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Institutional support of the entrepreneurship facilitate integration process of Kosova

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Abstract

The purpose of this paper is to examine the impact of institutions in entrepreneurship activities for the small and medium enterprises (SME) sector, based on the last 10 years research experience in this field. The objective of this paper is to provide an in-depth analysis of the important factors explaining small firm growth, targeted of a very unique transition economy as is Kosova's. This study explores the role of institutions to promote the entrepreneurship for firm's wealth and economic growth in general and some constraints and obstacles that really damages entrepreneurship development. Difficulties and obstacles that entrepreneurs are faced such as the legal system, strengthening property rights, fiscal policy, informal economy, corruption, administrative burdens are explored, as well. Other constraints that are identified, refer to the commitment of the institutions in general support on education and other training skills benefits. A new perspective of the institutional support of entrepreneurship is discussed, which differs from others, highlighting the role of institutions in entrepreneurship development and the impact on the integration process. Finally, the aim is to encourage and provoke debate among of new scholars to contribute with conclusions and recommendations for government institutions and entrepreneurs.

Key words: Entrepreneurship, institutional support, integration, business environment.

JEL Codes: DO2, D73, E26, L26, P48.

1. INTRODUCTION

It is generally recognised that institutions has a significant role to improve the business environment in every country. The process of national, regional and European integration determine a lot of criteria and conditions that institutions should follow in order to reach goals of economic, cultural and political development. The first part of the study is based on statistical analysis of data collected from a sample developed by the questionnaire survey, including 35 companies from several parts of the country with different number of employees, different gender, various sort of ownership and different sectors. Interviews were conducted with key persons from companies, mainly managers, owners or financial managers. The respondents were asked to provide quantitative and qualitative answers on entrepreneurship institutional support with main key questions (11) on the base of satisfactory scale, from very satisfied to very unsatisfied. Procedures for the selection of sample size and the companies that are interviewed, data refined are made with Excel and SPSS. The second part of the study is based mostly on desk research data in general and using the deep research analyses from the field that Ministry of trade and industry developed with 800 businesses all over Kosovo. At the end part of the paper are formulated the conclusions and recommendation that institutions should take in a priority to improve the performance of the institutions on correlation of entrepreneurship development.

2. THEORETICAL APPROACH

(Concept of entrepreneurship)

The word “entrepreneur” thought that dates from the 12th century, derived from the French verb *entreprendre*, and the German word “*unternehmen*”, later was coined by the French Economist, Richard Cantillon in the early eighteenth century. These words literally mean “to undertake”. In Cantillon’s view, an entrepreneur is a person who buys at certain prices and sells at uncertain prices. Further meaning to this concept is “Doing something different, undertaken, and act a little differently.” By many definitions will be mentioned: Richard Kantilon, see entrepreneurship as an economic activity under conditions of uncertainty. Peter Dracker presents entrepreneurship as a business that is organized and carried out in a systematic and effective way. Treats entrepreneurship as part of their business activities and tasks leading, entrepreneurial management part. According Dracker entrepreneurial economy is cultural and psychological phenomenon, as much as it is economic and technological phenomenon; entrepreneurs see as rule changes as something acceptable and welcome and necessary. Harvard Professor Jeff Timmons thinks that entrepreneurs must have “helicopter tune” should have the ability to deal with everything in detail. Briefly, entrepreneurial culture and economic thinking concept presented as a rare resource, as an agent of social

change (and political). Entrepreneurship is the main weapon (destruction creative) and systematic innovation. It then connects with the idea and creativity. Creativity and innovation consists in: to see (seeing) something they have seen and done the others; to think (thinking) something that has not thought anybody, and make doing something that has not yet dared to make no one! An entrepreneur is a person who starts a new business venture. He/she is a person who can find opportunities and has the ability to develop those opportunities into profit-making businesses. Gartner (1988) described entrepreneurship as a wide range of activities including the creation of organizations. Morris (2001) viewed entrepreneurship as being a major force in economic development (Naser, Mohammed and Nuseibeh, 2009). But where is the impact of the institutions in entrepreneurship development? The institutions have a significant role of the general impact in entrepreneurship development. In a transition economy, entrepreneurs are faced with numerous formal and non-formal difficulties (North, 1990). Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights), (North, 1991). According to Thurik & Wennekers, in today's start-ups and its new varieties, entrepreneurship is considered not only as a means of contributing to employment and social and political stability, but as a power for innovation and competition (Sarri & Trihopoulou, 2005). Economists and entrepreneurship scholars consider entrepreneurial behaviour as an entrepreneurial discovery existing in all economic and human activities (Analoui, Moghimi and Khanifar, 2009).

Farther more as appointed by North Institutions provide the incentive structure of an economy; as that structure evolves; it shapes the direction of economic change towards growth, stagnation, or decline. When Institutions do not evolve in every system of exchange, economic actors have an incentive to invest their time, resources, and energy in knowledge and skills that will improve their material status. But in some primitive institutional settings, the kind of knowledge and skills that will pay off will not result in institutional evolution towards more productive economy. To illustrate this argument, I consider three primitive types of exchange-tribal society, a regional economy with bazaar trading, and the long-distance caravan trade-that are unlikely to evolve from within.

Entrepreneurship drives economic innovation and job formation. Business-ownership participation rates vary dramatically among those ethnic groups accounting for the largest demographic growth rates. In reviewing the findings, most of which result from comparisons between entrepreneurs and others, the following list can be derived: entrepreneurs seem to have a high need for

achievement, show creativity and initiative, are risk takers and self-confident, have an internal locus of control, need independence and autonomy, accomplish their tasks with great energy and commitment, and, finally, are persistent in following their aims (Schmitt, 2004).

3. FINDING DATA AND ANALYSES

Entrepreneurship and Micro, small and medium-sized enterprises (SMEs) are the engine of the all economy of the country and key factor of the development and facilitation of the integration process. But, in a transition country economy is very difficult to stand up and to develop without proper support from the government institutions. Entrepreneurship as a creativity act is an essential source of jobs, and a fundamental base for economic growth, create entrepreneurial spirit and innovation and crucial role for fostering competitiveness and employment. An investigation of the stance of the entrepreneurship in Kosova is explored in follow. The procedure for collecting data is based on the primary data collection through the questioner survey, prepared mainly based on the institutional support in different fields and diversity of the data. The study is based on statistical analysis of data collected from a sample, including 35 companies with different number of employees, different gender, various sort of ownership and different sectors. Interviews were conducted with key persons from companies, mainly managers, owners or financial managers. The respondents were asked to provide quantitative and qualitative answers on entrepreneurship institutional support with main key questions (11) on the base of satisfactory scale, from very satisfied to very unsatisfied. Procedures for the selection of sample size and the companies that are interviewed, data extraction are made with SPSS, based on these questions and criteria:

- Sort of ownership
- Year of establishment of the company
- Sector
- Number of employees
- Gender of employees and gender of owner (Manager) interviewed

Based on some criteria and fields of institutional support as in follow:

1. Administrative procedures and effectiveness to startup businesses
2. Financial assistance and support (access to credits, grants, subventions etc.)
3. Government tax policies
4. Human resources development and education in entrepreneurship
5. Business plan formulation and consultancy support
6. Institutional support on promoting and marketing activities

7. Export facilitation
8. Facilities to access to the funds of the international agencies
9. Promoting the cooperation between universities professional schools and businesses
10. Support from Agency for Small and Medium Enterprises, Business incubator Centre and Business Innovation centre
11. Relations with tax officials and businesses

These fields are evaluated by interviewed respondents upon to the selection scaled questions of the ranking satisfactory scale:

1. Very satisfied
2. Satisfied
3. Adequate
4. Unsatisfied
5. Very unsatisfied

For central tendency are presented the analysis of data for the number of employees of enterprises interviewed. Specifically, to do this task are used these measures of central tendency and variability such as mean, median, mode, variance, standard deviation, percentiles, minimum and maximum; also we included table of frequencies and a graphical representation of the data about the number of employees. The results are presented in Table 1, 2, (see appendix). The data are distributed asymmetrically because the mean, median and mode have different values.

Mean: $x = \frac{x_1 + x_2 + \dots + x_n}{n} = 10.31$ which means that on average the number of employees is about 10 ten workers per firm. Fig.1



Median = 8 which means that 50% of interviewed companies have less than 8 employees and 50% of interviewed companies have more than 8 workers. **Mode** = 4 which means that mostly of interviewed firms have 4 employees.

Std. Deviation = 7.738 which means that the number of employees is distributed in unequal form and it differs very much between firms. The maximum number of employees of the interviewed companies is 33 whereas minimum number of employees is 2. We can understand further the variance of number of employees from the table 2 which presents frequencies of workers per company.

For the inferential analysis we are testing a hypothesis about the level of satisfactory of interviewed businesses regarding to institutional support, concretely to test the support of the financial assistance from the institutions. In this study case is used *one-sample T-test* to test this hypothesis with level of confidence equal to 95%. Let's suppose that:

H₀: *Financial assistance and support for entrepreneurship form institutions is adequate.*

H_a: *Financial assistance and support for entrepreneurship form institutions is not adequate.*

To carry this hypothesis we will use SPSS and data from the question number 2 in our questionnaire that is relating with financial assistance and support. On the table 2 (see appendix) are the results from the SPSS window for One Sample T-Test of the case. A sample t-test was run to determine whether institutional support was adequate about entrepreneurship support, defined as an adequate level equals to 3 in our questioner. Level of significance $p < .05$ (it is $p = .000$). Therefore, it can be concluded that the population means are statistically significantly different. Also, the table 3 is presented the level institutional support for entrepreneurship is not adequate. Hence H_0 is rejected.

Additionally, is testified another assumption about support on human recourses development and education in entrepreneurship from institutions. Let's suppose that:

H₀: *Support for human recourses development and education on entrepreneurship from institutions is better than unsatisfied.*

H_a: *Support for human recourses development and education entrepreneurship from institutions is not batter then unsatisfied.* See table 4 on appendix shows that H_0 is accepted.

According to the statistics, general public expenditures on research and development (R&D) in Kosovo amounted to only around 0.1 present of GDP in 2011. For these tasks, institutional capabilities need to be established or strengthened. Mostly the focus of the education ministry has been on primary education, given the necessity to target fundamental schooling. In 2011, only 8% of the population had a university degree, which is significantly lower than other Western Balkan countries (23% in Croatia and 17% in Macedonia) and below the average of EU-27 countries (34 present). Government spending on higher

education is low, reaching 11% of total spending on education, equivalent to 1.3% of total government spending in 2010. That means that need more support from institutions in this regard. Kosovo lags behind as regarding well educated and trained labour force. This affects the competitiveness of the domestic economy. In this regard, the quality of education in Kosovo does not respond to market needs. Furthermore, there are lacking policies and insufficient funding for lifelong learning. Implementation of the legal framework and coordination between central and local level on these issues also remains a challenge.

To analyse relationship between variables is used multi-linear regression model. Specifically, know the dependency of number of employees from these three questions in our survey which are alternative procedures and effectiveness to start up business, government tax policies and export facilitation. So, we will need to construct a multi-linear regression with three variables and results from SPSS regarding to these three variables/questions that are interested to us in this case are presented on table 4.

From the data we build our regression as in follow:

Number of employees = -16.32 + 3.19 Administrative procedures and effectiveness to start up business + 2.33 Government tax policies + 3.80 Export facilitation

Interpretation of coefficients:

The coefficient -16.32 is the number of employees when all of other three criteria are zero in above regression. Which means that the company can't exists without support of intuitions in these criteria. Cf = **3.19** – measures the estimated variability on average of number of employees as result of change with one unit to administrative procedures and effectiveness to start up business when other criteria remain constant (unchanged). Cf=**2.33** - measures the estimated variability on average of number of employees as result of change with one unit to government tax policies when other criteria remain constant (unchanged). Cf=**3.80** - measures the estimated variability on average of number of employees as result of change with one unit to export facilitation when other criteria remain constant (unchanged).

Participation in associations, clubs or forums which have the function of exchanging experiences, contacts, advancing economic climate, tracking trends in business development is very important factor for the promotion of enterprises. We note that there is a vacuum of communication or the presence of enterprises in institutions and information level. Surveyed enterprises 83.91% of them have stated that they are not participating in various associations, while only 16.9% of them are part of the above mentioned organizations high. Summary of key challenges identified in the area of existence of functional market economy and capacity to cope with market forces within the union challenges Kosovo is facing

regarding the establishment of functioning of the market economy and the ability to cope with market forces within the Union are vast (MTI, The survey of 800 Small and Medium Enterprises).

One of the main challenges facing Kosovo is the limited institutional capacities, human and technical, respectively. A number of areas have been identified by the EC progress report in the context of creating functional market economy, such as competition, intellectual property rights (IPR), energy efficiency, environment, food safety, employment and social policies, public health policy, etc.). In this context, a better utilization of existing resources is required, than increasing the capabilities of the existing resources, hiring of new people, and through a short and long-term external assistance from the donor sector. Governance continues to face with serious challenges, particularly with the higher levels of corruption and bureaucracy. With regards to corruption, it is considered that it undermines the rule of law, impacts negatively on the business environment and national budgets and affects citizens' everyday life in areas such as healthcare and education. In addition, Kosovo faces challenges in terms of approximation of national legislation with the parts of EU acquires dealing with the establishment of a functioning market economy and the capacity to cope with the market forces within the Union. More specifically, in the main areas where there are pressing challenges such as in the areas of free movement of goods, competition, IPR, etc. Another aspect that faces with even more pressing challenges is that of enforcement mechanisms. In this regard, the efficiency of courts and other stakeholders Internal Market, Competition, Consumer and Health Protection, relating to the legal system in Kosovo, remain problematic. In the context of World Bank assessment on business environment, Kosovo institutions have managed to reduce the documentation requirements, time and cost for business registration and international transactions, then access to finance, investor protection, etc. However, the conditions for operation of businesses need further attention, including creating better opportunities for a new business environment and attraction of foreign investments and unify the general rules with EU standards.

4. APENDIX

The statistical data extracted through SPSS:

Table 1. Analysis of central tendency for the nr. of employees

| | | |
|----------------|---------|--------|
| N | Valid | 35 |
| | Missing | 0 |
| Mean | | 10.31 |
| Median | | 8 |
| Mode | | 4 |
| Std. Deviation | | 7.738 |
| Variance | | 59.869 |
| Minimum | | 2 |
| Maximum | | 33 |
| Percentiles | 25 | 4 |
| | 50 | 8 |
| | 75 | 13 |

Table 2. One-Sample T-test for financial assistance

| One-Sample Statistics | | | | |
|-----------------------|----|-------|----------------|-----------------|
| | N | Mean | Std. Deviation | Std. Error Mean |
| Number of employees | 35 | 10.31 | 7.738 | 1.308 |

| Table 3. One-Sample T-test for financial assistance and support | | | | | | |
|---|----------------|-------|-----------------|-----------------|---|-------|
| One-Sample Statistics | | | | | | |
| | N | Mean | Std. Deviation | Std. Error Mean | | |
| Number of employees | 35 | 10.31 | 7.738 | 1.308 | | |
| | | | | | | |
| One-Sample Test | | | | | | |
| | Test Value = 3 | | | | | |
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Number of employees | 5.592 | 34 | 0 | 7.314 | 4.66 | 9.97 |

Table 4. One sample T-Test for human resources development in entrepreneurship

| One-Sample Statistics | | | | | | |
|---|----------------|------|-----------------|-----------------|--------------------------------|-------|
| | N | Mean | Std. Deviation | Std. Error Mean | | |
| Human resources development in entrepreneurship | 35 | 2.63 | 0.598 | 0.101 | | |
| | | | | | | |
| One-Sample Test | | | | | | |
| | Test Value = 4 | | | | | |
| | t | Df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the | |
| | | | | | Lower | Upper |
| Human resources development in entrepreneurship | -13.561 | 34 | 0 | -1.371 | -1.58 | -1.17 |

| Table 5. Multi linear regression | | | | |
|---|--|-------------------|-------------------|----------------------------|
| Variables Entered/Removed | | | | |
| Model | Variables Entered | Variables Removed | Method | |
| 1 | Export facilitation , Administrative procedures and effectiveness to start up business, Government tax policies ^b | | Enter | |
| a. Dependent Variable: Number of employees | | | | |
| b. All requested variables entered. | | | | |
| Model Summary | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .490 ^a | 0.24 | 0.167 | 7.063 |
| a. Predictors: (Constant), Export facilitation, Administrative procedures and effectiveness to start up business, Government tax policies | | | | |

| ANOVA ^a | | | | | | |
|--------------------|------------|----------------|----|-------------|-------|------|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 489.117 | 3 | 163.039 | 3.268 | .034 |
| | Residual | 1546.426 | 31 | 49.885 | | |
| | Total | 2035.543 | 34 | | | |

a. Dependent Variable: Number of employees

b. Predictors: (Constant), Export facilitation, Administrative procedures and effectiveness to start up business, Government tax policies

| Coefficients ^a | | | | | | |
|---------------------------|--|-----------------------------|------------|---------------------------|--------|-------|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -16.324 | 8.663 | | -1.884 | 0.069 |
| | Administrative procedures and effectiveness to start up business | 3.189 | 1.839 | 0.275 | 1.734 | 0.093 |
| | Government tax policies | 2.333 | 2.076 | 0.186 | 1.124 | 0.27 |
| | Export facilitation | 3.802 | 1.979 | 0.319 | 1.921 | 0.064 |

a. Dependent Variable: Number of employees

5. CONCLUSIONS

SME development is considered as a strategic orientation in the country's future development, and accelerating the processes of regional and EU integration.

Improvement of current economic policies in order to create institutional preconditions for the stimulation of existing businesses and new manufacturing enterprises is necessary.

The stimulation of new investments through the reduction of customs duties and taxes for equipment and technologies that are not produced in Kosovo, in order to strengthen the competitiveness of local businesses.

Within the institutional policies is needed to support the create a long-term credit system help Manufacturing SMEs, especially for exporting Businesses. Recent credit scheme is "Elusive" and unfavorable for small MOST Businesses, especially for Manufacturing and exporting Businesses.

From the data obtained by field surveys previously stated in this paper it was observed, there is low level of satisfaction of institutional support in general. This is much more for non coordination of the activities and exchange of information between institutions and businesses.

These problems are entirely managerial nature and the managers or owners of enterprises in Kosovo must have management plans in the framework of which will also be involved necessarily the cooperation with the government institutions and various business associations.

Skills for drafting business plans and marketing in businesses lacking.

Through their businesses promote themselves, managed product, its market position, pricing, distribution, promotion actions, sales problems, penetration to the international markets etc. These require institutional support as well.

A strong contribution would be the training and preparation of staff to cope with today's challenges and dynamics of economic integration development, through cooperation between the business community and appropriate educational organizations, assisted and sponsored by businesses with good condition business but also the state.

The lack of experts still is evident, the need of capacity building of relevant academic units is necessary. Human resources development should be improved in order to face with new integration processes. Today it is difficult to do business without staff and experts. Cadres are the country's future. Our university institutions have begun late to include this area in their programs of study as a result elements inherited from the past system. In this regard could help the government with effective strategies in order to establish personnel policies relying on principles and professional skills rather than the limited definitions of policy and program.

Improving the business environment and create investment friendly climate will be expressed essentially in strengthening the private sector and particularly manufacturing businesses. Tests show the action of a large number of institutional constraints, administrative and specific obstacles and barriers that correlate with the market, trade policies, infrastructure, etc. manufacturing businesses in particular are mostly affected by unfair competition, the lack of laws, high taxes and difficulties in accessing credit.

Particular attention should also focus on training female, to launch a campaign of information and other efforts to promote women's role in the economy of Kosovo, especially in the field of marketing. Only 14% the females are owner of entire businesses in Kosovo.

Dealing with the challenge of integration requires new orientations, where the main key is information. Development of information technology and its application by SMEs to increase managerial capacity of SMEs and enables better communication between businesses inside and outside the country.

Finally, there is a need for a better coordination, institutional and organizational of the different actors and stakeholders in this field.

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