

ENTREPRENEURSHIP AND INNOVATIVE SME'S – AS A KEY OF ECONOMIC DEVELOPMENT - KOSOVO CASE

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ABSTRACT

Entrepreneurship is capability and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses. Entrepreneurship is a dynamic process of continuous change the economic structure and its effectiveness, in which individuals takes the risk to business outcomes. There are different definitions by different authors. Referring to Schumpeter entrepreneurship is defined as 'creative destruction', Drucker call as 'the entrepreneurial economy', etc. To be an entrepreneur means to be innovative and look for new opportunities and possibilities. In economics, entrepreneurship combined with land, labour, natural resources and capital can produce profit. Entrepreneurial spirit is characterized by innovation and risk-taking, and is an essential part of a nation's ability to succeed in an ever changing and increasingly competitive global marketplace. Today **Small Medium Enterprises (SME)**, acting key role for economic development. Small businesses contribute to the productivity of any country in several ways: they simulate the change in the business sector; they are laboratory inventions and innovations thanks to the ability to quickly respond to new technology and market competitive conditions, they also open more opportunities for new jobs for many workers. Today, thanks to the Internet and telecommunications, ever more they are taking part in the globalization of the commercial entrepreneurship. **Innovation** - today we are living in turbulent economy and innovation can be used to drive changes, such as new materials, ideas, or fashions, to shifting needs and to bring those components into harmony. Why innovation matter? Innovation in products, services, management systems, production processes, corporate values and other aspects of the organization are what keep companies growing, changing and thriving. Without innovation, no company can survive over the long run. **Kosovo** as a country in transition is facing with problem of economic growth and development. Because these businesses are crucial to the overall process of economic development, the government must take measures to care and support the creation and development of small and medium enterprises.

Keywords: Entrepreneurship, innovation, development, SME, economic development.

INTRODUCTION

As all post communist countries which are in transition phase, and Kosovo is facing with problem of economic growth and development. Because these businesses are crucial to the overall process of economic development, the government must take measures to care and support the creation and development of small and medium enterprises (SME).

Kosovo as a new country knows the importance role of SME's into economy development. More than 90% of enterprises are small and medium business. Since 1999, the economy of Kosovo has been largely driven by international assistance and remittances (World Bank, 2010). The role of the private sector, particularly SMEs has been relatively weak. However,

Kosovo is still in the transition phase where entrepreneurship and small business creation expected to play a key role on the road to a modern free market economy and economic growth. Ministry of Trade and Industry (MTI) and agency for SME support (SMESA) is the responsible institution for the formulation of SME Development strategy. The strategy for SMEs within a period of five years (2012 to 2016) entered into force on 1 January 2012. Also, there is a project founded by European Union (EU) in order to assistance SME. The project has four main components:

1. Improving the Business Climate;
2. Setting, Public-Private Dialogue and Donor Coordination;
3. Improving SMEs competition in Kosovo; and
4. Public Information Campaign.

THEORETICAL STUDY

Entrepreneurship

Entrepreneurship is capability and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses.¹ Entrepreneurship is a dynamic process of continuous change the economic structure and its effectiveness, in which individuals takes the risk to business outcomes.² There are different definitions by different authors. Referring to Schumpeter entrepreneurship is defined as 'creative destruction', Drucker call as 'the entrepreneurial economy',³ etc. There are similarity and difference between management and entrepreneurship too. Therefore, Drucker (Drucker. P 1985) is the first author who makes comparisons shared a similarity between management and entrepreneurship and combines these two concepts of so-called 'entrepreneurial economy'.⁴ According to Drucker there are three entrepreneurial management tasks:

1. Increase the success of existing business,
2. Utilization of business potentials, and
3. The future of business insurance.⁵

To be an entrepreneur means to be innovative and look for new opportunities and possibilities.⁶ In economics, entrepreneurship combined with land, labour, natural resources and capital can produce profit. Entrepreneurial spirit is characterized by innovation and risk-taking, and is an essential part of a nation's ability to succeed in an ever changing and increasingly competitive global marketplace.⁷ In now days, contemporary manager become entrepreneurs because of the complex environment and field of actions is greatest than ever.(Karn, (1987 pg.153).

Development of new technology in various fields of economy has separated human being from the manufacturing process, so that the future is thought that his physical strength

¹ <http://www.businessdictionary.com/definition/entrepreneurship>.

² Horvat, Dj.,Tintor, Z., (2008). Entrepreneurship.pg28.

³ Solymossy, E., Merovci, S., (2003). Entrepreneurship.pg.4.

⁴ Drucker, P.,(1985). Innovation and Entrepreneurship Practice and Principles. New York. Harper and Row.Pq.15.

⁵ Drucker, P.,(1986). Managing for Results. New York. Pq.14.

⁶ Robbins / DeCenzo (2011). Pg.101.

⁷ <http://www.businessdictionary.com/definition/entrepreneurship>.

completely replaced with work equipment. Despite this, increasing the level of technology and information, still puts human at the center of these processes, but with a new role, or a new way of action and behavior, requiring the addition of mental activity expressed in demand for new information.⁸(Ramosaj. B, 2007, pg.276).

Small Medium Enterprises (SME)

There are different definition referring to Small and Medium Enterprise (SME). Small and Medium Enterprises (SME), have different definitions by different countries. According to the European Union (EU), businesses are divided into micro businesses (1-9 employees), small businesses (10-49 employees) and medium-sized businesses (50-249).⁹

SME's have direct impact in technology changes; bring the health competition, opening new jobs and rich offer of product in local markets. SME are characterized as flexibility, direct relationship at work, job/employment opportunities, managing by person, limited capital, innovations. Economic grow is directly related by SME grow in which are stimulating competition, new product and service and other advanced services just for market survive.

The general categories of business most entrepreneurs start: retail, manufacturing and service. Additional categories of small businesses are construction, hospitality, communication, finance and real estate.

The economy changes constantly, providing opportunities for new business. The demand for services is booming, and 97% of services firms are small, with fewer than 100 employees. Entrepreneurship is dynamic process of creating incremental wealth; it is the process of initiating a business venture, organizing the necessary recourses and assuming the associated risk and rewards. An entrepreneur is someone who engages in entrepreneurship

SME's, Innovations and Economic Development

Innovation - today we are living in turbulent economy and innovation can be used to drive changes, such as new materials, ideas, or fashions, to shifting needs and to bring those components into harmony. Why innovation matter? Innovation in products, services, management systems, production processes, corporate values and other aspects of the organization are what keep companies growing, changing and thriving. Without innovation, no company can survive over the long run.¹⁰

In general there is a theoretical and practical opinion that innovations are essential for economic development and economic performance of countries, and that SMEs are the main carrier of innovation, especially in industries that need low number of human resources, low capital and low concentration. According to *Grossman* and *Helpman* (1994), they suggesting innovation as the main mechanism of economic growth. Innovation is a process under which businesses promote competitive position in the market and profitability through continuous adaptation of relevant new products and new ideas to operate in the market.¹¹

⁸ Ramosaj. B.,(2007). MANAGEMENT. Fundamentals of Management .University of Pristina. Pristina.Pq.276

⁹ M.Mustafa, E.Kutllovci, P.Gashi, B.Krasniqi (2006) "Small and Medium Businesses" Establishment, management and business growth. Pg.21.

¹⁰ Daft, R., Kendrick, M., Vershinina, N.,(2010). Management. Pq.3-5.

¹¹ Mustafa,M., Kutllovci, E., Gashi,P., Krasniqi,B.,(2006). Small and Medium Business. Creating, managing and growing of business. Riinvest Institution. Pristina.Pq.32-33.

Kosovo for the purpose of economic development must find ways to encourage and stimulate entrepreneurship and the creation of SMEs. Creating a business environment is very important to develop conditions of SMEs. Business environment requires a) government actions in order to ensure equality in the market place, asset security and implementation of contracts, b) creating attractive tax and custom policy, trade and credit policies, and c) provision of necessary public, economic and legal infrastructure, as boost entrepreneurship and innovation as the keys of economic development.

METHODOLOGY

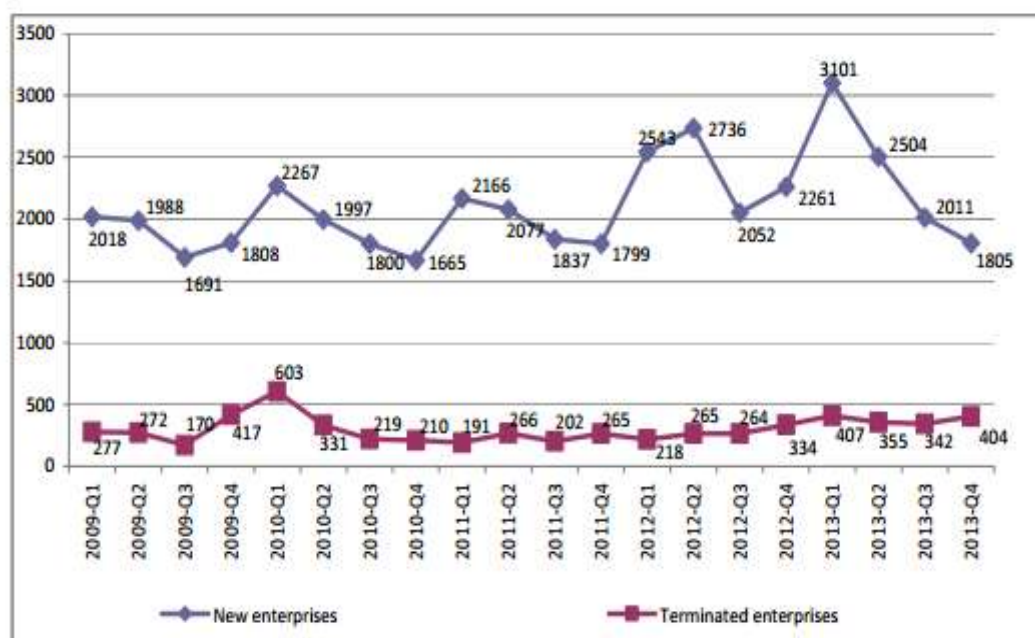
This research is done to small and medium enterprises in Republic of Kosovo. This research uses a data and figures which are collected from the Ministry of Trade and Industry (MTI), statistical report from Business Registration Agency in Kosovo and others relevant sources. Thus, this research is specific to conduct prediction that a certain variable affects other variables (Creswell, 2002). Regarding that, we can say that a economic development is a result of growth of entrepreneurship and innovative SME's.

DISCUSSION AND RESULTS

Statistical Repertoire of Enterprises in Kosovo Q4 2013

During the fourth quarter of 2013 (Q4 - 2013) a total of 1,805 enterprises were registered, while in the previous quarter (Q3 - 2013) were 2,011 of them, which shows a decline between quarters of the same year to 206 enterprises, of which expressed in percent we have 10.2% less enterprises registered in this quarter. Also it is noticed a drop to 20.2% of new business compared with the same quarter of the previous year (Q4 - 2012).

Graph 1. Number of new, re-registered and terminated enterprises by the respective quarter from Q2 2008 to Q4 2013



Favorite economic activities during this quarter were trade with 559 enterprises (31%), real estate and leasing with 197 (10.9%), agriculture, hunting and forestry 189 (10.5%), construction with 174 (9.6 %), hotels and restaurants with 161 (8.9%), processing industry 159 (8.8%), other social and personal activities 147 (8.1%), transport, storage and

communication with 143 enterprises (7.9%), while other activities take part in a very small scale. Category of number of employees of 1-4 (employees) is about 1,748 enterprises or 96.8% of new enterprises, category of 5-9 with 42 (2.3%), category of 10-19 with 9 (0.5%), category of 20-49 and 50-249 share each 3 enterprises (0.2%), whereas in other categories there are no enterprises registered in this quarter. (see graph below. Source: Kosovo Agency of Statistic. <https://ask.rks-gov.net>).

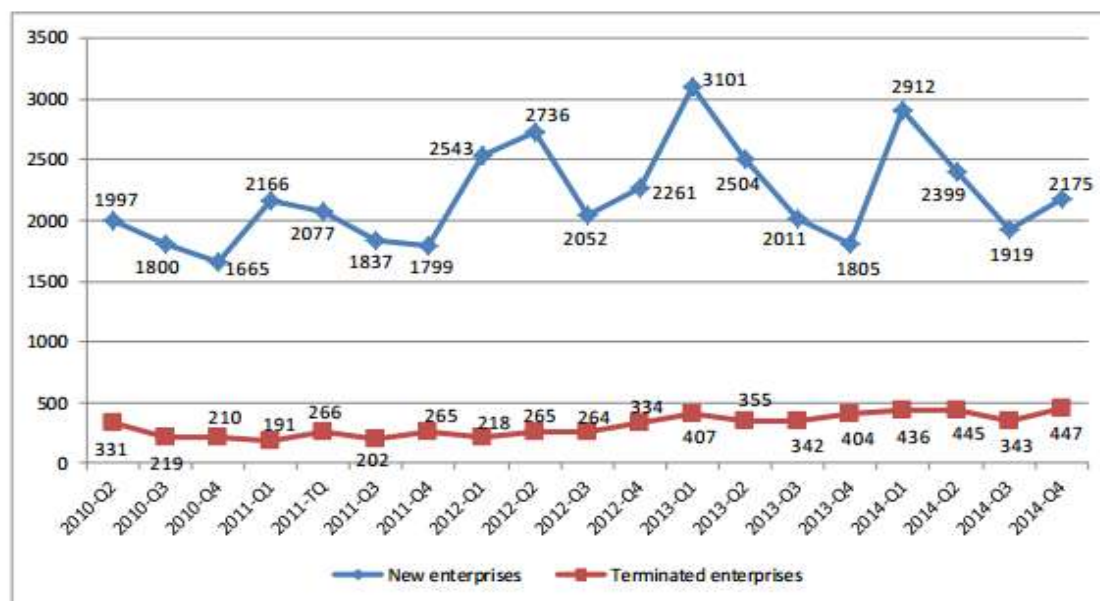
Table 2. Number of new enterprises by section of economic activities, legal form of organization and the category of the number of employees in Q4 2013

Section of economic activity	Total	Category by number of employees					
		Non-individual business			Individual business		
		Total	1-4	5 and over	Total	1-4	5+
Total	1805	455	419	36	1350	1329	21
A Agriculture, hunting and forestry	189	19	19	-	170	166	4
B Fishing	1	-	-	-	1	1	-
C Mining and quarrying	5	4	4	-	1	-	1
D Manufacturing	159	44	41	3	115	113	2
E Electricity, gas and water supply	6	5	4	1	1	1	-
F Construction	174	49	44	5	125	120	5
G Wholesale and retail trade; repair of motor vehicles motorcycles and personal and household goods	559	147	137	10	412	411	1
H Hotels and restaurants	161	28	24	4	133	127	6
I Transport, storage and communication	143	24	20	4	119	119	-
J Financial intermediation	-	-	-	-	-	-	-
K Real estate, renting and business activities	197	99	95	4	98	98	-
L Public administration and defence, compulsory social security	9	5	3	2	4	4	-
M Education	18	1	1	-	17	16	1
N Health	36	6	5	1	30	30	-
O Other social and personal activities	147	24	22	2	123	122	1
P Private households with employed persons	1	-	-	-	1	1	-

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

Statistical Repertoire of Enterprises in Kosovo Q4 2014

Kosovo Agency of Statistics (KAS) has also published "Statistical Repertoire of Enterprises in Kosovo Q4 2014" on new businesses registered with the Business Registration Agency of Kosovo (BRAK). During the fourth quarter of 2014 (Q4 - 2014) were registered a total of 2,175 enterprises, while in the previous quarter (Q3 - 2014) were 1919 of them, which shows an increase between the quarters of the same year to 256 enterprises, of which expressed in percentage we have 13.3% more new enterprises in this quarter.

Graph 1. Number of new enterprises and those terminated by the respective quarters from Q2 2010 to Q4 2014

Source: Kosovo Agency of Statistics
<https://ask.rks-gov.net>

Increase by 20.5% of new businesses is also observed compared with the same quarter of the previous year (Q4 - 2013). Favorite economic activities during this quarter were trade with 648 new enterprises (29.8%); accommodation and food service activities with 222 enterprises (10.2%); manufacturing with 216 enterprises (9.9%); agriculture, forestry and fishing with 168 enterprises (7.7%); construction with 166 enterprises (7.6%); professional, scientific and technical activities with 148 enterprises (6.8%); transport and storage with 143 enterprises (6.5%); other service activities with 120 enterprises (5.5%); information and communication with 80 enterprises (3.7%); whereas, other activities participate in very small scale.

Category of number of employees from 1-4 represents about 2,118 enterprises, or 97.4% of new enterprises; category from 5-9 employees with 35 enterprises (1.6%); 10-19 employees with 17 enterprises (0.8%); 20-49 employees with 4 enterprises (0.2%); in the category with 250+ employees we have only one enterprise; while, in the other categories there is no enterprise registered in this quarter.

Table 8. Number of new enterprises by section of economic activity and the number of employees in Q4 2014

Sections of economic activities	Total	Category of number of employees					
		1-4	5-9	10-19	20-49	50-249	above
Total	2175	2118	35	17	4	-	1
A Agriculture, forestry and fishing	168	166	2	-	-	-	-
B Mining and quarry	6	5	-	1	-	-	-
C Production	216	209	4	2	1	-	-
D Supply of electricity, gas, steam and Air Conditioning	14	13	-	-	-	-	1
E Water supply, sewerage, waste management and land revitalization activities	9	9	-	-	-	-	-
F Construction	166	154	7	5	-	-	-
G Wholesale and retail trade, repair of motor vehicles, motorcycles	649	638	6	3	2	-	-
H Transport and storage	143	141	2	-	-	-	-
I Accommodation and food service activities ..	222	216	5	1	-	-	-
J Information and communication	80	78	1	1	-	-	-
K Financial and insurance activities	12	11	-	1	-	-	-
L Real estate activities	21	21	-	-	-	-	-
M Professional, scientific and technical activities	147	139	6	1	1	-	-
N Administrative and support activities	65	64	-	1	-	-	-
O Public administration and defense	17	16	1	-	-	-	-
P Education	19	17	1	1	-	-	-
Q Human health and social work activities	51	51	-	-	-	-	-
R Arts, entertainment and recreation	50	50	-	-	-	-	-
S Other service activities	120	120	-	-	-	-	-

Regarding the geographical scope of new enterprises at the municipal level, as in every quarter, prevails Prishtina with 564 new enterprises (expressed in percentage 25.9%), Prizren with 181 enterprises (8.3%), Ferizaj with 152 enterprises (7.0 %), Peja with 133 enterprises (6.1%), Gjilan with 124 enterprises (5.7%), Fushe Kosova with 87 enterprises (4.0%), Mitrovica and Gjakova both with 79 enterprises (3.6%), while other municipalities have smaller number of enterprises registered during the quarter.

CONCLUSIONS

The Government of Kosovo, in order to represent and ensure the basis for a sustainable economic development, have to increase investment and to support the development of private sector, especially small and medium enterprises. For the purpose of national economic development, Kosovo must find ways, or develop education programs to encourage and stimulate entrepreneurship, innovation and the creation of SMEs. Innovations are essential for economic growth. Innovation in products, services, management systems, production processes, corporate values and other aspects of the organization are what keep companies growing, changing and thriving. Without innovation, no company can survive over the long run. Small businesses contribute to the productivity of any country in several ways: they simulate the change in the business sector; they are laboratory inventions and innovations thanks to the ability to quickly respond to new technology and market competitive conditions, they also open more opportunities for new jobs for many workers.

Creating a business environment is very important to develop conditions of SMEs. Business environment requires a) government actions in order to ensure equality in the market place, asset security and implementation of contracts, b) creating attractive tax and custom policy,

trade and credit policies, and c) provision of necessary public, economic and legal infrastructure, as boost entrepreneurship and innovation as the keys of economic development. By using good strategic position, the Government must provide opportunities for investors and new businesses. Is it country with lowest cost country in Eurozone, it has youngest population in Europe and it has low taxes and cost-efficient labor force. Focus in further improving the business climate and in speeding up the regional and European integration of country. Developing entrepreneurial culture through the introduction of courses for business and promoting a positive image of entrepreneurship etc.

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