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Enver Krasniqi

University for Business and Technology, enver.krasniqi@ubt-uni.net

Sehare Maliqi

University of Ljubljana

Dea Krasniqi

University of Prishtina

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THE IMPACT OF ENTREPRENEURSHIP AND STRATEGIC MANAGEMENT ACTIVITIES IN KOSOVO SME SECTOR

Enver Krasniqi, Sehare Maliqi, Albina Tafilaj, Dea Krasniqi

UBT – Higher Education Institution, Lagjja Kalabria, 10000 p.n., Prishtine,
Kosovo

University of Ljubjana, Faculty of Economics – Entrepreneurship
University of Prishtina, Faculty of Economics

Abstract. This paper examines the impact of Entrepreneurship and Strategic Management Activities in SME sector in Kosovo. The subject was developed based on a broad literature and practices in the SME development sector, and the great importance of strategic activities in regards of firms' growth.

While preparing the paper, various methods were utilized for researching and studying strategic economic development, with the focal points in SME development. It is well known that the purpose of strategic development for Entrepreneurship is to develop the capacity for local economic development, to strengthen the future of economy and life quality for all citizens. During this process, the SME sector, public institutions, and partners in the private and non-governmental sectors cooperate to facilitate economic growth and employment.

This study focuses on enhancing the competitiveness of SMEs in Kosovo, to ensure a sustainable economic growth of the SME sector and the economy. The model includes functions of the internationalization of SMEs, human resources management, innovation strategies of SMEs, information technology and business environment.

The research was conducted by using a sample of BSCK, which was done in 2014 and analysing the results of this research. The primary goal of the study was to define the combination of Entrepreneurship and Strategic Management Activities in creation of joint ventures, and research shows that founders of enterprises use leadership skills and management strategies to increase the firm's assets.

Two basic research questions were defined:

Do entrepreneurs use Strategic Management tools in doing business in Kosovo?

What are the main drivers for choosing Entrepreneurship?

Keywords: strategic activities, SME competitiveness, innovation, orientation towards growth, and business environment.

Problem statement

Entrepreneurship and strategic management are linked to the behaviour and performance of companies. Strategic management seeks to create and exploit competitive advantages for companies within a particular environmental context. Entrepreneurship promotes the search for competitive advantages by bringing products, processes and innovations to market.

Entrepreneurial and strategic activities seek new markets or strategic competitive position for firms in order to create profits.

Kosovo is an important location for business development, due to its comparative advantages such as: a young and well-qualified population, natural resources, favourable climatic conditions, new infrastructure, a fiscal policy with the lowest taxation in the region, a geographic position with access to the regional markets, and new possibilities after signing of Stability Association Agreement with the European Union.

Businesses in Kosovo face many managerial issues, which if neglected, will negatively affect their efficiency. Small businesses, in comparison to large ones are more prone to the risk because they are not able to change often, they do not have sufficient capital to contend with the reduction or loss of market revenues, and they have higher operating costs per unit of revenue. But fortunately, one advantage of small businesses is the flexibility and ease of adapting to the nature of changes. This is the reason why they need managerial advice.

Literature Review

Based on similarities between entrepreneurship and strategic management (Ireland, Hitt, Camp and Sexton, 2001) recommended six areas (Innovation, Networking, Internationalization, Organizational Learning, Top Management Teams and Governance, Growth Orientation) are essential to firms' efforts for profit making. In developing economies, the SME-s are the primary engines of job creation, for income growth and poverty reduction. Therefore, the government should support entrepreneurship as well as business educational aspect for economic development (Krasniqi, 2012). Another important dimension of entrepreneurship literature is the challenge of interaction with the business environment (Begley et al, 2005). As it will be confirmed later, Baumol changed the focus of research from individuals to institutions and the business environment.

It is well known that the purpose of Strategic development for Entrepreneurship is to develop the capacity for local economic development, to improve the economic future and quality of life for all citizens. This is a process in which the SME sector, public institutions, and partners in the private and nongovernmental sectors work together to create better conditions for economic growth and employment.

Firms try to find fundamentally new ways of doing business that will disrupt an industry's existing competitive rules, and lead to the development of new business models that create new forms of competitive life (Hamel, 2000). The degree to which a firm acts entrepreneurially in terms of innovativeness, risk taking, and proactive behaviour is related to dimensions of strategic management (Barringer and Bluedorn, 1999).

This study will explore the meaning and methods that can help CEOs achieve development and growth for their companies in the era of globalization. During the recent few years, the economy of Kosovo has significantly progressed in transitioning to a market-based system and maintaining macroeconomic stability, but the international community and the Diaspora still play an important role for financial and technical assistance.

Research Methodology

In order to accomplish this master thesis, methodology was a key factor. The working methodology consists of a combination of primary and secondary data, through examination of literature and empirical studies. In order to accomplish this work, the empirical part relied on collecting and processing data in the field, through surveys. The focus of our survey was on 500 enterprises from different regions of Kosovo. The survey was supported in completing the questions given in a questionnaire designed specifically for this study. The objective of this survey was to take information regarding the work of these SMEs and their contribution to the new jobs opportunities and a specific objective was to find out the impact of Strategic Management in SME sector.

It is worth mentioning that we were a part of BSCK research team in sample development in 2014, and the findings imply that factors such as: SME management, central and local government leadership, conditions of financial sector, structure of the SME sector, the business environment, and approaches to regional markets condition successful Entrepreneurship and SME Strategic Development.

The other objective was to study the business environment where these companies operate and the challenges and obstacles that they face during their operation. During the survey, it was made clear that in the survey be significantly included businesses from all main sectors. The questionnaire was designed in such a manner and form in order to enable the achievement of our goals. The empirical part or the primary data collection was conducted through this survey, whereas the secondary data were collected from the literature of various authors who explicate the same topic subject. Secondary data aim to review the previous studies by various authors and this serves for the realization of the theoretical part of the paper. Types of information, the primary and secondary data, have helped the working methodology in observing the positive effects of the SME development on the economic stability of Kosovo and main constraints that they face during their operation.

More specifically the theses are based on statistical analysis of data collected from a sample developed by the Business Support Centre Kosovo (BSCK) in 2014, including 500 companies in Kosovo (BSCK, 2014). Experts of the field conducted the processes of drafting the questionnaire and sample selection. Interviews were conducted with key persons from companies, mainly managers-owners or financial managers. The questionnaire gathered quantitative and qualitative data (growth motives, firm performance, business environment perception and entrepreneurship and strategic management activities information). A random-selected sample was created from the business register list of the Kosovo Business Registration Agency (KBRA) which is a body of the Ministry of Trade and Industry (MTI). The random selection of sample size and the companies to be interviewed was made by software programs such as Excel TopCaats (Sample and Sample stratification).

After several phases of testing the sample size of selected companies, it was decided to organize the distribution of the sample according to two categories: the size of the company and the sector in which the business operates. In general, the response rates of business managers were from 90-95% (from 447 – 486 respondents, but in some specific questions, the response rates were lower).

Data analysis and interpretation

According to KAS in 2015, about 99.1% are small and medium enterprises from the total number of enterprises in Kosovo. The structure and growth of SMEs in Kosovo can be seen on the basis of analyses carried out by the SME Agency from Ministry of Trade and Industry. SMEs constitute the backbone of the economy of Kosovo. According to Kosovo Business Registration Agency (KBRA) at the end of 2015, SMEs (including micro enterprises) accounted for approximately 99.97% of all businesses operating in the country (for more details, see table no. 1).

As the table shows, from 2011 to 2015 the number of SMEs has grown at a rate of about 20% annually, while the total increase over the past five years was about 35%, but there is no data available on the number of closed and bankrupt SMEs.

Table 1. Enterprises statistics by size (2011 – 2015)

	2011		2012		2013		2014		2015	
	No.	%	No.	%	No.	%	No.	%	No.	%
Mi. Enter.	6,744	96.79	8,242	97.50	9,798	97.48	9,420	98.00	9,919	98.40
Sm. Enter.	178	2.55	160	1.89	215	2.14	165	1.72	139	1.38
Med. Ent.	40	0.57	43	0.51	31	0.31	21	0.22	19	0.19
Total SME	6,962	99.91	8,445	99.91	10,044	99.93	9,606	99.94	10,077	99.97
Big Enter.	6	0.09	8	0.09	7	0.07	6	0.06	3	0.03
Total	6,968	100%	8,453	100%	10,051	100%	9,612	100%	10,080	100%

GAP Institute, SME Development Strategy for Kosova 2012 - 2016 with Vision to 2020, 2011, p. 4, Table 1.

Entrepreneurship indicators

The results from research study are as follows:

- The majority of managers/owners have been employed before they started a business,
- The average of years of experience before they started a business is 7.3;

- The majority started a business without having a business plan prepared but actually they recognize a value of BP idea to be prepared in advance
- The average of founder age is 32.27 years and managers/owners age is near 40;
- The opinion about sector growth and firm's profitability is positive and optimistic
- Have been evaluated by SME managers/owners (table no.2).

Table 2. Entrepreneurship indicators - Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
II.10. Have you been employed before you started business	479	1	2	1.49	.500
II.12. years of experience before starting a business	280	0	40	7.30	6.874
II.14 having a BP before starting a business	494	1	2	1.75	.432
II.15 Actually do you have a BP	492	1	2	1.68	.465
II. 16. A. Founder age	239	16	69	32.27	9.202
II. 16. B. The manager/owner age actually	308	22	78	39.98	10.768
III.6. What is your opinion about sector growth where you operate	494	1	3	1.80	.740
III.7. What is your opinion about firm's profitability in your industry	474	1	4	2.37	.798
Valid N (list wise)	148				

*Note.*Table generated from SPSS Data Analysis Program*

The reliability analyses statistics was low (Cronbach's Alpha 0.578) and we did not analyse factor data reduction.

Table 3. Reliability Scale for Entrepreneurship indicators

Cronbach's Alpha	N of Items
.578	8

*Note.*Table generated from SPSS Data Analysis Program*

The Linear Regression analysis of business barriers on percentage of SME growth compared with last year was significant only by years of experience before starting a business (Significance 0.017) and with low significance "Knowledge about sector growth where you operate" – significance 0.105 (See table no. 4).

Table 4. The Linear Data Regression – Coefficients

Model	Unst. B	Coeff. Std. Error	St. Coeff. Beta	t	Sig.
(Constant)	32.480	16.818		1.931	.056
II.10. Have you been employed before you started business	-4.867	4.808	-.092	-1.012	.314
II.12. years of experience before starting a business	.982	.405	.235	2.428	.017
II.14 having a BP before starting a business	3.615	6.235	.067	.580	.563
1 II.15 Actually do you have a BP	3.488	5.766	.068	.605	.546
II. 16. A. Founder age	.004	.415	.002	.010	.992
II. 16. B. The manager/owner age actually	-.064	.353	-.030	-.182	.856
III.6. What is your opinion about sector growth where you operate	-5.094	3.117	-.147	-1.634	.105
III.7. What is your opinion about firm's profitability in your industry	-1.102	3.367	-.030	-.327	.744
a. Dependent Variable: III.5. Percentage growth compared with last year					

SME Managers - Owners Priorities for Strategic Objectives

Regarding the descriptive statistics that resulted from respondents' answers, we can conclude that:

- The maximum value of investment was 2,500,000 €.
- The average of percentage value from the total sales was about 20% (max. 75%),
- The services quality and product image are as priorities for companies (see table no. 5)

Table 5. Descriptive Statistics

	N	Minim	Maxim	Mean	Std. Deviat
V.6 Value of investment for next year	281	0	2500000	33844.52	178473.02
VI.6. % of investment in innovation from the total sells	84	0	75	19.95	18.621
VI.13.1 Strategic goals-product quality	460	1	5	4.54	1.016
VI.13.2 Importance of Product image	478	1	5	4.59	.873
VI.13.3 2 Importance of Quality services	476	1	5	4.69	.836
VI.13.4 2 Importance of Market share	465	1	5	4.43	.861
VI.13.5 2 Importance of Position in industry	451	1	5	3.93	1.282
VI.13.6 2 Imp. of Penetration in international market	366	1	5	2.80	1.798

The results about Factor analyses are showed as follows:

1. In the first group are: **The product and services Quality and Product image** with average of 0.791
2. In the second group was **“The position in Industry and Market share and penetration** with average 0.691(See table no. 6).

Table 6. Factor analyses - Component Matrix

	Component	
	1	2
The Importance of product and services Quality and Product image		
VI.13.3 Quality services	.843	
VI.13.2 Product image	.820	
VI.13.1 Strategic goals-product quality	.709	
The Importance of position in Industry and Market share and penetration		
VI.13.5 Position in industry		.821
VI.13.6 Penetration in international market		.710
VI.13.4 the market share		.542
Extraction Method: Principal Component Analysis.		
a. 2 components extracted.		

The Linear Regression analysis of managerial priorities for strategic goals on percentage of SME growth compared with last year was significant 0.00 in “International market penetration” and 0.007 “in given priorities to market share” (See table no. 7)

Table 7. The Linear Data Regression –Coefficients

Model		Unst. Coeff. B	St. Coeff. Std. Error	Beta	t	Sig.
	(Constant)	3.071	13.139		.234	.815
	VL13.1 Strategic goals-product quality	.357	1.646	.015	.217	.829
	VL13.2 The Importance of Product image	.840	2.588	.027	.324	.746
	VL13.3 The Importance of Quality services	-.355	2.729	-.011	-.130	.897
1	VL13.4 The Importance of market share	5.950	2.174	.186	2.737	.007
	VL13.5 The Importance of Position in industry	.996	1.372	.050	.726	.468
	VL13.6 The imp. Of Penetration in international market	-3.522	.995	-.241	-3.542	.000

a. Dependent Variable: IIL5. Percentage growth compared with last year

The Linear Regression analysis about decision for investment and value of investment in 2014 and planned value of investment for 2015 on percentage of SME growth compared with last year was significant 0.062 in “Did they invest in 2014?” (See table no. 8)

Table 8. The Linear Data Regression – Coefficients

Model		Unst. Coeff. B	St. Coeff. Std. Error	Beta	T	Sig.
	(Constant)	59.250	15.366		3.856	.000
	V.6 Value of investment for next year	-7.377E-006	.000	-.072	-.565	.574
1	V.1. Did you make investment in 2014	-26.673	14.118	-.197	-1.889	.062
	V.2. Value of investment in 2014	2.736E-005	.000	.132	1.035	.304

a. Dependent Variable: IIL5. Percentage growth compared with the last year

*Note. *Table generated from SPSS Data Analysis Program*

Discussion of Results, Conclusion and Recommendations

Hypothesis	Results
<p>1. The role of Entrepreneurship in SME development</p> <p>Research questions: What are the main drivers for choosing entrepreneurship?</p>	<ul style="list-style-type: none"> • SME as main contributors for job creation in Kosovo from 2007-2013 (about 118,000 new employees, with the average per year about 16,800 new employees) • The role of Entrepreneurship in SME creation. In the period of 2007-2013, there are 48,908 SME created with average per year about 7000 businesses • From the BSCK research, the main drivers for choosing entrepreneurship are: <ul style="list-style-type: none"> - 32.6% of entrepreneurs started a new business to realize their dreams about business ideas, and - 26.13% started a business analysing opportunities to realize a business idea, and - 23.97% started business because they were jobless. • From SPSS data results, the main drivers for choosing Entrepreneurship are: <ul style="list-style-type: none"> - Years of experience before starting a business, and - Entrepreneurs knowledge about sector growth where they will operate
<p>2. The impact of Strategic management in SME</p> <p>Research questions: Do entrepreneurs use Strategic management tools in doing business in Kosovo</p>	<ul style="list-style-type: none"> • Negative results - SME Entrepreneurs in Kosovo are using a Strategic management tools in low level: <ul style="list-style-type: none"> - Low level of R&D and Innovations, - Low level of creation of new product / service / process, or any substantial modification of products / services / processes, - Low level of action to protect intellectual property rights, - Low level of Companies that did not make any substantial change to the organizational structure of management, - Low level of introduction of new product marketing, • Positive results - SMEs are recognising the importance of some strategic goals: <ul style="list-style-type: none"> - Indication about the importance of the following strategic goals; <ol style="list-style-type: none"> 1. Service quality 2. Product & service image, and 3. The market share • SPSS data of Factor analyses: <ul style="list-style-type: none"> - The Favourable attitude and Effects from firm's Internationalization - Advantages which helped a firm to compete successfully

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- The Linear Regression Data
 - Effects of internalisation for Company development (Significance 0.070)
 - Internationalization is a result of our desire to be recognized as a provider of international services (significance 0.176)
 - Effects of firm's internalisation for profit growth (significance 0.193)
 - the new marketing changes (Significance 0.053)
 - Did Company register any product rights (Significance 0.104)
 - Penetration in international market (Sign. 0.000)
 - The market share (Sign 0.007)
 - Does company make investment in 2014 (Sign. 0.062)
-

The private sector in Kosovo consists of micro, small, medium and large enterprises. Despite the fact that sector of SMEs is relatively new, this sector constitutes 99% of all enterprises in Kosovo, representing a huge potential in the generation of new jobs and economic development. The creation of suitable environment for business and a support of a sustained development of SMEs are the basic conditions for economic development and the growth of social welfare, as well as a source of employment, reformation and productivity. This is the reason that today's main objective of our institutions is working towards increasing and supporting of this sector in order to make it more attractive to young entrepreneurs.

1. The first step is to encourage as many SMEs to enter the formal sector. With the introduction of the regulatory procedures for businesses, a greater number of SMEs will be encouraged to enter the formal economy.
2. The second step is to improve the facilitation of business closure or change of registration forms by ownership. It is extremely important to take initiatives in this area to ensure that honest entrepreneurs are able to start their businesses after they failed in a particular area, or change the form of ownership of their business towards more advanced forms of business development. Having in mind that about 90% of Businesses are "The Individual Businesses"
3. The Third step is to organize a campaign to strengthen the role of women in the establishment and development of sustainable enterprises.
4. The fourth step that came from our research is improving the "Non-adequate level of employee skills" and "Manager/owner skills"
5. Improving organizational change management and the need for SMEs to be managed by executive managers or management teams is another recommendation, having in mind that about 70% of SMEs are managed by owners,
6. Business Managers have to agree in providing of training and education to empower their employees in order to support employees in engaging in change-processes
7. Increasing capacities of the senior management team to develop a business vision and mission (short and long term strategic objectives, alternatives and flexible strategies) is another recommendation
8. Increasing competitiveness of products and service quality is an key factor on which businesses should focus because a top barrier for Kosovo SMEs according to our research is "high competition"
9. Increasing awareness about advantages which helped a firm to compete successfully in regional and international market
10. Enforcement of Laws and respecting of contracts according to SMEs unpaid debt (delays)

11. Increasing awareness about starting a business by analysing opportunities to realize a business idea and starting a business with a prepared business plan.
12. Increasing awareness about importance of business knowledge and experiences
13. More investment in R&D and Innovations,
14. Increasing knowledge about effects of internationalization for company development,
15. Increasing awareness about importance of product innovations and modifications as well as Protecting Innovations (patent) rights
16. It's recommended firms to use effectively new technology (manufacturing and information technologies), to engage available strategies (using global markets and cooperative strategies),
17. Application of incentives for exports by the government, such as the simplification of bureaucratic procedures, reducing customs tariffs, organizing campaigns to inform businesses for regional and international markets,
18. Strengthening economic ties with other countries in the region, in order to create favourable conditions for the penetration of local products in the regional markets and the European Union.
19. Increasing awareness of entrepreneurs for start-ups to have a prepared Business Plan which can be organized by the Ministry of Trade and Industry and other donors i.e. EU and USAID by financing trainings and other informative methods.
20. Increasing awareness of entrepreneurs for product and services innovations by Ministry of Finance, Ministry of Trade and Industry and other relevant institutions such as Innovation Centre of Kosovo (ICK)
21. Penetration in international market with quality of services especially in different IT services because of the high percentage of youngsters who have multi-language (especially in the English, German, Italian languages) and advanced skills in the IT sector.
22. To increase awareness for product rights registrations by organizing information campaigns from Kosovo Business Registration Agency to inform SME managers about the importance and procedures of the product rights registrations.

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