a sector which in most countries, and especially in developing countries, takes up a considerable share of economic activity. Developing countries invest heavily to close the infrastructure gap, companies invest in new industrial facilities and, perhaps most importantly, real estate developers rush to develop housing, as more jobs and people move towards urban areas. These trends, coupled with the fact that Kosovo has a very young population and thus a large pool of young couples needing housing, indicate that there will be increased demand for construction services in the medium and long term. Companies themselves are generally optimistic about their future prospects.

This in turn means that construction will be a sector of considerable activity and employment generation in the foreseeable future.

However, is that the construction sector in Kosovo is currently in a transition period and that several structural factors have put a strain on both the demand and supply of construction services. Our survey confirmed that the demand for construction services is largely driven by private demand and, more specifically, by demand for housing. The market is moving away from the chaotic and supply-driven post-1999 phase, and increasingly resembling a more normal market characterized by better enforcement of regulations and a client base demanding more quality.

Companies do report a slight decrease in activities in 2014. This is largely due to a long period of political instability, the adoption of numerous legislative acts for the construction sector, many of which are still lacking the secondary the legislation necessary for their implementation, as well as stricter law enforcement in Pristine - the centre of construction activity in Kosovo - due to a new local government. Uncertainty also impacted the behavior of buyers, making them more conservative in spending: household cash deposits had a 9.1% increase in 2014 compared to the previous year. But that is also because the market is starting to become more demand-driven and because clients are demanding quality.

The growth of the sector is dependent largely on whether there will be an increase in demand for housing. On the demand side, the first key problem is the significant decrease of cash buyers and difficulties with accessing finance. Mortgage loans are becoming more popular on the banking market but interest rates are too high, and part of the explanation is the high risk associated with illegal constructions, land disputes and lack of access to cadastral records, which does not allow clients to meet collateral requirements. Besides, the potential of the mortgage market is hampered by the lack of relevant information in the sector (statistical data is largely unavailable, the CBK does not differentiate between household investment and consumption loans). Efforts to increase demand in the sector should therefore be focused in reducing risk factors impacting interest rates, as well as improving information flows.

The second most pressing issue is the improvement of the legal framework that would ease the development of construction projects. Although legislation is in place to

protect all stakeholders involved, secondary legislation is usually missing and as such the existing laws cannot be implemented. For example a deficiency in Kosovo is the fact that fines or any other kind of punishments are not foreseen for individuals and companies that do not respect the Law on energy efficiency. In the absence of such measures, the only way to determine investors to implement quality standards and measures is through incentives, financial or non-financial. The regulatory framework needs to be completed with necessary by-laws in order to provide investors and buyers with a higher degree of certainty.

The third most important focus area is the need to supply the labor market with skilled workers, including young women. Many companies (20% according to our survey) are forced to hire high-skilled workers from abroad to work on more sophisticated tasks. These functions could be filled by domestic workers, which would both increase employment, increase the pool of skills in the economy and improve quality of construction services in the long-run. The inclusion of young women could bring a new set of skills to the sector, especially in the types of positions that do not require physical activity.

CHAPTER V

RESEARCH METHODOLOGY

This chapter deals with the purpose of research and the objectives set, which help further specifying the main goal in this study, the establishment of assumptions and statistical methods used. In this chapter is reflected a detailed analysis of statistical and data processing, fulfilling the main goal of this paper: in depth analysis of industry and competitive strategies that follow competitors in this industry.

In this chapter we explain the role and importance of primary and secondary data, re-presenting research questions and hypotheses. It is presented methodology, sample selection and research methods in the field. Also, this chapter explains modes of data collection, analysis and findings in the field and the review of the key variables in the model structure.

5.1 THE PURPOSE OF RESEARCH

The main purpose of this dissertation is an examination of the concept of competitive advantage and its impact on the success of SMEs in the construction sector in Kosovo and proposing appropriate strategies for achieving competitive advantage and increases the performances. For this analysis the industry on competitiveness and the choice of strategies competitive, to develop and make proper implementation is necessary to build the terrain on which it becomes possible to understand and measure indicators like industry dynamics, competitiveness dynamics, industry positioning and choice of competitive strategies.

Other purposes of the study are:

- To come to help SMEs to be oriented to create and show an ambitious mindset regarding the strategic importance of creating a competitive advantage and enhance the value of their businesses.
- To show why the creation of competitive advantage is important for SMEs.

"Competitiveness of SMEs: A Study of the Construction Industry in Kosovo"

- To analyze and make a more complete assessment of performance and problems facing Kosovo SMEs in general and especially those in the construction sector.
- To demonstrate the strategic importance of creating a competitive advantage as a major determinant of success and growth of SMEs.
- To investigate whether Kosovo SMEs use models for the management of distinctive competencies, and if yes, what is most appropriate?

5.1.2 Research objectives. Questions raised and hypothesis

As mentioned above, it is important the development of objectives which digest the basic purpose of this study: (i) industry analysis, in terms of the dynamics of the industry and the dynamism of competition, (ii) selection of competitive strategies and their impact on organizational performance.

Some of the questions raised that come to the aid of achieving the primary goal:

1. How attractive is the external environment of the construction industry in Kosovo?
2. What are the stages of development of this industry?
3. What is the source of competition and dynamics of the industry?
4. Is the value one of the most important competences of the company to create competitive advantage?
5. Does the competitive advantage impact performance of the firm?
6. How easy it is for them to find competitive alternatives in the environmental conditions they are operating?
7. How does competitive strategy impact in the company's success?
8. What is the degree of using competitive strategies in the construction businesses?

There are following hypotheses posed in this context:

a. Competitive advantage analysis

H 1: Creating value is one of the most important competencies to create competitive advantage.

H 2: The performance is positively associated with competitive advantage and vice versa

b. Competitive strategy 'analysis

H3. There is a positive relationship between the implementation of competitive strategies (cost leadership, differentiation and integrated strategy) and SME-s performance.

H 3a SME-s that implement integrated strategies (low cost & differentiation) have a higher performance than firms which implement only cost leadership strategy.

H 3b SME-s that implement integrated strategies (low cost & differentiation) have a higher performance than firms that only implement the differentiation strategy.

H3c SME-s that implement one of competitive strategies (cost leadership, differentiation and integrated strategy) have a higher performance than firms which implement the "stuck in the middle" strategy.

5.2 RESEARCH METHODOLOGY

The methodology used is in the function of the goals of this study. The purpose of the research is based on the assessment of attractiveness that represents the construction industry and how firms use competitive strategies.

Primary sources. Questionnaires technique is used as one of the most common methods for data collection in empirical research, because of the advantages in relation to the analysis of statistics, archives and observation. One of the basic principles used in preparing the questionnaire is coherence within and between sections (Sarantakos, 2005) by providing participants in the study, the understanding of the research purpose (O'Neill, McGuirk, 2005), responding accurately and without manipulating their real attitude towards certain issues. In this context, it is used a logical flow in the analysis, including variables belonging to SME-s, external environment, industry environment and competitive strategies.

Secondary sources. The research is based on literature review to verify the findings of studies conducted by numerous authors in different countries that are characterized by different economic, political and social developments. There are used the latest

theoretical studies conducted about SME-s, strategies used and construction industry, as primary studies. The bulk of research papers and books has been found in bookstores, scientific and electronic sources, such as Science Direct, EBSCO, Emerald, JSTOR, and belong recent years. Although are not excluded early works, which are used as a point of reference.

The content of the research questions is based on the literature, in which are mentioned and studied theories and related analysis. To test research hypotheses, the sample size is taken to be as representative as possible, in order to perform reliable statistical analysis. Having given two criteria (i) construction industry, (ii) the location or district where construction firms are registered, we can say that the study population is sufficient for study purposes. Of the total private companies registered in Kosovo Administration of Taxation KAS), were selected only SME-s that exercise their activity in the construction industry and in construction projects.

Another source is the analysis of published documents, which helped findings in the field.

The methodology used is a function of the goals set out in this study and the criteria used as the backbone of this study are:

a. Latest theoretical treatments about the industry and the strategies used. The bulk of research papers and books is found in electronic bookstores as, Science Direct, EBSCO, Emerald, JSTOR, and belong to recent years after 2000. Although are not excluded early works, which have been the benchmark of theoretical view.

b. Using statistical procedures and techniques to suit the information, the questionnaire set up and the measurement data techniques, such as: Multi-Criteria Evaluation (MCE), multiple regressions, analysis of variance within the group and among groups.

c. Objectivity, to reflect the current situation in Kosovo, referred to the issue of study.

Research work can be divided into two parts, preparatory and analytical work in the office and fieldwork.

a. Preparatory and analytical work in office has included parts such as:
   - Preparation of questionnaires,
   - Distribution of questionnaires (sending questionnaires via e-mail)
   - Data processing,
   - Presentation and analysis of findings.

b. The research field includes:
   - Direct distribution of questionnaires, and contact with the owners/managers;
   - Receiving in return the questionnaires.

In order that the analysis and research to be more substantive and comprehensive, in this work are used different methods, which complement each other, as follows:

Quantitative methods: primary data are processed based on the information and concrete results have emerged. The survey is the basis of quantitative research methods. It is one of the earliest methods of studying social phenomena and as such is used in most social science research. Quantitative method, is presented in digital form, analyzed through the use of statistics and show us the relationship between events (Bryman, A., 2006). While quantitative method enables us through direct analysis to come to the right conclusions (Bryman, A., 2006), qualitative research is non-numeric data and cannot be presented in graphics, as they describe the situation with words. Quantitative research, creates statistical conclusions that are important in the study of a representative sample of the population (Creswell, J.W., 2003).

Qualitative research are usually two types: experimental and descriptive. Experimental method tests the accuracy of a theory by determining whether the independent variable causes an effect on the dependent variable. Descriptive research analyzes the sample in a moment in time, and simply describes the demographics of the sample. Although this is not seen as a statistically robust exercise, a good description of variables helps the researcher to evaluate the statistical results in proper context (Campbell, D.T. and Stanley, J.C., 1963). Descriptive approach has served us to describe different phenomena related to the issue of evaluation in construction businesses in Kosovo.

Meanwhile, *the comparative method* is used, in order to determine similarities and differences regarding the evaluation system of our organizations with organizations in other countries, in order to draw similarities but also differences between them. On the basis of the comparative method, the problem analysis is made of spatial and temporal perspective, by introducing knowledge and experience from different authors and case studies on Kosovo.

5.2.1 Selection of the questionnaire as a method for collecting data

The type of the search is one of the key variables in the choice of research method. In this study, search type consists of a combination of qualitative and quantitative methods. For this purpose, are used descriptive and statistical and econometric methods which are taken into account during the construction of the questionnaire, as the primary source of information. Completing the questionnaire is one of the most common methods for data collection in empirical research (Phellas, Bloch & Seale, 2011). There are many advantages of using questionnaires (Miller, 2002) for the collection of data in relation to the analysis of statistics, archives and observation.

Compilation of a good questionnaire (Bulmer, 2004; Parfitt, 2005) to generate data that suit the main purpose of research is one of the most important stages in the research methodology. One of the basic principles during the construction of the questionnaire is the logical connection between sections (Sarantakos, 2005) and within the same section, while providing participants in the study to understand the purpose of the research (McGuirk & O'Neill, 2005), to answer correctly and not manipulate their real attitude towards certain issues.

The content of research questions is based on the literature in which the context and problems are similar. Besides drafting the questions based on literature related to our field of study, the content of the questions is structured based on the opinion of experts in the field, like the opinion of managers or directors of construction companies. In preliminary testing phase of the survey, interviews were conducted with experts in the field of construction, which are used to improve understanding of the specificity of the questions and issues of study. Some questions were modified in terms of the terminology used and others were added, due to the specifics of the industry.

Referring to the main purpose of this study, the research is based on the survey of the competition level in the construction industry, the choice of competitive strategies and the impact on the performance of companies that comprise this industry. The questionnaire was built in several sections and each question has a clear role for information to be gathered.

The first section includes questions that seek to collect information on the population of the study. The information collected in this section refers to the time (years) of operation of the company within the construction industry, where the company operates, projects and activities that make up the portfolio of the company, number of employees and positions of the participants in the study.

The second section includes questions that assess the impact that changes and developments of the external environment have in the construction industry and the company in particular. Through this set of questions are required to assess the impact of external macroeconomic environment, political and legal environment, socio-cultural and technological environment from the perspective of mitigating factors or barriers in exercising the activity.

In the third section of the questionnaire are included questions pertaining to proper analysis of the industry. Market structure, market dynamics, the dependence of the company, competitive dynamics, competitive structure and entry barriers are key variables to study the construction industry in this work.

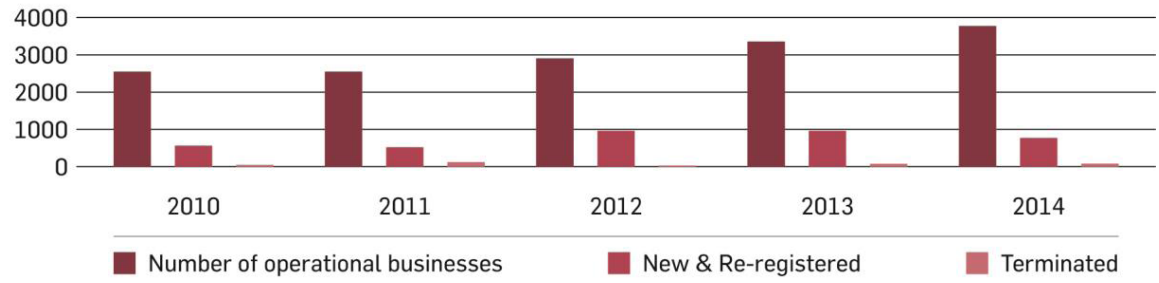
In the fourth section are includes questions that asses the impact of value in competitive advantage and performance for the firm. Here are included, as the main factor of creating value, intangible resource.

In the fifth part are included queries via which is collected information on competitive strategies (differentiation, low cost, focus), assessing every possibility of the company that results in cost leadership and / or product differentiation. Performance and realizing the objectives of the companies are dependent variables, from where is guided our analysis to the selection of pure competitive strategies or combinations thereof.

In the last part of the questionnaire are posed questions relate with the organizational performance.

5.2.2.Sample size determination and data collection

To test the research hypotheses, the sample size should be as representative as possible, in order to perform reliable statistical analyzes (Kothari, 2004). Data were taken on two criteria: (i) the construction industry, (ii) the location or district where construction firms are registered. Of the total private companies registered at the Tax Office, were selected only companies that exercise their activity in the construction industry and in construction projects involving infrastructure, residences residential (houses and villas tourism), industrial buildings and other buildings as hospitals, universities, government buildings, etc. The construction sector in Kosovo is very dynamic. It comprises around 3,800 enterprises and accounts for around 20% of every year's new business entries. Between 2010 and 2014 the number of businesses in the sector increased approximately by 30%.



Source: KAS 2014

Figure 17. *Business entries and exits in the Construction Sector*

Number of private sector enterprises and persons employed by sector, in 2013, is presented in table 16. The construction sector expanded most, as both the number of businesses and persons employed increased of more than 50 % in the three year period. The boom concerned micro enterprises as well as large companies in particular.

Table 16. *Number of private sector enterprises and persons employed, by sector, in 2014*

Sectors	Enterprises		Persons employed	
	Number	Share %	Number	Share %
Manufacturing	4,825	10,5	30,810	16,2

Construction	3,289	7,1	20,682	10,9
Wholesale and retail trade	19,672	42,7	61,790	32,6
Transporting and storage	2,602	5,7	10,513	5,5
Accommodation & food service	3,499	7,6	10,356	5,5
Business service	4,716	10,2	25,109	13,2
Personal services	4,376	9,5	12,558	6,6
Other sectors	3,053	6,6	12,558	9,4
Total	46,032	100	189,623	100

Source: KAS 2014

One of the most frequently used methods to determine the volume of choice is based on the required accuracy. On this basis, is defined the smallest volume set of selection that ensures that assessment. Accuracy has to do with the size of the confidence interval. The smaller the margin of error, α, the higher the accuracy of the assessment. To determine the necessary volume of choice is used the formula which depends on the confidence interval, margin of error, and Z values corresponding to the required level of confidence.

For the implementation of the size of the selection formula must first determine boundary error and evaluation for specific weight p. If for specific weight may not be taken an accurate assessment, then instead can be used the value equal to 0.5 or 50%. This value provides no greater mistake than it allowed.

So, the size of the selection will be calculated by the following formula:

(1) $n = p\% \times (1-p)\% \times (Z/e\%)^2$

p, the percentage of the population that belongs to a certain category
(1-p), % the population that does not belongs to the category of study
Z, constant value that corresponds to the confidence interval; {95%, Z(95%)=1.96}
e, The margin of error percentage

While the regulated selection size is calculated with the formula below:

(2) $n_1 = n/[1+(n/N)]$

n_1 regulated selection size
n the initial size of selection found of selection formula (1)
N total population

Referring to the number of active construction firms, which belong to the SME group during the past year, the size of selection is:

Size of selection: n = 0,7% x 0,93% x $(1.96/5\%)^2$ =625

While the regulated selection size is:

The regulated selection size: $\mathbf{n_1}$= n/ [1+(n/N)]= 625/[1+(625/2860)]= 513

Of the total of questionnaires distributed, 520 questionnaires were collected, of which 515 were completed on a regular basis. From the viewpoint of the variables used, again, we can say that the size of selection is enough referring the ratio questionnaire-variables. According to Field (2005), there are many rules regarding the amount of selection, but as a general rule, must be at least 10 responses for variable (this rule applies to both regression and factor analysis). Given the fact that were received 515 responses/variables (questions), then the volume of choice is acceptable to carry out analysis (Salant & Dillman 1994; De Vauss, 2002).

In the view of the general rules for the size of the selection (> 50) and the ratio between the size of the selection and variables that exercised factor analysis (> 5) (Hair et al., 1995), we can say that the size of the selection can be considered appropriate .

5.2.3 Field research methods

The study is based on field research. It is used random selection technique while the instrument used for the realization of this method is the questionnaire, distributed directly and through email, that next were analyzed by SPSS. Also, the study was supported in documents published by institutions and organizations surveyed, which were then analyzed by some of the findings.

The data collected in research belong to the period 2013-2015. These data were collected through a questionnaire consisting of 28 questions, with related sub questions. The data collected are processed with SPSS program, which next are encoded, in order to qualify qualitative nature of the questions. Response rates refer Likert Scale as: I completely agree, sometimes disagree, disagree, strongly disagree, and I do not know. The questionnaires are anonymous and are fulfilled by every individual, independently. Their return was made in print or via email.

5.2.4 Reliability and Validity of Questionnaire

The questionnaire method of data collection has its advantages and disadvantages. The main task that arises at this point regarding survey research is its reliability and validity.

Reliability refers repetition and internal stability (Jack & Clarke, 1998). Reliability has to do with whether or not the questionnaire will produce lasting results (the same) at different times and in different panels. One way to verify this feature is Cronbach Alpha coefficient. This indicator uses the correlation between the entities to indicate whether different questions within sections measure the same attribute or dimension (Cortina, 1993; Bryman & Cramer 1997).

The second criteria, the validity, shows the "ability" of the questionnaire to measure what the researcher intends to measure (Bryman & Cramer 1997). Although it is criteria difficult to be measured, its assessment is necessary. In the studies of Bowling (1997), and Rattray & Jones (2007), is noted that there are different criteria that measure the validity of the questionnaire. Content validity refers to the extent to which the questionnaire provides adequate coverage for investigative questions. One way to achieve this is the use of a panel of individuals to assess the questionnaire, but this is only the first step. The validity of the questionnaire content is another test which explains the connection of the units of the questionnaire and their fit with conceptual paper intended to be realized. Factor analysis is a technique which serves to test the validity of content (Bornstedt, 1977; Rattray & Jones, 2007).

To test the validity of the questionnaire is used the "experts panel" method. The questionnaire was pilot tested with a sample of 20 businesses; with a response rate of 55%, with two phases of follow-up of non-respondents.

Contacting companies, in large part, was made directly by contacting the company manager or financier. This approach was chosen to evaluate realistically not only answers but also to see the situation and the environment of the construction business. Representatives of the companies surveyed were asked to evaluate the questionnaire and determine which questions can be kept in the questionnaire, which questions need to be

modified and what should be removed from the questionnaire. The assessment of the survey questions showed that most of the questions were appropriate. There were some changes in the design of the questions and responses; were corrected several alternatives to reflect the recommendations and the problems found during the test phase of the questionnaire. Suggested changes were related to the specific nature of the construction industry but within the main purpose of research, industry analysis and the impact of competitive strategies in performance. The questionnaire does not include details of the technical terms for the diversity of projects that construction firms had in years (projects public/private) and differences in terms of features, the procedure or the final consumer.

From the data collected by these surveys were also calculated Cronbach Alpha coefficients to measure the internal consistency of the questionnaire. Cronbach Alpha coefficients were calculated for questions of industry and competitive strategies. Calculated values exceed the limit of 0.7, indicating consistency of the questionnaire. From the table generated by data SPSS processing program, was observed that the coefficient Cronbach Alpha was 0,876 and the number of units of measurement was 30 (see Appendix 1) among them 16 units that analyze Porter competitive strategies, 6 units regarding the fulfillment of objectives and 8 units regarding the relative performance.

For questions regarding analysis of industry, the coefficient Cronbach Alpha was 0.720, were are included respectively 21 variables (see Appendix 1), classified in competitive rivalry, the competitive dynamic and industry structure.

5.3 THE OPERATION OF VARIABLES

5.3.1 The variables used in the analysis of industry

The variables used for analysis of construction industry (section III of the questionnaire) are those treated in five forces Porter model. As it is mentioned in Literature Review (Chapter II), industry analysis model proposed by Porter, considers five important forces that shape the industry attractivity. For purposes of the study are analyzed:

Competitive Rivalry: In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over

their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

Companies that expressed willingness to complete the questionnaire were asked to express their assessment of the variables regarding industry dynamics and competitive dynamics. To increase effectiveness, in completing the questionnaire each variable used was expressed by an interpretative statement in order to increase the level of understanding and facilitate the completion of the questionnaires.

5.3.2 The variables used in the analysis of value/competitive advantage

One aim of the paper is to determine the role of value and competitive advantage to the success of SMEs in the construction industry in Kosovo. As stated Porter (1985), competitive advantage, is the main meter performances.

On the basis of the literature review, the models reviewed so far about the impact of the external environment, or of value, competitive advantage and performance of SMEs have raised some questions.

The fourth section - contains questions addressed to businesses to determine the impact of several factors (such as innovation, the ability to offer differentiated products, or offering low-cost products, etc.) in the creation of the internal competitive advantage. In the bottom of the questionnaire the respondents can express and their comments and opinions about their businesses.

Competitive advantage as measured by the average of the three factors of low cost, innovation and differentiated products (1- strongly disagree - 5- strongly agree).

5.3.5 The variables used in the analysis of competitive strategies

In this study are addressed Porter competitive strategies, defining each dimension through which to reach the position of low cost, differentiation and focus in the market, adapted to the specifics that offers the construction industry and its impact on organizational performance (section 5 of the questionnaire).

COST LEADERSHIP STRATEGY

1. The emphasis on the provision of raw materials and negotiations for discounts.
2. The emphasis on finding ways to reduce costs (eg, standardizing procedures / or product

specialization)

3. The emphasis on production efficiency (eg. efficiency in the production exterior logistics)
4. The emphasis on maximum utilization of production capacities.
5. The emphasis on competitive pricing (offering lower prices than competitors).
6. Strict general and administrative expenses.

DIFFERENTIATION STRATEGY

1. The emphasis on the development of new products / services / procedures for the adaptation of existing products that better serve customers.
2. The rate of issue of new products / services in the market.
3. The intensity of advertising and marketing.
4. Differentiation by reducing the time of the project.
5. Placing emphasis on the development and training of the sales force
6. The emphasis on creating and identifying by good name and image.

FOCUS STRATEGY

1. Provide unique products in terms of function or design.
2. Target a market share fully defined or specific.
3. Provision of products for that market segment which pays higher prices.
4. Provide specific products tailored to a specific group of customers.

Independent variables: competitive strategies are seen as independent variables, expressed by 16 competitive modes which detail the ways how competitive generic strategies are applied in the company (Kotha & Vadlamani, 1995). Companies that showed willingness to complete the questionnaire were asked to express the degree of implementation of each competitive strategy for a period of 3 years (last 3 years).

Due to the specific characteristics of the construction industry, competitive strategies that SME-s in this industry can use are limited. It is evident that the application of the techniques of innovation (R & D), as a form of product differentiation is very low. It's because construction is a huge industry of small firms (Langford & Male, 2001) and the degree of innovation is very low. An important element of the analysis is the size or volume of the construction project. As mentioned above, competitive ways to break down the strategies of cost leadership, differentiation and focus seem to be standardized regardless of the evolution and application of this theory in years.

Dependent Variables. Measuring the performance of the company remains a very controversial issue, referring to the criteria or measurement units. It is to be noted that the performance of each company translates the degree of realization of the interests of all its stakeholders (Smith & Reece, 1999), therefore the selection of performance indicators depends on the variety of stakeholders or contenders. Some of the indicators that measure performance are: return on investment, return on assets, and return on own capital, the volume of sales, increased employee productivity, growth and management development, etc.

Many scholars in their research, show preference to subjective indicators of performance, due to difficulties in finding and providing financial data (Zulkiffli & Perera, 2011), as well as the confidential nature they represent (Song et al., 2005). Managers often refuse to provide financial data because they feel uncertain how these data will be used. Even if they give information on financial reports, these do not represent the company's current situation (Dess & Robinson, 1984; Sapienza et al., 1988). Beyond the fact that subjective indicators reflect the objective performance of the company (Wall et al., 2004), and enable a good comparison between firms within the industry, the range of time and economic conditions have a high impact on performance (Song et al., 2005).

Referring to the above arguments, the use of subjective performance indicators expressed through the Likert scales (Gliem & Gliem, 2003)] used in this work is no problem in achieving its main goal (section VI of the questionnaire).

Table 17 The difference between subjective and objective performance indicators of company's performance

	SUBJECTIVE INDICATORS	**OBJECTIVE INDICATORS**
Focus	• Focuses the company's overall performance	• Focuses specific financial indicators
Measurement standards	• The sample provides comparative information between years / firms / industries	• The sample provides information on the specific financial statements
Indicators	• Meters are expressed with Likert scales "1-5" or "1-7" • Measurements relative terms	• Measurements absolute terms

Source: Dawes (1999), Wall et al. (2004)Kim (2006b)

Various authors rely on several dimensions for measuring performance. Despite financial indicators such as return on investment, return on assets are conventional indicators of performance measurement, we can say that the non-financial indicators remain equally important (Sirikrai & Tang, 2006). Some of the indicators, widely used for measuring the performance of the company are: the market share (Anderson & Sohal, 1999), customer satisfaction (Sharma & Fisher, 1997), the change in market share (Tracey et al., 1999) overall performance (Anderson & Sohal, 1999; Lau, 2002), quality of service/product, capacity utilization, improving processes, training employees (Venkatraman & Ramanujam, 1986; Murphy et al., 1996). So, the performance of the company is a multidimensional concept.

In the questionnaire, to evaluate the performance were used two indicators consisting of, (1) the fulfillment of objectives and (2) relative performance, which was evaluated with Likert scales from 1-5

For the first dependent variable, the fulfillment of the objectives was asked to evaluate the statements included in the questionnaire by 1-5 Likert scales. As for the second dependent variable, relative performance, was asked to assess the performance of the company during the last 3 years, based on the assessment scale from 1-5. Three-year period is used to avoid short-term variations of each company's performance. (Section VI of the questionnaire)

The fulfillment of objectives					
Improving long-term performance	*1*	*2*	*3*	*4*	*5*
Prediction of future trends	*1*	*2*	*3*	*4*	*5*
Evaluation of alternatives based on the information provided	*1*	*2*	*3*	*4*	*5*
Avoidance of problematic issues	*1*	*2*	*3*	*4*	*5*
Troubleshooting	*1*	*2*	*3*	*4*	*5*
Growth and development of the company's management	*1*	*2*	*3*	*4*	*5*

Relative performance					
Sales growth	*1*	*2*	*3*	*4*	*5*
Profit growth after tax	*1*	*2*	*3*	*4*	*5*
Changes in market share	*1*	*2*	*3*	*4*	*5*
Return on assets (ROA)	*1*	*2*	*3*	*4*	*5*
Return on equity (ROE)	*1*	*2*	*3*	*4*	*5*
Return on sales (ROS)	*1*	*2*	*3*	*4*	*5*
The company's market position.	*1*	*2*	*3*	*4*	*5*

The overall performance of the company and the success achieved.	*1 2 3 4 5*

5.3.4 Methods of data processing

For analyzing the results of collected questionnaires, different methods are used: descriptive statistical analysis of data, analysis of variance (ANOVA), multiple regression and other statistical tests. Data processing was done by SPSS (Statistical Package for Social Sciences). Descriptive and statistical analysis were relied on primary data obtained from questionnaires distributed to construction firms that operate in Pristine district and secondary data, obtained from annual reports and statistics of KAS, IMF, World Bank, Central Bank of Kosovo, and publications about the economic situation of the country in recent years.

Some of the tests and statistical methods used in this study are:

- ✓ Reliability and Validity Test of the questionnaire, tested through Cronbach's Alpha coefficient and Matrix like Inter-Item correlations and Total-Item Statistics;
- ✓ Factorial analysis which helps us to reduce the variables that have a negligible effect on the analysis, considering only significant variables for the study;
- ✓ Descriptive analysis through distribution frequencies and percentages of companies;
- ✓ The correlation between the variables, measured by Pearson correlation coefficient;
- ✓ Multiple regression;
- ✓ Evaluation based on several criteria (parameters) - Multi-Criteria Evaluation.

Ethical views of fieldwork affect the successful implementation of the research. Respondents who participated in the research are informed about the reason of the research. Since the beginning they have been informed about the purpose of the questionnaire. All information provided in the questionnaire are treated as anonymous, ethically and with high confidentiality. Therefore, the ultimate goal of this research is to ensure that the research adheres to the principles of ethical imperative.

CHAPTER VI

DATA ANALYSIS AND INTERPRETATION

In this chapter is reflected a complete statistical analysis, which leads us towards the realization of the main goal of this study, sound analysis of the industry and explaining the impact that competitive strategies have in the firms performance. At the beginning of this chapter we will deal with general information on businesses in the study, followed by analysis of variance (ANOVA) which serves to test the differences in performance. As a result of the strategic orientation that companies use, regression and other multiple statistical tests, which help to see the effects or impact of the variables in our research on the company's performance?

6.1 GENERAL INFORMATION FOR COMPANIES STUDIED

All the studied companies operate within the construction industry. As noted in Table 18, the surveyed companies have different longevity in the industry starting in 1996. By weighting the life of the firms surveyed, we see that the industry is relatively new, 7.7 years. This is due to the high number of newly registered firms in recent years.

Table 18. *Business distribution by year of establishment*

Year	Frequency	Percentage	Cumulative Percentage
1996	5	.9	.9
1997	9	1.8	2.7
1998	9	1.8	4.5
1999	19	3.6	8.2
2000	15	2.7	10.9
2001	24	4.5	15.5
2002	14	2.7	18.2
2003	33	6.4	24.5
2004	44	8.2	32.7
2005	15	2.7	35.5
2006	38	7.3	42.7
2007	15	2.7	45.5
2008	50	10.0	55.5
2009	46	9.1	64.5
2010	55	10.9	75.5

2011	61	11.8	87.3
2012	33	6.4	93.6
2013	22	4.5	98.2
2014	8	1.8	100.0
Total	515	100.0	

Source: Processed by author

From the total of surveyed companies, it resulted that 201 of them (39.1%) are companies with fewer than 10 employees. Most companies, 55.5%, have 10-49 employees and only 5.5% of companies surveyed stated that the number of employees was between 50-249 employees. One of the main reasons for the high number of construction companies, registered as a small or middle business is the subcontracting of works from other companies that offer specialized services for various works as ground excavation, masonry, sewerage and drainage area land and buildings, etc. Table 19, reflects the distribution of businesses by number of employees.

Table 19 *Distribution of businesses by number of employees*

Number of employees	Frequency	Percentage	Cumulative percentage
Up to 9 employees	201	39.1	39.1
10-49	285	55.5	94.5
50-249	19	5.5	100.0
Total	515	100.0	

Source: Processed by author

Based on statistics[1] Kosovo's private enterprise sector is very much concentrated in the Pristine region. Approximately, 35% of the country's businesses and more than 50% of people employed are located in and around the capital. The shares of employment of the other six regions varies between about 8% (Mitrovica), 15% (Prizren) about 7% (Gjakova) and almost 12% (Prizren). Companies selected in the study have a geographical distribution, proportional with the distribution of businesses nationwide. Most firms perform their activity in the Pristina region (40%), while 10% operate in the area of Mitrovica, and 20% in Prizren.

[1] Report on states of SME-s in Kosovo 2014, Thomas Oberholzner, Austrian Institute for SME Research

Table 20. *Distribution based on the region where the company operates*

Location	Frequency	Percentage	Cumulative percentage
Prishtine	153	30	30
Mitrovica	52	10	40
Prizren	104	20	60
Gjilan	52	10	70
Gjakova	51	10	80
Peja	52	10	90
Ferizaj	51	10	100
Total	515	100.0	

Source: Processed by author

Table 21 reflects the distribution of the companies according to construction projects included in their portfolio. It is noted that most of the companies are occupied in housing residences (houses and tourist villas). Only 4.5% of them belong to infrastructure projects (reconstruction of schools, hospitals, drainage, and street). While 20.9% of the companies surveyed include combinations of projects, regardless of the specifics of each of them.

Table 21. *Types of projects in company's portfolio*

Type of project	Frequencies	Percentage	Cumulative percentage
✓ Infrastructure (drainage, sanitation, roads, tunnels, bridges, airports)	25	5	5
✓ Housing residences (houses, tourist villas)	383	74	79
✓ Combinations of construction projects	107	21	100.0
✓ Total	110	100.0	

Source: Processed by author

In completing the questionnaire participated, 72.9% in the position administrator and 27.1% in the position of finance manager.

6.2 DESCRIPTIVE ANALYSIS OF THE VARIABLES OF EXTERNAL AND INDUSTRY ENVIRONMENT

6.2.1 Analysis of External Environment

How attractive is the external environment of the construction industry in Kosovo?

In addition to the main purpose of this paper, descriptive analysis was used for the ranking and the evaluation of the impact of external factors on the construction industry. The questionnaire includes several sections of questions which assess the impact that changes and developments of the external environment have in the construction industry. Through this set of questions are required to assess the impact of external macroeconomic, political and legal, socio-cultural and technological environment, from the viewpoint of mitigating factors or barriers in exercising the activity.

1. Based on the Likert's scales of 1-5 (1 = not important, 2 = less important, 3 = moderately important, 4 = important, 5 = very important), answers of the companies that participated in completing the questionnaire are processed in table 22. In the opinion of respondents, economic factors with the greatest impact are the available incomes and differences in the propensity to buy (median equal to 5), followed by changes in interest rates and changes in the exchange rate (median 4 and 3 respectively).

Table 22. *The impact of several macro-economic factors involved in questionnaire*

Changes in macro-economic environment	Mean	Median	Standard Deviation	Coefficient of Variation
Changes in tendencies to buy	4.49	5.00	0.723	0.163
Changes in exchange rates	3.15	3.00	1.233	0.391
Changes in interest rates	3.53	4.00	1.179	0.334
Income available	4.37	5.00	0.776	0.178

Source: Processed by author

2. The same analysis was done for variables of political-legal environment, measured by Likert's scales from 1-5. We note that the factors with the greatest impact during the changes that have occurred recently in the environment that regulates the activity of construction firms are: (1) the time to be spent by executives of the

construction firms for different applications in state institutions (procurement, building permit) (median 5:00), and (2) the impact of correct interpretation of laws and regulations, (3) the impact of changes in the laws regulating competition and market, (4) the impact of the violations they face in obtaining permits construction, (5) lack of the urban regulatory plans and urban planning law (median 4.00).

Table 23 *The impact of some of the legal and political factors*

Changes in political-legal environment	Mean	Median	Standard Deviation	Coefficient of Variation
✓ The impact of changes in the laws regulating competition and market	4.01	4.00	0.991	0.247
✓ The impact of changes in the laws regulating the labor market	3.42	3.00	0.783	0.229
✓ The impact of changes in Public expenditures	2.62	3.00	1.109	0.423
✓ The impact of changes in the laws regulating foreign trade	2.05	1.00	1.340	0.653
✓ Impact of correct interpretation of laws and bylaws	3.79	4.00	1.059	0.279
✓ The time to be spent by executives of the construction firms for different applications in state institutions (procurement, building permit)	4.49	5.00	0.810	0.180
✓ The impact of the violations they face in obtaining building permits	4.05	4.00	0.962	0.237
✓ Lack of the urban regulatory plans and urban planning law	3.94	4.00	1.111	0.282

Source: Processed by author

3. Referring to the social-cultural factors we used two of the variables associated with the degree of change in the investment preferences by individuals and demographic changes, age and population growth. From the analysis of the results we see that the two variables in our research are equally important.

Table 24 *The impact of some of the social and cultural factors*

Changes in the social cultural environment	Mean	Median	Standard Deviation	Coefficient of Variation
The impact of changes in investment preferences	3.78	4.00	0.913	0.242
The impact of demographic changes, age and population growth	3.65	4.00	0.904	0.247

Source: Processed by author

4. It is noticed a significant improvement in the area of investments made for the technological environment. Conducting business electronically, as a form of the business organization. These environmental factors have influenced the awareness of Kosovo businesses to increase investment flows in technology, using innovative services to facilitate contacts and assist in the expansion of business activity worldwide.

5. Based on the Likert's scales from 1-5, the answers of the companies that participated in completing the questionnaire are processed in Table 25. In the opinion of respondents, the ranking of technological factors included in the study is, (1) the impact that changes have in the developments of new production technologies (median 4.00), (2) The impact that changes have in the internal applications in IT field and (3) the impact that technological changes have in the development of electronic commerce (median 3:00).

Table 25 *The impact of some technological factors involved in questionnaire*

Changes in technological environment	Mean	Median	Standard Deviation	Coefficient of Variation
The impact of technological changes and the development of electronic commerce	2.88	3.00	1.139	0.395
The impact of changes and developments of internal applications in the field of IT	2.90	3.00	1.083	0.373
The impact of changes and developments of new production technologies	3.66	4.00	1.069	0.292

Compared with other factors involved in the analysis of the external environment (PEST) it seems that the consent for (expressed in the impact of factors on the development of construction activity) is more present in the economic and law environment variables. This conclusion is easily understandable by comparing respective median and average values of each factor.

The comparative analysis of external environmental factors is presented in Table 26. Besides comparing the average value, median and standard deviation, in the analysis of the external environment are compared the values of the specific weight of each factor to total factors used

Table 26. *Numerical features estimated for each external environmental factor*

	Factors of external environment	Mean	Median	Mode	Std. Deviation	Min	Max	Specific weights
Ekonomik	**The impact tha have changes in tendencies to buy**	**4.49**	**5.00**	**5**	**.723**	**1**	**5**	**0.074**
	The impact tha have changes in exchange rates	3.15	3.00	4	1.233	1	5	0.052
	The impact tha have in interest rates	3.53	4.00	5	1.179	1	5	0.058
	The impact tha have changes in incomes available	**4.37**	**5.00**	**5**	**.776**	**1**	**5**	**0.072**
politiko ligjor	**The impact of changes in the laws regulating competition and market**	**4.01**	**4.00**	**5**	**.991**	**2**	**5**	**0.066**
	The impact of changes in the laws regulating the labor market	3.42	3.00	4	.783	2	5	0.056
	The impact of changes in Public expenditures	2.62	3.00	3	1.109	1	5	0.043
	The impact of changes in the laws regulating foreign trade	2.05	1.00	1	1.340	1	5	0.034
	Impact of correct interpretation of laws and bylaws	3.79	4.00	4	1.059	1	5	0.062
	The time to be spent by executives of the construction firms for different applications in state institutions (procurement, building permit)	**4.49**	**5.00**	**5**	**.810**	**2**	**5**	**0.074**
	The impact of the violations they face in obtaining building permits	**4.05**	**4.00**	**4**	**.962**	**1**	**5**	**0.067**
	Lack of the urban regulatory plans and urban planning law	**3.94**	**4.00**	**4**	**1.111**	**1**	**5**	**0.065**
Social	The impact of changes in investment preferences	3.78	4.00	4	.913	1	5	0.062
	The impact of demographic changes, age and population growth	3.65	4.00	4	.904	1	5	0.060
teknologjik	Impakti që kanë ndryshimet teknologjike dhe zhvillimi i tregëtisë elektronike	2.88	3.00	2	1.139	1	5	0.047
	Impakti që kanë ndryshimet dhe zhvillimet e aplikacioneve të brendshme në fushën e IT	2.90	3.00	2	1.083	1	5	0.048
	Impakti që kanë ndryshimet dhe zhvillimet e teknologjive të reja të prodhimit	3.66	4.00	4	1.069	1	5	0.060

* *Specific weights are calculated as a ratio of the average of factor Xi, of the total averages of the factors that take part in the study*

It is noted that the factors with the highest impact are: (i) changes in tendencies to buy by customers (ii) the time to be spent by executives of construction firms for different applications in state institutions (procurement, construction permits) (iii) changes in the individual incomes available, (iv) difficulties and the impact of the violations they face in obtaining building permits, (v) the impact that have changes in laws that regulate competition and the market in which the company operates, (vi) lack of urban regulatory plans. While the factors with lower impact compared to others are: changes in technology and the development of electronic commerce and changes in laws governing foreign trade.

In the context of the analysis of external environment, companies were asked about the factors that hinder the activity and performance of the company towards achieving the objectives and performance required.

Financial problems and a lack of liquidity remains the main limiting factor in construction activity. This is considered as a limiting factor in a significant number of companies. From the respondents, are named 281 times as deterrent, financial problems and lack of liquidity. However, the survey results report that the restriction or difficulty these companies are facing, is related to administrative and legal obstacles, such as unfair competition and informal market and the procedure to request a building permit. Another limiting factor stated is, inability to provide loans from financial institutions. Many construction companies are registered and categorized as small and medium, which appears with more risk than large companies or corporations. Moreover, the decline in demand and sales related to the construction sector, makes it less reliable by banks.

Two other factors, that are stressed out from construction firms are lack of demand and incorrect implementation of procurement law. Lack of demand by households refers to available income, living standards and reducing public investment. Also, procurement law and "favoritism" of some of the companies compared to others is the first concern for companies operating in this industry.

6.2.2 Analysis of Industry Environment

1. What are the stages of development of this industry?
2. What is the source of competition and dynamics of the industry?

P1 - INDUSTRY DYNAMICS. In the construction industry like any other industry which today operates in terms of dynamism and complexity of the external environment (K`Obonyo, 2004; Davis et al., 2009), it is necessary to analyze the factors which measure the extent and frequency of change of its constituent elements. Variables included in the group dynamics of the industry are:

- ✓ *Market growth in which industry operates. The extent to which the company's total sales are increased year after year. If the growth of industry is small the struggle between existing companies to increase market share is harder.*
- ✓ *Expected market growth. Growth trends of the market where construction companies operate;*
- ✓ *New entrants in the industry. The total number of new companies that have entered each year in the construction industry;*
- ✓ *Exits from the industry. Number of firms which have closed construction activity in recent years.*
- ✓ *The balance of inflows and outflows. The difference between the number of new firms and firms that had shut down business activity.*
- ✓ *Degree of uncertainty about future developments. Uncertainty regarding future demand and its variation from year to year makes it difficult to forecast developments in the industry.*
- ✓ *Frequent change of customer's requirements. The needs of customers have changed a lot in recent years referred to report quality-quantity, the number of objects (real estate) in their ownership, location of the construction facility within the urban area or in the suburbs, the duration of the project and completion deadlines.*

P2 - COMPETITIVE DYNAMICS and variables included in this group refer to the changes company undergoes in organizational structure, cost structure, new

investments planning, being influenced by the competing companies and new entrants. These include:

- ✓ *The rate of change due to the organizational structure, which refers to the speed of decision-making and flexibility of companies to change the structure of the company due to the changes in market.*
- ✓ *The rate of change due to legislative constraints, which refers the company reaction toward changes in legal framework.*
- ✓ *The rate of change due to the cost structure refers to the reaction of existing companies in the industry compared with new entrants toward total cost function.*
- ✓ *Aggressive responses of existing firms toward new entrants through special offers and discounts.*

P 3- COMPETITIVE RIVALRY. One of the main forces in Porter's model on the analysis of the industry is competitive rivalry. It is important for firms to increase their knowledge and understanding of the degree of competition within the industry. In this way, competitors test each other's strength, struggle for dominant positions and use their resources to gain competitive advantage (Kume, 2004) in order to be much more profitable and durable on the market. Variables that present high intensity of competition in the construction industry are:

- ✓ The concentration refers to the dominance of the majority of the market/sales by a small number of firms. This variable refers to the concentration, or the concentration of sales in one or a few companies.
- ✓ The number of competing firms affects the size of competitive rivalry. If competitors are few in number or almost equal in size, firms are more attentive to the movements of rival companies.
- ✓ Heterogeneity of products. Many individuals choose to buy a product depending on location, price, after-sales service, variation in choice, etc. More homogeneous product/service presented among companies, the more severe become competitive rivalry to generate sales and profits. Products which have different characteristics from rival companies tend to weaken the competitive rivalry because of

differentiation and have the luxury to decide the price that justifies the quality or the distinguishing features of the product/service.

- ✓ The heterogeneity of companies that make up the industry. The heterogeneity or diversity of companies is expressed not only in terms of profit (on sales, on investments, on assets or on equity) and productivity but also depends on the strategies selected to compete rivals in the industry. Companies that operate in a particular industry have different ideas on competition and the strategies they choose to compete. Many firms look at competitors as a stimulus for development opportunities by creating competitive advantage through innovation. Like, there are companies that want to "destroy" their rivals by reducing the number of firms and taking their market parts.
- ✓ Cost of labor. Often during the analysis of the industry, we have learned to appreciate the competitive rivalry in terms of higher fixed costs. High competition and aggressive rivalry between firms almost justifies the large amount of output which absorbs the impact of fixed costs by spreading it to a larger number of units produced. But in the construction industry the most part of the total cost is made of labor cost, without leaving aside the cost of other inputs.
- ✓ Gross profit. In order to realize high profits, companies within the industry encourage imitation strategies of the competing companies for being equally successful.
- ✓ The degree of diversification refers to the expansion of firms activities beyond the product/service and the current market. Already it is known that as a business strategy, diversification helps the firm growth, the better use of investment and the stability of earnings. Despite economic growth that brought the construction industry, reflecting fluctuations and the effects of the economic downturn are seen as strong motives for diversification by construction firms.

Table 27 presents the summary of variables used to measure the competitiveness and dynamics of the construction industry, as measured by Likert scales based on the valuation of 1-5 (1 = not at all disagree to 5 = strongly agree).

Table 27. *The factors of industry and competitive dynamics of company*

Industry dynamics	Competitive rivalry	Competitive dynamics
Market growth The expected market growth. New entrants in the industry. Exits from the industry. The balance of inflows and outflows. The degree of uncertainty about future developments Customer loyalty. Changing customers' needs.	Concentration Number of firms competing. Heterogeneity of companies that make up the industry. Heterogeneity of products The dominance of differentiation strategies over those of cost leadership. Cost of labor Gross profit The degree of diversification	Change ratio due to organizational structure The rate of change due to legislative restrictions The rate of change due to the cost structure Aggressive responses to existing firms. Introduction of new products. Investment in new assets.

Companies that show readiness to complete the questionnaire were asked to express their appreciation of 1-5 (1 = not at all disagree to 5 = strongly agree), for the variables used to analyze the environment of the industry. To increase effectiveness in filling in the questionnaire, each variable used was expressed by an interpretative statement to increase the level of understanding and facilitate completion of the questionnaire.

A necessary next step is finding the values V (Pi). The calculation of each parameter is realized by the following formula:

$$V(P_i) = \sum_{i,j=1}^{n} [W_{ij} x V(P_{ij})] \qquad (3)$$

Where $V(P_i)$ = the finding value of each parameter Pi, $i=(1,2,3,4,5,6)$

W_{ij} = Specific weight of each sub variable j, of the parameter *i*, $j=(1,2,3.....7)$

$V(P_{ij})$ = value (sum) of each sub variable j, of the parameter *i*.

Necessary information for the realization of formulas (2) and (3) is finding values for each sub variable Pij, and the specific weight of each of them. Specifically, from the scoreboard (in SPSS) was calculated for each variable the sum of each variable Pij. This value [sum (1)] is the aggregate value obtained from the sum of each assessment done by

each company. Specific gravity is calculated from the formula:

$$Relative\ weight\ P_{ij} = \frac{Sum\ P_{ij}}{Total\ value\ P_i} \qquad (4)$$

[for example: W_{11}=422/2473=0.171, W22=421/2974=0.142]

Based on the formula (3), we found values for each parameter. Results obtained are generated by weighting the value of each sub variable Pij, with specific relative weight. The values for each parameter are respectively V(P_1) =383.56, V(P_2) = 425.50, V(P_3) =384.29, V(P_4) =341.391, V(P_5) =392.07, V(P_6) =355.88.

Table 28 *Calculation of the index in the second level* ***(sub variables)***

Parameters		**Sub variables**	***(1)*** ***$SumP_{ij}$***	***(2)*** ***W_{ij}***	***(3) V(Pi)***
					V(P_1)
P_1 Industry dynamics	1	P_{21} –market growth.	348	0.138	47.89
	2	P_{22} –expected market growth.	421	0.166	70.08
	3	P_{23} –new entrants in industry.	412	0.163	67.12
	4	P_{24} –industry exits.	413	0.163	67.45
	5	P_{25} - the degree of uncertainty about future developments.	480	0.190	91.10
	6	P_{26} –changes in customer demand.	455	0.180	81.86
			2529	1.00	**425.50**
					V(P_2)
P_2 Competitive rivalry	1	P_{31} -concentration.	320	0.124	39.75
	2	P_{32} –number of competing firms.	445	0.173	76.87
	3	P_{33} - heterogeneity of companies that make up the industry.	328	0.127	41.76
	4	P_{34} - the dominance of competitive strategies on those of prices.	462	0.179	82.86
	5	P_{35} -labor cost.	223	0.087	19.30
	6	P_{36} -gross profit.	386	0.150	57.84
	7	P_{37} -the rate of diversification.	412	0.160	65.89
			2576	1.00	**384.29**
					V(P_3)
P_3 Competitive dynamics	1	P_{41} the rate of change of the company due to the organizational structure.	218	0.113	24.624
	2	P_{42} - the rate of change of the company due to legislative restrictions.	272	0.141	38.334
	3	P_{43} - the rate of change of the company due to cost structure..	244	0.126	30.848
	4	P_{44} –aggressive responses of existing firms	380	0.197	74.819
	5	P_{45} –introducing new products.	392	0.203	79.619
	6	P_{46} –investments in new assets.	424	0.220	93.148
			1930	1.00	**341.391**

Once we found the values of each parameter obtained in the study, the industry dynamics, competitive rivalry and competitive dynamics, a step that follows the procedure of calculating the index of attractiveness {formula (2)} is the weighting of each variable (1) with specific weight (2). The calculation of specific weights for each variable Pi is the same as the calculation of specific weights for each sub variable Pij, calculated on the first step.

The greater the power of the factor, the lower the expected profitability. We conclude that the construction industry is a dynamic industry, with a high rate of competition.

Table 29 *Calculation of the index on the first level*

Parameters	**(1)** **V(Pi)**	**(2)** **Specific weights**	**(3)** Weighting
P 1 Industry dynamics	425.50	0.19	79.31
P 2 competitive rivalry	384.29	0.17	64.69
P 3 competitive dynamics	341.39	0.15	51.06

6.2.3 Validity and reliability analysis

To assess the reliability of the questionnaire, Cronbach Alpha coefficient was used, which resulted in values allowed (Nunnaly, 1978). Besides coefficient of reliability, in the analysis is also included factor analysis as a technique that is used to determine the validity of the construct (Bornstedt, 1977; Rattray & Jones, 2007) and explains the connection of units of the questionnaire, with the structure of the conceptual paper sought to be realized.

Validity and reliability analysis was conducted for two main parts of the study; (i) competitive advantage/creating value and (ii) implementation of competitive strategies in the industry.

For the variables studied in the analysis of the relationship competitive advantage/creating value, the coefficient Cronbach Alpha is 0.720, where are included respectively x variables (see Appendix 3). The calculated value exceeds the limit of 0.7, indicating consistency of the questionnaire allowing us to continue with the factor analysis.

In addition, factor analysis is performed, which includes the analysis of the components and the common factors. Its purpose is to reveal the simple structure in the structure of the relationships between variables. In particular, the analysis seeks to discover whether the variables can be completely described by a smaller number of variables, called factors.

Performing factor analysis is based on the principal components analysis (CPA) and the Varimax method of maximizing the variance, so that the results are easily interpretable.

To assess the reliability of the questionnaire, the second half, generic competitive strategies and the degree of implementation, Cronbach Alpha coefficient resulted within the allowed values> 0.7 (Nunnaly, 1978). In the table 30, is given the coefficient of reliability of the units used for competitive strategies according to Porter.

Table 30. *Coefficients of reliability and performance for competitive strategies*

	N	Questions - Evaluation declarations	**Cronbach Alpha**
Cost leadership strategy	110	6	0.735
Differentiation strategy	110	7	0.735
Focus strategy	110	3	0.745
Objectives fulfillment	110	6	0.720
Relative performance	110	8	0.932

Competitive strategies, low cost, differentiation and focus were measured respectively by 6, 6 and 4 variables each. For this reason, each strategy underwent factor analysis to reduce and simplify the number of variables that participate in further analysis. All the factors of cost leadership strategy showed weight factor greater than 0.4. This set of variables explained 62 961% of the total variance and Eigen-value ratio for this component is greater than 1 (Table C.13 / annex). Furthermore the value of KMO and Barletta test shows that the size of choice, is sufficient ($p < 0.005$).

At the same factorial analysis, we analyzed all the factors of *differentiation strategy* and *focus strategy*, which demonstrated the weight factor greater than 0.4 (Table C.14 and C.15 / annex). This set of variables explains respectively 66 483% and 60 784%

of the total variance and Eigen-value ratio for this group is greater than 1. In addition the value of KMO and Barletta test shows that the size is of choice sufficient ($p < 0.005$).

6.2.4 The correlation among the variables used

Before being investigated the authenticity of the hypotheses through statistical methods, a problem which affects the reliability of results is correlative analysis and 'multicolinearity' of variables. Multicolinearity happens when one independent variable is highly correlated to one of the variables, or a group of the other independent variables (Geralis & Terziovski, 2003). His presence could lead to incorrect conclusions about the fact that which of the independent variables is statistically significant (Lind et al. 2002). To assess multicolinearity, the correlation tables were constructed for the independent variables. The presence of high values of correlation is the first sign of the presence of multicollinearity (Geralis & Terziovski, 2003). According to Field (2009), if the variables have high correlation coefficients ($r > 0.8$ or $r < -.8$), then, "is impossible to determine unique impact on a certain factor, because of high impact that these independent variables have to each other. "

Correlation analysis was conducted for the variables included in the analysis of the industry, for the variables involved in the implementation of competitive strategies and the impact on company performance. None of the correlation values results outside these limits (see Appendix B-1, Appendix B-2), therefore was continued with further analysis

6.3 ANALYSIS AND VERIFICATION OF HYPOTHESES

As mentioned in the preceding paragraphs, to analyze the data collected by questionnaire, were used statistical methods that help prove the hypotheses that have been raised in this study.

6.3.1 Value and competitive advantage

A research question that needs to be answered is: *is the value, one of the most important competences of the company to create a competitive advantage?* To answer this question should be proved the following hypothesis.

> ***H*$_1$** – *Creating value is one of the most important competencies to create competitive advantage.*

To prove this hypothesis and to answer the research question presented above is used multiple regression analysis, where as the dependent variable we have the competitive advantage and as independent variables we have the variable "value" and the next independent variable "intangible resources ".

According to Webster Online Vocabulary (2012), intangible resources are defined as factors that influence decisions, but that cannot be expressed in monetary terms. These resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge of the other factors controlled by a company, which allows it to conceive, implement and improve the efficiency and effectiveness.

According to Woo, H.K (1992), the value is equivalent to the amount of utility that customers see. The economic value is simply the difference among benefits received by a customer who buys products or services of a firm and the full cost of these products and services (Barney & Hesterly, 2010).

The size of the firm's competitive advantage is the difference among the economic value that a company is able to create, and the economic value of its rivals (Barney & Hesterly 2010).

The correlation coefficient between these independent variables is acceptable to proceed further with the regression analysis.

$$\hat{Y} = b_0 + b_1X_{1+}b_2X_2 + \ldots\ldots + bnXn + \varepsilon_i$$

By multiple regression analysis it results that both variables are statistically significant. Among these two variables the greatest impact has the independent variable "value", that has a coefficient of standardized (B1 = 0.461), higher than the standardized coefficient of independent variable, "intangible resources" (B2 = 0.214.) The test ANOVA showed the value of F (2,457) = 113.387 and p = 0.00, which means that at least one of the variables is significant to the control level (0.05), because in this case we have p = 0,000 that is less than 0.05. So, two independent variables explain 33% of the

variation in the dependent variable, "competitive advantage" and we can say that this is not the result of chance R2. The assessment that is made by the statistical test t, in order to check individual coefficients of regression gives the same result (t1 = 11.194 and p = 0.000, t2 = 5.192 and p = 0.000) so these coefficients are different from zero, that means that they have a significant contribution in this model.

Through multiple regression equation we can express the relationship among the dependent independent variables.

Table 31. *Questions used to measure intangible resources factor*

(Method used: principal components analysis with Varimax rotation)

Questions about factor intangible resources	weight factor
	Factor 1, Factor 2
The ability to create high quality products & services	0.649
The ability to transmit knowledge	0.656
The ability to communicate value	0.739
Trust and goodwill of the company	0.795
Ability to access and use the culture	0.789
Flexible organization	0.771
The organization planned, formal and non-formal	0.774
Technology	0.679
Abilities, skills and training to work	0.790
Ability to use software	0.745
Opportunities, the distinctive skills and competencies	0.768
The ability to analyze and predict	0.754
Value created by management	0.845
Value created by information	0.870

For the first factor "intangible resources", resulting factorial weights higher than 0.4 and they lie in the range from 0.664 to 0.832. In Table 6.2.3 are the results of this analysis. For the factor "intangible resources", is done the assessment of the reliability of these 12 questions, where resulted Conbrach alpha = 0.933, which is an extremely high coefficient of reliability. So factor "intangible resources was measured as the average of twelve questions.

The second factor "value" was measured as the average of two questions after is done the factor analysis, and then reliability test. By factor analysis, are identified two

questions with higher weight factor (see Table 32). We say that 77.29% of the total variance is explained by the variation of factor 'value'.

The analysis of reliability which is used to measure the durability and reliability, the coefficient which evaluates how items are associated with each other, Cronbach alpha = 0705 (by Hair et al, 1998) is acceptable.

Table 32. *Questions used to measure factor "value"*

(Method used: principal components analysis with Varimax rotation)

Questions for factor 'value'	***Weight factor***
Value created by management	0.879
Value created by information	0.879

Note: All questions are measured from the least significant 1- to 7 - the overwhelmingly important.

Table 33. *Multiple regression analysis for the variable "Competitive advantage"*

Model	**R^2**	**R^2 i regulated**	**Value t**	**p**
	0,332	0,329		
(constant value)			4,911	0,000
Value			11,194	0,000
Intangible resources			5,192	0,000

$$\hat{Y} = \beta_0 + \beta_1 x_1 + \beta_2 x_2$$

Where:

$\hat{Y}$ = dependent variable, "competitive advantage"

x_1 = independent variable "value"

x_2 = independent variable "intangible resources"

"Competitive advantage" = 0.993 + 0,461"value" + 0,214 "intangible resources"

As we see from the multiple regression equation, and the standardized coefficients β, regression coefficients are positive, which means that an increase in the variable "value" will cause the increase in the dependent variable " competitive advantage", and also an increase in the independent variable "intangible resources", will cause an increase in the dependent variable "competitive advantage". This means that more value is created or more intangible resources the firms have, much more possibility would be to create competitive advantage.

In this way we can say that the hypothesis H1 is proved showing that the value is one of the most important competences to competitive advantage.

6.3.2 Performance and competitive advantage

Another research question was raised: Does competitive advantage impact performance? To answer this question we have formulated the following hypothesis:

> ***H2:*** *The performance is positively associated with competitive advantage and vice versa.*

Hypothesis, which seeks to assess the relationship between the dependent variable "performance" and the independent variable "competitive advantage". The analysis shows that this variable is significant, F (1.458) = 218.248. The result shows that this variable explains 32.3% of the variance of the dependent variable.

Table 34 *Multiple regression analysis for the dependent variable "Performance"*

Model	R^2	R^2 i regulated	Value t	P
	0,323	0,321		
(Constant value)			2,335	0,000
Competitive advantage			0,568	0,000

$$\hat{Y} = \beta_0 + \beta_1 x_1$$

Where:

$\hat{Y}$ = dependent variable, "performance"

x_1 = independent variable "competitive advantage"

"Performance"= 2,335+ 0,568 "competitive advantage"

The coefficient of independent variable, "competitive advantage", is positive. That means that an increase in the independent variable "competitive advantage", leads to increase in value of the dependent variable "performance". An increasing competitive advantage positively affects performance.

In this way we can say that the hypothesis H2 is proved showing that the performance is positively associated with competitive advantage.

6.3.3 Competitive strategies and SME-s performance

As mentioned in the preceding paragraphs, to analyze the data collected through questionnaires, were used statistical methods of the analysis of variance (ANOVA) to test the difference in performance due to the strategic direction of the firm, as well as multiple regression analysis to test the effects of each strategy chosen on company performance.

Hypotheses raised, referred to the strategic orientation (competitive strategies) and performance are:

H3: ***T****here is a positive relationship between the implementation of competitive strategies (cost leadership, differentiation and integrated strategy) and SME-s performance.*

H 3a: SME-s that implement integrated strategies (low cost & differentiation) have a higher performance than firms which implement only cost leadership strategy.

***H* 3b:** SME-s that implement integrated strategies (low cost & differentiation) have a higher performance than firms that only implement the differentiation strategy.

***H* 3c** SME-s that implement one of competitive strategies (cost leadership, differentiation and integrated strategy) have a higher performance than firms which implement the strategy "stuck in the middle".

Based on the analysis of independent variables (see paragraph 5.3.1, The variables used in the analysis of competitive strategies), is observed that the strategy of cost leadership, differentiation and focus strategy are expressed respectively by 6, 7 and 3

variables measured by Likert scales from 1-5. Each of these variables is a possible way in which companies develop differentiation, cost leadership or focus.

Due to the number of the variables for each strategy, it is necessary to simplify the analysis by creating a non-metric variable which serves to represent strategies, low cost, differentiation, combination (integration strategies) and stuck in the middle strategy. The realization of this variable was made possible by finding the average of the results for each set of variables from each company that took part in the study. All values collected for each of the variables of the cost leadership and differentiation are averaged to understand the strategic positioning of each company of the study.

The firms, for which the factors of cost leadership strategy resulted over the average (simple average) and differentiation strategy factors resulted below the average were called 'the cost leadership companies'.

Firms, for which the factors of cost leadership strategy resulted below the average (simple average) and differentiation strategy factors resulted over the average, were called 'differentiating companies'.

Firms that score above average, respectively, cost and differentiation factors, were called companies with combining competitive strategies.

While companies, for which the results of the low cost strategy and differentiation resulted under the average value were called 'confused' companies about the strategic orientation (stuck in the middle).

Distribution of companies by each group was as follows:

Table 35. *Distribution of companies according to strategic orientation*

Strategy	Percentage	Cumulative percentage
1. Combination (Integration)	36.4	36.4
2. Low cost	29.1	65.5
3. Differentiation	22.7	88.2
4. Stuck in the middle	11.8	100

Referring the distribution of companies among the 4 groups, variance analysis was conducted by comparing the performance of each strategic group versus dependent

variable "company performance". Analysis of variance was repeated several times against performance measures: (i) the fulfillment of the overall objectives, (ii) return on equity, ROE, (iii) return on sales, ROS, (iv) the overall performance of the company.

6.3.3.1 Regression analyzes about the relationship between performance and competitive strategies

To prove the third hypothesis (H3), a multiple regression was used. By this hypothesis is required to explain the relationship that exists between generic competitive strategies and performance of the company.

From the table 36, we see that R^2 is equal to 0,652 (say, 65.2% of the dependent variable in the model is explained by the choice of competitive strategies). This result is satisfactory and shows that a significant proportion of the variance of the dependent variable "overall performance of the company", is explained by independent variables, respectively integrated strategy, differentiation and low cost. Although R^2 is a general indicator of the strength of the connection of variables included in the model, it does not reflect the degree of connectivity of each independent variable with the dependent variable. This connection is explained in the summary table of the coefficients (Annex 4).

To assess whether this was a valid regression model, ANOVA analysis was undertaken. According to the values shown in the table 36, coefficients before each independent variable are not equal to zero, which means that the impact of generic competitive strategies in the company's performance is not negligible. This is confirmed by the statistical indicator F, with degrees of freedom k (the number of independent variables) and n-k-1. So, the critical value of F (3, 106) = 2.69. In our model, the value F = 66 225> 2.69 resulted in significant level of control, 0.05 (because p = 0,000 is less than 0.05).

As a result, the value of R^2 equal to 0,652 is not the result of chance and independent variables are 'able' to explain variation in the dependent variable.

In a similar conclusion leads us the statistical values for the coefficients of the regression control, showing that these coefficients are different from zero and significant (sig. <0:05). H3 hypothesis is accepted. Beta coefficients of the independent variables -

integrated competitive strategy, differentiation and low cost (Table 36) have positive value and contribute significantly in the model.

Table 36. *Regression analysis of multiple variables and the impact of competitive strategies in the dependent variable "overall performance"*

Model		Unstandardized Coefficients		**Standardized Coefficients**	t	**Sig.**	Collinearity Statistics	
		B	Std. Error	**Beta**			Tolerance	VIF
1	(Constant)	**2.846**	.124		22.868	.000		
	Integrated	**1.979**	.143	**1.275**	13.812	**.000**	.385	2.594
	Cost	**1.748**	.148	**1.063**	11.841	**.000**	.407	2.455
	Differentiation	**1.714**	.153	**.962**	11.169	**.000**	.443	2.259

a. *Dependent Variable: overall performance and success achieved*

In the summary, tables in Appendix 5.1, 5.3, are listed indicators of multiple regression analysis for the dependent variables, "assessing the performance of the company by return on sales (ROS) - the percentage of profit on sales" - and for the dependent variable "performance rating of the company by return on sales (ROA) - the percentage of profit on assets". We note that the model built is valid. In our model, the value F = 51 449> 2.69 resulted significant with control level 0.05 (because p = 0,000 is less than 0.05). As a result the value of coefficient R^2 = 0.593 is not the result of chance; *independent variables are 'able' to explain variation in the dependent variable*.

Based on the model built, statistical values 't', to control regression coefficients, show that these coefficients are different from zero and significant (sig. <0:05). *H3 hypothesis is accepted*. Beta coefficients of the independent variables - integrated competitive strategy, differentiation and low cost have a positive value and significant contribution in model.

To investigate the authenticity of hypotheses H31, H32 and H33 which explain the performance gap among the companies grouped under strategic orientation, was used analysis of variance among the groups, One-Way Anova.

In the model built, which resulted significant in terms of the positive relationships between competitive strategies and dependent variable, "performance of the company", the test Post Hoc helped us to understand the difference among the performance

expressed in objective terms (ROE, ROS, ROA) and subjective terms (the realization of the objectives and overall performance), depending on the strategic orientation.

In this way, the analysis of variance according to post hoc test was repeated several times depending on the indicators used to measure the variable "performance" by keeping unchanged the error coefficient $\alpha = 0,05$. Referring independent variables (competitive strategies), at this point of comparative analysis it is necessary to establish a non-metric variable (dummy variable), which summarizes in a single group, all companies according to the characteristics shown in completion of the questionnaire.

- Companies, which showed high scores on performance indicators in the implementation of the integrated strategy (combination of low cost strategy and differentiation). compared with the median were identified, or were coded with the number 1.
- Companies, which showed high scores on performance indicators in the implementation of the low cost strategy, compared with the median were identified, or were coded with the number 2.
- Companies, which showed high scores on performance indicators in the implementation of the differentiation strategy, compared with the median were identified, or were coded with the number 3.
- Companies characterized by lower results due to not clear focused strategies, compared with the median were identified with the number 4.

The model built resulted statistically significant (Annex 5.1, 5.2). We note that the value of F test and p values shown in the table of differences according to One Way ANOVA for the variable "performance evaluation of the company and the success achieved" are statistically significant ($p < 0.05$ level).

Differences between groups using different competitive strategies against the dependent variable "overall performance" are given in table 37. We see the difference among the companies that have chosen to implement a combined strategy and one of the competitive strategies, "differentiation", "low cost" and "stuck in the middle" is positive. The difference "combination - cost", equal to 0.231 is significant because p value is 0.032 <0:05. At the same reasoning, the difference "combination- differentiation" equal to 0.265

is very indicative, because the value of p is 0.022 <0:05. The difference "combination - stuck in the middle" = 1,979, is significant because p value is 0.000 < 0.05.

Table 37. *Multiple Comparisons*

Assessing the performance of the company and the success achieved

(I) Dummy strategy	(J) Dummy strategy	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Combined strategy	cost	**.231***	**.106**	**.032**	**.02**	**.44**
	differentiation	**.265***	**.114**	**.022**	**.04**	**.49**
	stuck in the middle	**1.979***	**.143**	**.000**	**1.69**	**2.26**
Low Cost	combined strategies	-.231*	.106	.032	-.44	-.02
	differentiation	.034	.120	.779	-.20	.27
	stuck in the middle	**1.748***	**.148**	**.000**	**1.45**	**2.04**
Differentiation	combined strategies	-.265*	.114	.022	-.49	-.04
	cost	-.034	.120	.779	-.27	.20
	stuck in the middle	**1.714***	**.153**	**.000**	**1.41**	**2.02**
Stuck in the middle	combined strategies	-1.979*	.143	.000	-2.26	-1.69
	cost	-1.748*	.148	.000	-2.04	-1.45
	differentiation	-1.714*	.153	.000	-2.02	-1.41

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

Analysis of variance for differences between companies, was repeated against the dependent variable "performance rating based on the return on sales (ROS)". We note that the value of F and p values shown in the table of differences according to One Way ANOVA for the variable "performance rating than company according to return on sales (ROS)" are statistically significant (p <0.05). This explains the value of F test which is 51, 449> critical F (3, 106) = 2.69 and the value of sig. (significance) <0:05 (Annex 5.3).

We see that the difference between the values of performance of companies that have chosen to implement a combination of the strategies and the "differentiation", "low cost", and "stuck in the middle" strategy is positive. This means that the performance of companies that have a strategic orientation, estimated according to return on sales (ROS) is greater than companies that do not have a clear focused strategy. Results in table 38 confirm the hypothesis H3: *Firms that implement one of the competitive strategies (cost leadership, differentiation, integrated strategies) have a higher performance than firms that implement stuck in the middle strategy.*

Table 38 *Multiple Comparisons*

Performance evaluation of the company according to return on sales (ROS) - Share of profit on sales

(I) Dummy strategy	(J) Dummy strategy	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Combined strategy	cost	.219	.116	.062	-.01	.45
	differentiation	.310*	.125	.014	.06	.56
	stuck in the middle	**1.904***	.156	**.000**	1.59	2.21
Low Cost	combined strategies	-.219	.116	.062	-.45	.01
	differentiation	.091	.130	.486	-.17	.35
	stuck in the middle	**1.685***	.161	**.000**	1.37	2.00
Differentiation	combined strategies	-.310*	.125	.014	-.56	-.06
	cost	-.091	.130	.486	-.35	.17
	stuck in the middle	**1.594***	.167	**.000**	1.26	1.93
Stuck in the middle	combined strategies	-1.904*	.156	.000	-2.21	-1.59
	cost	-1.685*	.161	.000	-2.00	-1.37
	differentiation	-1.594*	.167	.000	-1.93	-1.26

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

According to the table, in which are compared performances achieved (estimated according to ROS) depending on the implemented strategy differences, "combination of strategies-stuck in the middle", "cost - stuck in the middle" differentiation - stuck in the middle " are positive, respectively 1,904, 1,685, 1,594 and p values are significant (sig. <0:05.)

Analysis of the performance differences, depending on the chosen strategy was repeated. This time, the indicator used to measure performance is "the realization of objectives' and 'development of the company's management'. The model built to compare differences among the groups of companies resulted statistically valid (Annex 5.4). It is noted that F and p values shown in the table of differences according to One Way ANOVA for the variable "realization of objectives, growth and development of the company's management" are statistically significant (p <0.05 level). This explains the value of the test F = 11 535> critical F (3, 106) = 2.69 and sig values. (Significance) <0:05.

From the data analysis in table 39, it results that the performance of companies that choose one of the strategies, combination, low cost, differentiation, are higher than companies that do not have a clear strategic orientation. These differences are respectively 1,169, 0.644, and 1.049 and results are significant for our study.

Table 39. *Multiple Comparisons*

(The realization of objectives. Growth and development of the company's management)

(I) Dummy strategy	(J) Dummy strategy	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Combined strategy	cost	.525*	.160	.001	.21	.84
	differentiation	.120	.172	.488	-.22	.46
	stuck in the middle	**1.169***	.216	**.000**	.74	1.60
Low Cost	combined strategies	-.525*	.160	.001	-.84	-.21
	differentiation	-.405*	.180	.027	-.76	-.05
	stuck in the middle	**.644***	.222	**.005**	.20	1.09
Differentiation	combined strategies	-.120	.172	.488	-.46	.22
	cost	.405*	.180	.027	.05	.76
	stuck in the middle	**1.049***	.231	**.000**	.59	1.51
Stuck in the middle	combined strategies	-1.169*	.216	.000	-1.60	-.74
	cost	-.644*	.222	.005	-1.09	-.20
	differentiation	**-1.049***	.231	**.000**	-1.51	-.59

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

Analysis of the differences among the performance of companies measured by indicators: realization of objectives, ROE, ROS, ROA and the overall performance can be further developed by comparing results among companies but now in the view of strategies, low cost and differentiation.

Results in the last table 40, show negative difference of performances, "combination - low cost", "combination - differentiation" for some of the results that are measured through indicators, return on sales (ROS) and return on assets (ROA). *The result is: the performance is higher for companies pursuing cost leadership or differentiation strategy than those that pursue a combination strategy.*

Some of the reasons that explain this situation in construction firms are:

- Economic conditions of the country and the level of available income leads companies to lower prices, in order to stay or secure market share in terms of economic polarization of the society.

- Reduction of public investment.

- Low level of consumer information on the standards of work and inputs used in construction (quality and quantity of use) and the degree of social responsibility awareness regarding construction firms or projects.

In conclusion, the results of ANOVA's method which was used to test the hypothesis raised, explained that *companies that follow a strategy of the clear differentiation or cost leadership perform better than companies without a clear strategic focus (stuck in the middle).* Also, results showed that *the combination of strategies was again very productive for companies that implement it.* However, above we saw that companies that follow 'pure' strategies of cost leadership or differentiation, exceeded the performance of companies that implemented a combination of the strategies. We can say that the second *hypothesis H2, is partly proved by the results presented in the tables that compare the performance depending on different indicators.*

Table 40. *Multiple Comparisons*

Dependent Variable	(I) Dummy strategy	(J) Dummy strategy	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
The realization of the development objectives and management of the company	combination of strategies	low cost	.525*	.160	.001	.21	.84
		differentiation	.120	.172	.488	-.22	.46
		stuck in the middle	1.169*	.216	.000	.74	1.60
	low cost	combined strategies	-.525*	.160	.001	-.84	-.21
		differentiation	-.405*	.180	.027	-.76	-.05
		stuck in the middle	.644*	.222	.005	.20	1.09
	differentiation	combined strategies	-.120	.172	.488	-.46	.22
		low cost	.405*	.180	.027	.05	.76
		stuck in the middle	1.049*	.231	.000	.59	1.51
Assessment of firm's overall performance and success achieved	combination of strategies	low cost	.231*	.106	.032	.02	.44
		differentiation	.265*	.114	.022	.04	.49
		stuck in the middle	1.979*	.143	.000	1.69	2.26
	low cost	combined strategies	-.231*	.106	.032	-.44	-.02
		differentiation	.034	.120	.779	-.20	.27
		stuck in the middle	1.748*	.148	.000	1.45	2.04
	differentiation	combined strategies	-.265*	.114	.022	-.49	-.04
		low cost	-.034	.120	.779	-.27	.20
		stuck in the middle	1.714*	.153	.000	1.41	2.02
Performance evaluation of the company according to return on assets (ROA)	**combination of strategies**	***low cost***	***-.563****	.171	.001	-.90	-.22
		differentiation	***-.520****	.184	.006	-.88	-.16
		stuck in the middle	2.077*	.230	.000	1.62	2.53
	low cost	combined strategies	.563*	.171	.001	.22	.90
		differentiation	.043	.192	.826	-.34	.42
		stuck in the middle	2.639*	.237	.000	2.17	3.11
	differentiation	combined strategies	.520*	.184	.006	.16	.88
		low cost	-.043	.192	.826	-.42	.34
		stuck in the middle	2.597*	.246	.000	2.11	3.09
Performance evaluation of the company according to return on sales (ROS)	combination of strategies	low cost	.219	.116	.062	-.01	.45
		differentiation	.310*	.125	.014	.06	.56
		stuck in the middle	1.904*	.156	.000	1.59	2.21
	low cost	combined strategies	-.219	.116	.062	-.45	.01
		differentiation	.091	.130	.486	-.17	.35
		stuck in the middle	1.685*	.161	.000	1.37	2.00

	differentiation	combined strategies	-.310*	.125	.014	-.56	-.06
		low cost	-.091	.130	.486	-.35	.17
		stuck in the middle	1.594*	.167	.000	1.26	1.93
Performance evaluation of the company according to return on equity (ROE)	combination of strategies	***low cost***	***-.338****	.167	.046	-.67	.00
		differentiation	***-.340****	.180	.062	-.70	.02
		stuck in the middle	1.562*	.225	.000	1.11	2.01
	low cost	combined strategies	.338*	.167	.046	.01	.67
		differentiation	-.003	.189	.989	-.38	.37
		stuck in the middle	1.899*	.232	.000	1.44	2.36
	differentiation	combined strategies	.340	.180	.062	-.02	.70
		low cost	.003	.189	.989	-.37	.38
		stuck in the middle	1.902*	.241	.000	1.42	2.38

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

H3	*There is a positive relationship between the implementation of competitive strategies (cost leadership, differentiation and integrated strategy) and SME-s performance.*	*accepted*
H3a	*SME-s that implement integrated strategies (low cost & differentiation) have a higher performance than firms which implement only cost leadership strategy.*	*partly accepted*
H3b	*SME-s that implement integrated strategies (low cost & differentiation) have a higher performance than firms that only implement the differentiation strategy.*	*partly accepted*
***H* 3c**	*SME-s that implement one of competitive strategies (cost leadership, differentiation and integrated strategy) have a higher performance than firms which implement the strategy "stuck in the middle".*	partly accepted

CHAPTER VII

CONCLUSIONS AND RECOMMENDATIONS

In this last chapter, are presented some conclusions generated by empirical research and literature review, as well as some recommendations for stakeholders who think that this study is of value to them. The purpose of this paper lies in two plans: First, the assessment of the attractiveness of the construction industry and the impact that the outside environment has in this industry, and secondly, the implementation of competitive strategies as the right way to success.

Initially will be addressed overall conclusions and further conclusions drawn from statistical analysis of data collected from questionnaires. One of the key issues, in addition to empirical findings in this study, are recommendations for further study in terms of research of companies, managers, investors currently operating or seeking to manage their investments in the construction industry (and not only).

7.1 GENERAL CONCLUSIONS

The construction sector is by nature unstable and depends on economic cycles. However, it is a sector that in most countries, especially in developing countries, constitutes a substantial part of economic activity. Developing countries invest more to close the gap of infrastructure, enterprises invest in new industrial activities and, perhaps most importantly, developers of real estate rush to develop residential areas, as jobs and people move more towards urban areas.

The construction industry has been a key driver of Kosovo's economy since the war ended. Financed from foreign aid as well as local and foreign investment, Kosovo's construction sector has experienced important economic progress. Still the construction industry remains a sector with highly promising economic potential for Kosovo**.**

Our research also shows that the construction sector in Kosovo is currently going through a transition period and that some structural factors have put a burden on the demand and supply of construction services. Our survey confirms that demand for construction services largely consists of private demand and, more specifically, the

demand for housing. The market is moving from the chaotic phase driven by supply after 1999, and is increasingly resembling a normal market characterized by better implementation of regulations and with a customer base that requires more quality.

A current challenge for Kosovo's construction industry is to implement EU and international standards. The best companies are working to these standards and will be able to deliver high quality products/services.

Sector growth largely depends on whether there will be growth in demand for housing. On the demand side, the first major problem is the substantial reduction of cash buyers and difficulties in accessing finance.

The second most important is the improvement of the legal framework that would facilitate the development of construction projects. Although there is legislation to protect all actors involved, bylaws usually are missing and as such existing laws cannot be applied.

The third emphasis, more important, falls on the need to supply the labor market with skilled workers. Many companies (20% in our survey) are forced to hire highly skilled workers from abroad to work on more sophisticated tasks. These functions could be performed by local workers, which would increase employment,

In theoretical terms, the results of this work have enabled the processing of the following conclusions:

a. SMEs are considered as generators of development and economic growth of a country. Therefore, their role is becoming more and more important. From the results we have that the external environment, which is very complex, unstable, and insecure sometimes, impacts the creation of competitive advantage in small and medium enterprises.

b. *The competition is the engine for sustainable development within the industry*. Today, more and more, in terms of a dynamic and complex environment, the success of companies depends on strategic positioning that they choose to compete and benefit from competitive advantage. Therefore, increasing the intensity of competition

serves as an incentive to seek and understand every aspect, phenomenon, fact or variable affecting the company to improve performance.

c. During the analysis of the industry it is necessary to include factors that make up the remote environment. Studies have proven that in order to be profitable and enduring in the market, the organization must adapt to the external environment (Teece et al., 1997; Suarez & Montes, 2014). This environment refers to factors which are outside the influence and control of the organization, but that should be an important part of the decision-making process and developing competitive strategies or ways to compete successfully. No organization operates in a vacuum, but acts as an open system with influence and mutual dependence on the external environment. Dependence on external environment is not a problem in itself, as long as the environment surrounding the company presented as simple static. The high degree of unpredictability of the factors of the external environment requires constant analysis by the company, which can be achieved through detailed analysis of the macro-environment approaching more and more of its operating environment.

d. PEST analysis is considered as a framework within which to analyze the impact of macro-environmental factors. Factors that comprise this analysis are important because they enable management of companies, during the decision-making and enrich it with relevant information. PEST analysis goal is to develop and explain the impact of any external environmental factor in longevity, profitability or performance of the company.

e. External environmental factors together with the industry competitive forces determine the intensity of competition, the ability of the organization to be positioned against its rivals and affect the profitability of the company. Despite the attention paid to the growing literature, competitiveness or competition remains a multi-dimensional concept (Porter, 1980) without a single definition for the dimensions and attributes that characterize it. This concept is an important part of management and economic analysis together with other indicators such as profitability, market share, efficiency or productivity (Nelson, 1992).

f. The industry is "arena" in which the competition takes place. According to Porter, 1980, in any industry, regardless of the extent and intensity of competition,

regardless of what it offers or manufactures, operate five core competitive forces, their power and influence is different. The degree of attractiveness and profitability of the industry depends on the impact of competitive forces (Porter, 1980, 1985) and the level of the opportunities and threats presented by the direct impact on firm performance (Ward & Rivani, 2005).

g. The importance and interest of the competitive forces model of industry structure is the understanding of the link between environment and strategies that applies firm, in accordance with these factors. Another value, which applies to use this model as a tool of analysis is the opportunity it creates to managers to think about the concrete situation, competitive position, strategic direction and serves as a starting point for other detailed analysis.

h. Organizations today are characterized by complex relationships of different actors, so it is important to establish a competitive advantage and create value by managing efficiently limited resources to cope with fierce competition and the challenges faced by SMEs.

i. Initiated by the target established and the analysis made shows that the value is one of the most important competences of the companies to have competitive advantage. This means that SMEs in Kosovo as in studies conducted in other countries, the value is an important source for the creation of competitive advantage.

j. By examining the link between performance and competitive advantage we can say that was conducted simultaneously and next target of the study and answer the research question that there is a positive correlation between performance and competitive advantage.

k. Competitive strategies are an important part of any business (Allen & Helms, 2006) to create a unique and valuable position by integrating various activities (Porter, 1980.1996). Understanding the behavior of the firm, serves as input to improve competition practices refer to the realization of a high performance and a sustainable competitive advantage. Three generic strategies much discussed and intensively implemented regardless of industry are: (i) the "low cost" strategy which places emphasis on organizational efficiency and includes the process by which the company is able to

produce or distribute goods and services at a lower cost than competitors within the industry, (ii) the strategy of differentiation refers to the development of a unique product or service (Porter 1985, Torgovicky et al. 2005), (iii) the focus strategy through which the company serves to a narrow market segment (Davidson, 2001; Porter, 1980, 1985, 1987) through low cost or differentiation (Porter 1980).

l. Porter's contribution and the typology of generic strategies it proposes have a major impact on business theories and management practices. The importance of competitive strategies is great and this is evident in their application in many industries (Hambrick, 1983).

7.1.1 Generalizations on the remote environment and dominant characteristics of the construction industry.

The competitiveness of the construction industry is determined by plenty of factors, while many policies and regulations should be made by considering these factors seriously and comprehensively. However, practitioners and governors have difficulties in identifying and considering all potentially key factors, because some of these are underlying and implicit. Therefore, explicit knowledge in this respect is meaningful for them.

Following the political changes over the past two decades, in Kosovo, are taken a series of economic and social reforms with significant impact on the Kosovo companies, without neglecting to mention inter alia, the negative trends that have emerged as high unemployment, informality and corruption .

a) Referring to the construction industry, a number of factors pertaining to political and legal environment have been a guide for the development that took the industry in our country. These factors include completeness of documentation, permits and administrative procedures that construction firms should provide. Here we can mention: the certificate of the construction permit, urban development plan, the taxation law and the tax treatment of construction firms.

b) Among the economic factors that affect the construction industry and have a direct impact on the economic performance of companies include: income available,

price fluctuations of raw materials, changes in demand due to the economic and financial situation caused by the global crisis, changes in interest rates, the creation of own real estate agents and the lack of unification of tariffs and fees that apply these agents, informality.

c) The pressure of social factors and their impact on the construction industry feels more, compared with earlier periods (Muir, 2005). Some of the social factors that affect the construction industry in Kosovo are:

- ✓ *Reliability of construction companies.* Nobody can know everything in detail and referred the quality and type of materials that are used in the construction of a residential building or public work. Reliability of a construction company plays an important role in the process of selling or bidding.

- ✓ *Consumer behavior in the process of purchasing the facility*. In most cases, the decision to buy or invest in real estate is influenced by proximity to the facilities for which we need in life. In this way, the proximity of residential centers, schools, hospitals, shopping malls and entertainment centers often affects individual behavior, explaining preferences and our attitude during the process of buying or investing in real estate.

- ✓ *Demographic movements*. According to KAS statistics, there is an internal movement of population from rural to urban areas. Against the alternative to choose residential center, people began moving from rural or less developed areas, to better opportunities of employment, education and welfare that cities offer. Such a movement (often uncontrolled) affects supply and demand in the construction industry in terms of residential housing and infrastructure.

- ✓ Due to the nature of the construction process, the *technological environment changes affect the performance* of construction firms. Developments of technology are reflected in the continued and significant progress that characterizes the construction industry as one of the industries with significant impact on the economy.

- ✓ *Advanced technology*. The construction industry is investing in Kosovo to have access to the production process as well as other developed countries. New construction methods and transfer of knowledge are present in this industry as a result of their migration and employment in the construction industry of the countries they have emigrated.

- ✓ *E- commerce*. Currently, companies operating in the construction industry, receive information via the internet, communicate with many buyers around, associated with public institutions referred to duties, taxes, tenders, etc.

- ✓ Over recent years, the use of new technologies and adaptation to environmental changes have proven effective for companies related to: faster communication, reorganization and modernization of business processes, creation of a good image for the company through sale channels, on line marketing, and cost reduction through more efficient transactions.

7.1.2 Dominant characteristics and development of the construction industry in Kosovo

The construction industry is one of the biggest industries regardless of where it is studied (Hillebrandt, 2000). This is because the presence of the goods and services in the form of housing, transport and communication is high.

Construction industry during the past 2 decades culminates in two periods. The period after 2000 until 2009 can consider the period of growth of the construction industry. The expansion of cities, the lack of investment in infrastructure and other issues of enlargement are the main phenomena identified during the development cycle of the construction industry in Kosovo.

Referring to the period after the year 2010, although the stated statistics show an increase of Kosovo's economy, situations and detailed analysis of the construction industry (with exit from the market of many small companies) as follows:

- ✓ *The unclear legal situation* with inhibitory effects of further development of the industry.

- ✓ *Saturation of the housing market and falling demand.* Companies that build flats have significantly reduced turnovers, due to the economic crisis, but also due to the saturation of the domestic market in construction.
- ✓ Unfair competition from the informal sector of the construction.
- ✓ Lack of clear policies at the national and local territorial development directions. Some of the direct consequences that experience construction companies are: limited number of building permits, temporary suspensions, procedures and high levels of bureaucracy to issue a construction permit.
- ✓ Lack of clear standards and parameters for a fair competition and quality in construction.

Variables used to analyze the construction industry are taken from the model of Porter. Because of the diversity of variables that affect the industry and the company in particular, they were grouped under: industry dynamics, competitive rivalry and competitive dynamics.

Detailed analysis by the method of multi-criteria evaluation (MCE) showed a good method to study the attractiveness of the industry. From the obtained results we can say that in these conditions the construction industry in Kosovo is not attractive to attract new investors in this field. Reasons to argue this conclusion are:

- ✓ High competitive rivalry,
- ✓ The dynamics of the industry and the degree of uncertainty that it represents,
- ✓ Dynamic and unpredictable competition.

7.1.3 Conclusions on the importance of competitive advantage and value to the company's performance

The value is one of the most important competences to competitive advantage. As Norman & Ramiris (1993) said, the strategy can be defined as the art of creating value.

More important is the value created from information. The information gives life to the today business. It is not enough for an organization to have skilled people who possess information. What increases the value of the business is the information released and distributed to the organization, as well as the analyze of this information.

Performance is positively associated with competitive advantage. Thereby, is implied that businesses which have competitive advantages achieve the performance required by the market. This means that small and medium enterprises, to be successful should not focus only on operational activities but must develop plans based on the mission, goals and objectives of the organization. This occurs when they have a clear vision for their future.

The analysis of creating value through information showed that businesses that use information analysis were best in the industry in which they compete. Access to information and counseling, training activities and participation in conferences, etc., help businesses to increase access to the use and dissemination of information and the use of information analysis.

7.3.4 Conclusions on the implementation of competitive strategies

Numerous studies have been conducted in different countries and different industries, but the debate on the implementation of generic competitive strategies remains a subject of study even today.

Findings related to the implementation of competitive strategies in Kosovo's construction industry are as follows:

a. Referring to the study of competitive strategies, companies that have a clear strategic orientation through the implementation of strategies, low cost and / or differentiation of the product / service (including the strategy of combination) have a better performance. This conclusion fits with the conclusions drawn in the work carried out in other industries (Dess & Davis, 1984; Karnani, 1984; Kling & Smith, 1995, Pulaj, 2012).

b. Finding the right strategy or proper combination of several strategies, the Achilles heel of Porter's theory is another issue studied in this paper. While testing the hypothesis raised that, firms that implement integrated strategy (low cost & differentiation) have a higher performance than firms that implement only one of the strategies competitive (low cost or differentiation) note another occurrence, unlike conclusions to date accepted or rejected depending on the industry where testing is conducted.

c. According to the processed data, the combination strategy is more productive than each of competitive strategies in terms of growth and development and performance management of the company. But we cannot accept the same conclusion in terms of performance measurement by target indicators. This shows that the combined strategy is not always as effective as pure strategy of cost or differentiation, when it comes to measure performance in terms of financial indicators.

d. The reason that explains this phenomenon is: In the situation in which the construction industry, the price constitutes the basic criterion in consumer behavior (regardless of product differentiation, the project used, quality of work, etc.), making the curve of demand for products and services flexible and sensitive.

e. If construction companies try to keep costs low, then they need to promote their products / services by boosting sales in comparison with other companies. The same can be said in the case of differentiation, explaining that the added value of the product / service in the long term is greater than the savings made by choosing a product with the lowest price.

f. In these conditions, the right choice of strategy is one of the main objectives of businesses today, expressed through low cost and / or differentiation.

g. It seems that, beyond controversies encountered by the theory of Porter's competitive strategies, in terms of financial performance measures, companies that choose a clear strategic orientation (low cost or differentiation) are more profitable in the market.

7.4 Practical importance of the study

Through this paper it is intended to provide a modest contribution to the summary of the literature on debates on the theory of competition and competitive advantage and Porter's theory of competitive strategies.

Besides the summary of the literature, this paper will serve as a guide in how the forces acting outside the company can be included in the analysis of the attractiveness of the industry to further find the right competitive strategy.

In terms of practical values, this paper aims to serve businesses, other researchers in the field of management, current investors and individuals who seek to enter the field of business (construction). Also, the analyzes will serve students in the subjects of management.

The findings of this study regarding the importance of competitive advantage, and the role of value, provide the necessary information to help and lead to growth and success of their businesses and to create opportunities to meet the challenges of globalization.

Research findings of this study will help businesses, business owners and managers understand the factors that significantly affect the performance of businesses. This can be a good guide for those who want to start a business and to know which are the most important factors for having a good performance.

7.5 RECOMANDATIONS

The global construction industry is changing fast. More growth opportunities in emerging markets, new funding mechanisms, and evolving customer demands are driving the industry's players to diversify, both geographically and in terms of their offerings. Today's high performers have diversified more than most, developing more efficient and customer-focused operating models to help them.

To compete, companies will need to maintain new approaches to risk management and capital allocation, operational efficiency, and supply chain management. And they will need to develop novel ways of attracting, retaining and deploying a mobile and multilingual workforce with relevant skills. As the industry continues to evolve from B2B to B2B2C—these strengths will become even more critical differentiators for the high performers of tomorrow.

Three basic building blocks to sustain high performance in the construction industry:

- Market focus and position—the strategy adopted to secure competitive advantage.

- Distinctive capabilities—The systems and processes that enable value creation.
- Performance anatomy—The culture and mindset that sustain success.

To enter the industry or expand an existing business is not an easy decision. In both cases it is necessary a proper analysis of the industry, in which investors will orient their investments and provide the opportunity for industry growth. Although there is no single way of measuring the competitiveness and attractiveness that offers an industry. Involvement in the study of the most important variables in the view of management, will lead the company in the right way.

Improving the ease of closing businesses. The importance of facilitating the closure of the business often is disregarded. It is extremely important to take initiatives in this area, to ensure that honest entrepreneurs can start off their businesses after failing in a particular area.

Development of core competencies, in order to businesses to respond effectively to any changes or unexpected problem. In addition, firms cannot respond to possible changes in a timely manner, without qualified human resources.

The analysis of the construction industry, confirmed that the industry does not appear attractive to encourage new businesses to enter into it. Some of the reasons that deter new entrants in this industry are: saturation of the housing market and falling demand, the fall and the general crisis which is reflected not only in the housing market (low income, a reduction in remittances from migrants) but in construction in general (along with companies which are involved in construction of public works), unfair competition by informal sector of construction, etc.

One way to save construction businesses, is concentric diversification strategy or rather the distribution of investment flows without losing attention to construction. After a prosperous period, construction companies, after nearly 15 years of activity in high demand, as in the residential sector and in the public investment are suffering reduced demand in both sectors.

What is recommended for construction companies?

1. *Study of the ways and means of competition*. Withdrawing from copying the actions of other businesses, or doing without a long-term concrete strategies, it means taking a big risk especially attracted by the high level of earnings in the construction industry.

2. *Development of strategy of the company*. There are few businesses that have their investments based on business plans and clear market studies to analyze and determine exactly what are their competitive advantages. The restructuring of the construction industry requires: (a) selection that market does itself to more successful firms, thereby eliminating competition through mechanisms that are less efficient; (2) the market is in great need of new professional standards. In both cases, a clear strategic orientation is recommended regarding the way of doing business through differentiation and efficient implementation of new standards that are in demand on the market today.

Recommendations for the government:

- ✓ It must be created a positive climate and support to private business within the easing of the fiscal burden and legislation;
- ✓ Periodic monitoring of administrative obstacles and difficulties faced by construction firms, using as basic criteria the change of time for providing certain documentation, application procedures for various permits but also reducing the rate of informality through control;
- ✓ Partnership among actors that guide the development of business and the economy, like study and research centers, information and consulting companies, intermediary companies that know the markets and close investors to each other, etc. Without the cooperation of these institutions, there can't be sustainable and long-term development;
- ✓ High degree of transparency and information to recognize the real potential of business development and ability to compete;
- ✓ Partnership in the development of new building activities in undeveloped areas and priority in terms of building infrastructure.

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Questionnaire

COMPETITIVENESS OF SMES: A COMPREHENSIVE STUDY OF THE CONSTRUCTION INDUSTRY IN KOSOVO

Thank you for your participation in this study. Your participation is voluntary and confidential. All answers provided will be used only for research purposes. Your cooperation is very important and will help me a lot for my thesis doctoral thesis.

Thank you
Arbiana Govori, MBA
govoriarbiana@yahoo.com

SECTION I

GENERAL INFORMATION

Company name:

Address: _____

Tel/Fax: _____

Mobile_____

E-mail: _____

For each of the following questions, please circle the option that you best fit:

1.1 When your organization is created (please specify the year_____).

1.2 Your organization is:

a. Local business
b. Joint venture
c. foreign business

1.3 In which city your organization operates? (_____)

1.4 Considering all of the construction projects completed by your company, what kind of project occupies most of the activity in your company's portfolio:

a. Infrastructure (drainage & sanitation patterns, roads, tunnels, bridges, airports, etc.)
b. residential buildings (houses, tourist villas)
c. industrial buildings (factories, Tece)
d. buildings (hospitals, universities, government buildings)
e. Other (please specify _____)

1.5 Who occupies the largest share of total construction projects implemented by your company:

a. Government

b. private sector

1.6 How many employees work in your organization:

a. Up to 9 employees
b. 10-49
c. 50-249
d. More than 250

1.7 What is your position in the organization where you work:

a. Chief executive or member of the senior management team
b. Finance manager
c. Marketing and sales manager
d. Human Resources manager
e. Low-level manager or Supervisor
f. Other (please specify_____)

SECTION II

CHANGES IN THE EXTERNAL ENVIRONMENT, REMOTE

2.1 In your opinion, how do you evaluate the impact that have the changes / developments in the external environment in the construction industry and your company in particular?

[Please circle your answer based on the valuation of 1-5 (1 = not important, 2 = less important, 3 = moderately important, 4 = important, 5 = very important)].

1. Changes in the macro environment / economic					
a. Changes in trends to buy	1	2	3	4	5
b. Interest rate changes	1	2	3	4	5
c. Changes in exchange rates	1	2	3	4	5
d. Income available	1	2	3	4	5
2. Changes in the legal and political environment					
a. Changes in laws regulating competition and the market in which your company operates.	1	2	3	4	5
b. Changes in laws regulating the labor market.	1	2	3	4	5
c. Changes in public spending	1	2	3	4	5
d. Changes in laws that regulate foreign trade	1	2	3	4	5
e. Correct interpretation of laws and bylaws	1	2	3	4	5
f. Time to be spent by executives of construction firms for various	1	2	3	4	5

applications in state institutions (procurement, receiving construction permit etc.)					
g. The impact of the violations encountered during construction issuing permission	1	2	3	4	5
h. Lack of urban regulatory plans	1	2	3	4	5
3. Changes in the social and cultural environment					
a. Changes in consumer preferences	1	2	3	4	5
b. Demographic changes, age and growth of population	1	2	3	4	5
2. Changes in the technological					
a. Development of trade electronically (e-commerce)	1	2	3	4	5
b. Development of internal applications in the field of IT	1	2	3	4	5
c. Development of new production technologies	1	2	3	4	5

2.2 Which of the following factors limit or make it difficult to firm performance of your building? [Please fill in the following 3 factors (1 = very important, 2 = the second most important, 3 = third in importance)].

a.	Lack of demand…….....	
b.	Not correct application of procurement law……..…...	
c.	Competition from abroad for construction materials…….....	
d.	Lack of needed equipments…….……..	
e.	Lack of raw materials…….....….....	
f.	Lack of electric power ..…….....	
g.	Lack of infrastructure (roads, railways) ....……..	
h.	Difficulties in obtaining credit …….……..……..	
i.	Unclear fiscal legislation……..…….……....	
j.	Unexpected macro-economic environment …….….....	
k.	Long procedure for licenses …….	
l.	Long procedure for permits ……..	
m.	financial problems (lack of cash or liquidity) ……..…...	
n.	Not correct application of tax laws …….……...…..	
o.	Unfair competition from black market….....	
p.	Others, please specify.....……..……..	

SECTION III

INDUSTRY ENVIRONMENT

3.1 In your opinion, rate the following statements regarding the building industry in which you operate. [Please circle your answer based on the valuation of 1-5 (1 = not at all agree 0%; 5 = totally agree 100%)].

INDUSTRY DYNAMICS					
a. Market growth in which the company operates. Explanation: The market in which the company operates has grown rapidly in recent years	1	2	3	4	5
a. Expected market growth. Explanation: We hope that the market grow very rapidly in the coming years.	1	2	3	4	5
b. New entrants in the industry. Explanation: A large number of new firms have entered the market in recent years.	1	2	3	4	5
c. Exits from industry. Explanation: A large number of firms have to close their business and get out of the industry.	1	2	3	4	5
d. The balance of inflows and outflows. Explanation: The total number of firms in the industry has grown tremendously.	1	2	3	4	5
e. The degree of uncertainty about future developments. Explanation: The demand for products / services varies greatly from year to year and it is very difficult for the foretold a development in this industry.	1	2	3	4	5
f. Customer's loyalty. Explanation: Our customers are very flexible and can change the company if competitors offer a slightly lower price.	1	2	3	4	5
g. Changing customer requirements. Explanation: The needs of customers have changed a lot in recent years	1	2	3	4	5

3.2 In your opinion, rate the following statements regarding the building industry in which you operate. [Please circle your answer based on the valuation of 1-5 (1 = not at all agree 0%; 5 = totally agree 100%)] .

COMPETITIVE DYNAMICS					
a. The rate of change due to the organizational structure. Explanation: Firms in the industry are very slow because decision makers do not seem to notice small changes in the market.	1	2	3	4	5
b. The rate of change due to legislative restrictions.	1	2	3	4	5

Explanation: The Labor Law and other legislative restrictions prohibit firms in the industry to respond rapidly to market changes.	
c. The rate of change due to the cost structure. Explanation: existing firms in the industry frequently have higher costs than new entrants.	1 2 3 4 5
d. Aggressive responses to existing firms. Explanation: direct competitors react with special offers and discounts to new entrants.	1 2 3 4 5
e. Introduction of new products. Explanation: Competitors require constantly introducing and improving products / services.	1 2 3 4 5
f. Investment in new assets. Explanation: Anyone within the industry continually invests significant amounts in new buildings, machinery and equipment.	1 2 3 4 5

3.3 Rate the following statements regarding the building industry in which you operate [Please circle your answer based on the valuation of 1-5 (1 = not at all agree 0%; 5 = totally agree 100%)] .

COMPETITIVE RIVALRY	
a. Concentration Explanation: In the construction industry a small number of firms dominates the market	1 2 3 4 5
b. Number of competing firms Explanation: The market in which our company operates exist a great number of firms that offer products / services similar.	1 2 3 4 5
c. Heterogeneity of companies that make up the industry. Explanation: Firms in different industries are referred strategies, distribution channels and profitability.	1 2 3 4 5
d. The dominance of competitive strategies on those of prices. Explanation: In the industry, the company that offers the lowest price is not necessarily the most successful.	1 2 3 4 5
e. Labor cost occupies most of the total cost in the construction industry.	1 2 3 4 5
f. Gross profit in the industry is very high.	1 2 3 4 5
g. The degree of diversification. Explanation: Many competing companies are included in other product markets.	1 2 3 4 5

SECTION IV

VALUE / COMPETITIVE ADVANTAGE / PERFORMANCE

This section is intended to determine that value creation is one of the most important competencies to create competitive advantage.

4.1 In your organization, how new ideas are born that create value?

(Give your assessment of: 1- Never, 2- Rarely, 3-Sometimes 4-Often, 5-Always).

From management	1	2	3	4	5
From employees	1	2	3	4	5
From customers feedback	1	2	3	4	5
From cooperation with stakeholders	1	2	3	4	5
Others	1	2	3	4	5

4.2 What are the main barriers to use the information and analysis in your organization? Please select the three most important.

- Lack of knowledge about the use of information analysis.
- Lack of internal skills in the line of business.
- Source of data is unclear
- Ability to obtain data
- Problems related to the data.
- the existing culture encourages sharing information
- There is no possibility for change.
- We do not know where to start.

4.3.What are the challenges that you think that will face the next two years the organization. Please select the two most important.

- Innovation to achieve competitive advantage
- Increased revenues
- Reduce of cost and increase the efficiency
- Risk management and fraud reduction or
- Increased speed of adaptation
- Other

4.4 To what extent are employees motivated to create value in your organization?

(Give your assessment of 1- Not at all, 2. In a very small extent; 3- In a small extent; 4-Neutral; 5- In a moderate levels; 6- In a large extent, 7 - In a very large extent).

1 □ 2 □ 3 □ 4 □ 5 □ 6 □ 7 □

4.5 This section aims to identify the importance of the following factors (tangible and intangible resources) to the success of your business. Please rank them from 1 7.

*(*1- Not at all, 2. In a very small extent; 3- In a small extent; 4-Neutral; 5- In a moderate levels; 6- In a large extent, 7 - In a very large extent*).*

Ability to create the high quality of products / services	1	2	3	4	5	6	7
Ability to create lower total costs	1	2	3	4	5	6	7
Good marketing skills	1	2	3	4	5	6	7
Difficulty of imitating product	1	2	3	4	5	6	7
Good condition or provision of service output	1	2	3	4	5	6	7
The firm's good name	1	2	3	4	5	6	7
Creation of strong values of the company	1	2	3	4	5	6	7
Ability to organize simple and flexible	1	2	3	4	5	6	7
Trained staff	1	2	3	4	5	6	7
Knowledge and application of high technology	1	2	3	4	5	6	7
Skills, management skills for a qualitative	1	2	3	4	5	6	7
The ability to innovate	1	2	3	4	5	6	7
Opportunities, skills, and competencies to evaluate continuously the external environment	1	2	3	4	5	6	7
The ability to analyze and predict new business opportunities	1	2	3	4	5	6	7

4.6 What is the level of performance in your organization in this year compared with 2 years ago? (Annual turnover or VAT paid). Please select one of the following options.

□ Very good □ Good □ Medium □ Weak □ Very weak

4.7 What is the level of performance in your organization this year compared to your competitors. Please choose one of the options below.

□ Very good □ Good □ Medium □ Weak □ Very weak

4.8 What do you think is the critical factor for the success of the firm**?**

_____

SECTION V.

COMPETITIVE STRATEGIES

5.1 Evaluate the importance of factors that affect the company's competitive strategy referring comparison with more powerful competitor. *(*1- Not at all, 2. In a very small extent; 3- In a small extent; 4-Neutral; 5- In a moderate levels; 6- In a large extent, 7 - In a very large extent*).*

Cost leadership					
a. The emphasis on the provision of raw materials and negotiations for discounts.	1	2	3	4	5
b. The emphasis on finding ways to reduce costs (eg, standardization of the product or specialization)	1	2	3	4	5
c. The emphasis on the efficiency of production (eg productivity in the production and efficiency in the logistics of the exterior)	1	2	3	4	5
d. Placing emphasis on maximum utilization of production capacities.	1	2	3	4	5
e. The emphasis on competitive pricing (offering lower prices than competitors).	1	2	3	4	5
f. Strict expenditure General and administrative.	1	2	3	4	5
DIFFERENTIATION STRATEGY					
a. The emphasis on the development of products / services / procedures for new or adaptation of existing products to better serve customers.	1	2	3	4	5
b. The rate of issue of products / services in the market.	1	2	3	4	5
c. The intensity of advertising and marketing	1	2	3	4	5
d. Differentiation through reduction of the time and the deadline of project completion.	1	2	3	4	5
e. Placing emphasis on the development and training of the sales force.	1	2	3	4	5
f. The emphasis on creating and identifying by name and good image.	1	2	3	4	5
g. Offering unique products in terms of function or design.	1	2	3	4	5
FOCUS STRATEGY					
a. The aim of a market share, fully defined or specific.	1	2	3	4	5
b. Offering products for that market segment which pays higher prices.	1	2	3	4	5
c. Offering products tailored specifically for a certain group of customers.	1	2	3	4	5

SECTION VI.

ORGANIZATIONAL PERFORMANCE MEASUREMENT

6.1 How do you assess the implementation of the objectives set by your company.

[Please circle your answer by assessing the following statements based on an assessment of 1-5 (1 = not at all successful; 2 = less successful; 3 = moderate success; 4 = successful; 5 = very successful)] .

PËRMBUSHJA E OBJEKTIVAVE					
1. Improved performance over time	1	2	3	4	5
2. Prediction of future trends	1	2	3	4	5
3. Evaluation of alternatives based on the information provided	1	2	3	4	5
4. Avoiding problematic issues	1	2	3	4	5
5. Troubleshooting	1	2	3	4	5
6. Growth and development of the company management	1	2	3	4	5

6.2 In your opinion, how do you evaluate your company's performance during the last 3 years, according to the following factors. [Please circle your answer by assessing the following statements based on an assessment of 1-5 (1 = is significantly deteriorated; 5 = significantly improved)].

RELATIVE PERFORMANCE					
✓ Sales growth	1	2	3	4	5
✓ Growth of after taxes profit	1	2	3	4	5
✓ Changes in market share	1	2	3	4	5
✓ Return on assets (ROA) Gain on assets -Percentage	1	2	3	4	5
✓ Return on equity (ROE)	1	2	3	4	5
✓ Return on sales (ROS)	1	2	3	4	5
✓ The company's market position.	1	2	3	4	5
✓ Firm's overall performance and success achieved.	1	2	3	4	5
✓ The realization of objectives and management development of the company	1	2	3	4	5

Survey completion

Thank you very much for your time and cooperation in this study. Once you have answered all the items, kindly return the survey to:

Arbiana Govori

govoriarbiana@yahoo.com

Appendixes

Annex 1.1 *The results of Cronbach Alpha coefficients for the variables of the industry*

Case Processing Summary

		N	%
Cases	Valid	110	100.0
	Excluded[a]	0	.0
	Total	110	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.720	.717	43

Annex 1.2 *The results of Cronbach Alpha coefficients for the variables of competitive strategies*

Case Processing Summary

		N	%
Cases	Valid	110	100.0
	Excluded[a]	0	.0
	Total	110	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.876	.885	30

Annex 2 *Table of correlation for independent variables of competitive strategies*

		K1	K2	K3	K4	K5	K6	D1	D2	D3	D4	D5	D6	D7	F1	F2	F3
K1	Pearson Correlation	1															
	Sig. (2-tailed)																
K2	Pearson Correlation	.392**															
	Sig. (2-tailed)	.000															
K3	Pearson Correlation	.216*	.458**														
	Sig. (2-tailed)	.023	.000														
K4	Pearson Correlation	.425**	.488**	.331**													
	Sig. (2-tailed)	.000	.000	.000													
K5	Pearson Correlation	.386**	.240*	-.018	.347**												
	Sig. (2-tailed)	.000	.012	.851	.000												
K6	Pearson Correlation	.363**	.317**	.235*	.514**	.181											
	Sig. (2-tailed)	.000	.001	.013	.000	.059											
D1	Pearson Correlation	.142	.134	.144	.385**	.096	.319**										
	Sig. (2-tailed)	.140	.162	.133	.000	.320	.001										
D2	Pearson Correlation	.198*	.248**	.234*	.448**	.294**	.372**	.489**									
	Sig. (2-tailed)	.038	.009	.014	.000	.002	.000	.000									
D3	Pearson Correlation	-.046	.008	.110	.327**	.126	.199*	.231*	.468**								
	Sig. (2-tailed)	.635	.936	.252	.000	.190	.037	.015	.000								
D4	Pearson Correlation	.080	.000	.139	.250**	-.005	.173	.370**	.305**	.158							
	Sig. (2-tailed)	.404	.996	.148	.008	.959	.071	.000	.001	.099							

D5	Pearson Correlation	.149	.140	-.054	.258**	.247**	.289**	.432**	.466**	.374**	.059							
	Sig. (2-tailed)	.120	.143	.575	.007	.009	.002	.000	.000	.000	.539							
D6	Pearson Correlation	.046	-.147	-.058	.324**	.052	.225*	.334**	.293**	.399**	.454**	.175						
	Sig. (2-tailed)	.633	.126	.548	.001	.590	.018	.000	.002	.000	.000	.068						
D7	Pearson Correlation	.089	-.104	.247**	.106	-.158	.040	.245**	.216*	.196*	.534**	-.074	.241*					
	Sig. (2-tailed)	.354	.279	.009	.272	.100	.676	.010	.023	.040	.000	.445	.011					
F1	Pearson Correlation	-.010	.056	.418**	.191*	-.154	.201*	.179	.237*	.145	.404**	-.028	.301**	.521**				
	Sig. (2-tailed)	.914	.562	.000	.046	.108	.035	.061	.013	.130	.000	.769	.001	.000				
F2	Pearson Correlation	.020	.110	.049	.398**	.015	.205*	.449**	.260**	.300**	.172	.334**	.302**	.120	.370**			
	Sig. (2-tailed)	.833	.251	.613	.000	.873	.032	.000	.006	.001	.072	.000	.001	.213	.000			
F3	Pearson Correlation	-.022	-.034	.123	.318**	-.017	.064	.176	.101	.143	.394**	-.011	.278**	.274**	.608**	.504**		
	Sig. (2-tailed)	.821	.722	.200	.001	.861	.507	.066	.294	.136	.000	.909	.003	.004	.000	.000		

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

Annex 3 *Table of correlation for independent variables of industry analysis*

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1. Market Growth	.165	1																	
	.085																		
1. Expected market growth	-.012	.162	1																
	.898	.091																	
2. New entrants	.000	.251**	.000	1															
	.996	.008	.999																
4. *The balance of inflows and outflows*	.028	.417**	-.075	.627**	1														
	.772	.000	.436	.000															
5.Degree of uncertainty	.141	.195*	.017	.189*	.150	1													
	.141	.042	.858	.047	.117														
6.Customers loyalty	-.013	.148	.105	-.077	.042	.572**													
	.897	.123	.274	.422	.665	.000													
7.Change of customers requirements	.008	.356**	.057	.277**	.311**	.188*													
	.937	.000	.557	.003	.001	.049													
8.Inercy regarding legislation.	.036	-.123	-.298**	.211*	.085	.146	-.024	.176	-.371**	.101	1								
	.710	.199	.002	.027	.380	.127	.804	.067	.000	.295									
9.Inercy regarding cost structure.	-.089	-.266**	-.250**	.305**	.269**	.118	-.181	.083	-.343**	.149	.399**	1							
	.356	.005	.008	.001	.004	.221	.059	.391	.000	.120	.000								

10.Aggressive response	.030	.242*	-.028	-.148	-.058	.238*	.456**	.390**	.161	-.091	-.013	-.080	1						
	.755	.011	.768	.122	.544	.012	.000	.000	.094	.347	.896	.408							
11.New products	-.211*	.096	.073	.249**	.229*	.022	.156	.171	-.379**	.221*	.362**	.258**	-.034	1					
	.027	.317	.446	.009	.016	.823	.104	.074	.000	.020	.000	.007	.722						
12.New investments	-.061	.268**	.300**	.376**	.372**	.353**	-.004	.267**	-.001	.215*	-.006	.203*	.016	.284**	1				
	.524	.005	.001	.000	.000	.000	.967	.005	.994	.024	.951	.034	.868	.003					
13.Concentration	.193*	.347**	-.172	.098	-.012	.257**	.021	-.030	-.031	-.187	.046	.083	.334**	-.026	-.074	1			
	.043	.000	.073	.310	.904	.007	.830	.753	.747	.050	.631	.386	.000	.790	.440				
14.Number of firms	.019	.029	-.265**	.309**	.263**	.168	.017	.004	-.027	-.368**	.211*	.045	.164	.128	.147	.185	1		
	.842	.765	.005	.001	.006	.079	.859	.964	.781	.000	.027	.643	.087	.183	.125	.053			
15.Competitive strategy/prices	.061	.145	.036	.310**	.203*	.231*	-.015	-.082	.096	-.188*	.317**	.049	-.030	.106	-.094	.101	.361**	1	
	.527	.129	.712	.001	.033	.015	.876	.395	.317	.049	.001	.614	.755	.272	.331	.296	.000		
16.Labour cost	-.133	.114	-.073	.081	-.021	.085	.262**	.196*	.014	-.020	.053	.130	.376**	.359**	.051	.123	.092	-.052	1
	.167	.235	.447	.398	.828	.379	.006	.040	.886	.834	.584	.175	.000	.000	.594	.202	.340	.593	
17.Gross profit	-.051	.250**	-.025	.203*	.180	.311**	.087	.197*	-.075	-.118	.187	.156	.436**	.316**	.099	.368**	.456**	.289**	.226*
	.597	.008	.797	.034	.060	.001	.364	.039	.436	.220	.050	.104	.000	.001	.301	.000	.000	.002	.017
	.217	.263	.201	.691	.771	.834	.020	.780	.007	.020	.000	.333	.002	.016	.816	.025	.001	.103	.063

Annex 4 *Multiple regression analysis on competitive strategies and the dependent variable "overall performance of the company*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.808[a]	.652	.642	.449

a. Predictors: (Constant), Differentiation, low cost, integrated strategy

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	40.008	3	13.336	**66.225**	**.000[a]**
	Residual	21.346	106	.201		
	Total	61.355	109			

a. Predictors: (Constant), differentiation, cost leadership, integrated strategy

b. Dependent Variable: assessment of overall performance and success achieved

Annex 5.1 *Multiple regression analysis on competitive strategies and the dependent variable 'performance indicators measured by ROS'*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.770[a]	.593	.581	.489

a. Predictors: (Constant), *differentiation, cost leadership, integrated strategy*

ANOVA[b]

Model		Sum of Squares	df	Mean Square	**F**	**Sig.**
1	Regression	36.870	3	12.290	**51.449**	**.000[a]**
	Residual	25.321	106	.239		
	Total	62.191	109			

a. Predictors: (Constant), *differentiation, cost leadership, integrated strategy*

b. Dependent Variable: *assessment of overall performance regarding return on sales* (ROS)

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	2.846	.136		**20.996**	**.000**
	Integrated	1.904	.156	1.218	**12.201**	**.000**
	Low cost	1.685	.161	1.018	**10.483**	**.000**
	Differentiation	1.594	.167	.888	**9.537**	**.000**

Dependent Variable: Assessing the performance of the company by return on sales (ROS)

Annex 5.2 *Coefficients*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.538	.196		12.960	.000
	Integrated	1.562	.225	.825	6.926	.000
	Low cost	1.899	.232	.948	8.176	.000
	Differentiation	1.902	.241	.876	7.874	.000

a. *Dependent Variable: Assessment of overall performance according return on equity. Percentage of profit on equity.*

Annex 5.3 ANOVA: *Assessing the performance of the company by return on sales (ROS) – Percentage of profit on sales*

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	36.870	3	12.290	**51.449**	**.000**
Within Groups	25.321	106	.239		
Total	62.191	109			

Annex 5.4 ANOVA: *Achievement of objectives. Growth and managerial development of the company*

	Sum of Squares	df	Mean Square	**F**	**Sig.**
Between Groups	15.816	3	5.272	**11.535**	**.000**
Within Groups	48.448	106	.457		
Total	64.264	109			

Annex 5.5 Factorial analysis of the dynamics of the industry variables

Factors of market dynamics	Component		
	1	2	3
The balance of inflows and outflows. The total number of firms in the industry are dramatically increased.	.907		
New entrants in the industry. A large number of new firms have entered the market in recent years.	.824		
Market growth. The market in which the company operates has grown rapidly in recent years.	.499		
The degree of uncertainty about future developments. Demand for products / services varies greatly from year to year and it is very difficult for the foretold of the development in this industry.		.680	
Exits from the industry. A large number of firms have to close their business and come out the industry.		.655	
Changing customer requirements. Customer needs have changed a lot in recent years.		.652	
The expected market growth. We hope that market to grow rapidly in the coming years.			.842

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 4 iterations.

Annex 5.6 *Total variance explained by the industry dynamics of variables*

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.269	32.410	32.410	2.269	32.410	32.410	1.894	27.055	27.055
2	1.302	18.594	51.004	1.302	18.594	51.004	1.454	20.774	47.828
3	1.045	14.926	65.930	1.045	14.926	65.930	1.267	18.102	65.930
4	.829	11.847	77.777						
5	.714	10.202	87.978						
6	.523	7.474	95.452						
7	.318	4.548	100.000						

Extraction Method: Principal Component Analysis.

Annex 5.7 *Factor analysis for variables of competitive rivalry*

Factors of competitive rivalry	Component		
	1	2	3
Number of competing firms. In the market in which our company operates exist a great number of firms that offer similar products / services.	.707		
Gross Profit. Gross profit in the industry is very high	.593		
Concentration. In the construction industry a small number of firms dominates the market	.573		
Heterogeneity of companies that make up the industry. Firms in the industry are different, referred strategies, distribution channels and profitability		.804	
The dominance of competitive strategies on those of prices. In industry, the company that offers the lowest price is not necessarily the most successful.		.663	
Labor cost. In the construction industry the largest share of the total cost is labor cost.			.781
The degree of diversification. Many competing companies are included in other product markets.			.580

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Annex 5.8 *Total variance explained by variables of competitive rivalry*

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.832	26.175	26.175	1.832	26.175	26.175	1.795	25.636	25.636
2	1.376	19.652	45.827	1.376	19.652	45.827	1.368	19.549	45.185
3	1.009	14.410	60.236	1.009	14.410	60.236	1.054	15.051	60.236
4	.842	12.022	72.258						
5	.798	11.404	83.662						
6	.625	8.931	92.593						
7	.518	7.407	100.000						

Extraction Method: Principal Component Analysis.

Annex 5.9. *Factorial analysis of the competitive dynamics variables*

Factors of competitive dynamics	Component		
	1	2	3
The rate of change of the company because of the cost structure. Existing firms in the industry frequently have higher costs than new entrants	.839		
The rate of change of the company due to legislative restrictions. Labor Law and other legislative restrictions are prohibiting firms in the industry to respond rapidly to market changes	.795		
Investment in new assets. Anyone within the industry continually invests significant amounts in new buildings, machinery and equipment.		.900	
Introduction of new products. Competitors require continuously introducing and improving products / services.		.756	
The rate of change of the company due to the organizational structure. Firms in the industry are very slow because decision makers do not seem to notice small changes in the market.			.784
Aggressive responses to existing firms. Direct competitors react with special offers and discounts to new entrants.			-.759

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 4 iterations.

Annex 5.10 *Total variance explained by the variables of the competitive dynamics*

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.840	30.673	30.673	1.840	30.673	30.673	1.500	24.999	24.999
2	1.217	20.284	50.958	1.217	20.284	50.958	1.413	23.549	48.548
3	1.051	17.512	68.469	1.051	17.512	68.469	1.195	19.921	68.469
4	.829	13.813	82.283						
5	.583	9.721	92.004						
6	.480	7.996	100.000						

Extraction Method: Principal Component Analysis.

Annex 6.1 *Factor analysis of variables of low cost strategy*

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		**.751**
Bartlett's Test of Sphericity	Approx. Chi-Square	147.072
	df	15
	Sig.	**.000**

Annex 6.2 *Factorial weights analysis of low cost strategy*

	Factorial weight
The low cost factors. The emphasis on the provision of raw materials and negotiations for discounts	.704
The low cost factors. The emphasis on finding ways to reduce costs (eg standardization of product or specialization)	.742
The low cost factors. The emphasis on productive efficiency (eg in the production productivity and efficiency in the logistics of the exterior)	.539
The low cost factors. Placing emphasis on maximum utilization of production capacities	.806
The low cost factors. The emphasis on competitive pricing (offering lower prices than competitors)	.500
The low cost factors. Strict general and administrative expenses	.668

Annex 6.3 *Total variance explained by the low cost variables*

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.683	44.711	44.711	2.683	44.711	44.711	1.948	32.461	32.461
2	1.095	18.249	62.961	1.095	18.249	62.961	1.830	30.499	62.961
3	.765	12.748	75.709						
4	.574	9.562	85.271						
5	.475	7.920	93.192						
6	.409	6.808	100.000						

Extraction Method: Principal Component Analysis.

Annex 6.4 *Factorial analysis for the variables of differentiation strategy*

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.794
Bartlett's Test of Sphericity	Approx. Chi-Square	201.596
	df	21
	Sig.	.000

Annex 6.5 *Factorial weights analysis of differentiation strategy*

	Factorial weight
Differentiation factors. The emphasis on the development of products / services / procedures for new or adaptation of existing products to better serve customers	.635
Differentiation factors. The rate of issue of products / services on the market	.767
Differentiation factors. The intensity of advertising and marketing	.666
Differentiation factors. Differentiation by reducing the time, or the project completion deadline	.847
Differentiation factors. Placing emphasis on the development and training of the sales force	.833
Differentiation factors. The emphasis on creating and identifying by name and good image	.554
Differentiation factors. Offering unique products in terms of function or design.	.823

Annex 6.6 *Total variance explained by the differentiation variables*

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.857	40.816	40.816	2.857	40.816	40.816	2.313	33.044	33.044
2	1.398	19.968	60.784	1.398	19.968	60.784	1.942	27.741	**60.784**
3	.835	11.932	72.717						
4	.696	9.940	82.657						
5	.454	6.490	89.147						
6	.436	6.227	95.373						
7	.324	4.627	100.000						

Extraction Method: Principal Component Analysis.

Annex 6.7 *Factorial analysis of focus strategy*

	Factorial weight
Factors of focus strategy. The goal of a fully-defined or specific market	.815
Factors of focus strategy. Offering products for that market segment which pays higher prices	.749
Factors of focus strategy. Provide specific products tailored to a specific customer group	.878

Annex 6.8 *Total variance explained by the variables of the focus strategy*

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.994	66.483	66.483	1.994	66.483	66.483
2	.641	21.351	87.833			
3	.365	12.167	100.000			

Extraction Method: Principal Component Analysis.

Annex 6.9 *Factor analysis of variables of focus strategy*

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.640
Bartlett's Test of Sphericity	Approx. Chi-Square	81.763
	df	3
	Sig.	.000

Annex 7. *Relevance correlation between the dependent variable and independent variables.*

		Performance evaluation of the company by increasing sales.
Concentration. In the construction industry a small number of firms dominates the market	Pearson Correlation	-.193*
	Sig. (2-tailed)	.044
	N	110
Number of competing firms. In the market in which our company operates exist a large number of firms	Pearson Correlation	-.229*
	Sig. (2-tailed)	.016
	N	110

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