

WHAT PERCEIVED SUCCESS FACTORS ARE IMPORTANT FOR SMALL BUSINESS OWNERS IN A TRANSITION ECONOMY?

Besnik A. Krasniqi, PhD

Stafordshire University/UK and University of Prishtina/Kosovo

E-mail: besnik.krasniqi@uni-pr.edu

Malush Tullumi, MBA, PhDc

AAB University/ Prishtina/ Kosovo

E-mail: malush.tullumi@universitetiaab.com

Abstract

This paper examines perceived Critical Success Factors (CSFs) affecting the success of small firms and their relationship with firm and managerial characteristics. The paper also seeks to investigate the interdependence relationship among the perceived CSFs themselves using data reduction techniques. The study tests the number of CSFs on small firm success using primary data that were collected through a questionnaire survey with 256 business start-ups randomly selected from business register kept at Kosovo Business Registration Agency. Principal component analysis (PCA) with Equamax rotation was used to reduce the data and categorize success factors into groups. The findings identified four groups of perceived CSFs affecting the success of business start-ups: (1) *Characteristics of individual, social connections and reputation*, (2) *Management skills, social support and quality of product*, (3) *Market support*, and (4) *political involvement*. Findings show that factors that are under control of the entrepreneur are more important compared to external environment factors. The study provides several implications for owners/managers as well as for policy makers aimed at increasing performance of start-ups. Although the paper is based on Kosovo data the findings are applicable to most start-ups in transitional and challenging environments worldwide.

Keywords: *Critical success factors, start-ups, Kosovo, performance, transition economies, factor analysis*

JEL Classification: M13; C12; L25; L26

Introduction

The role of entrepreneurship has become vital for any economy in the world and in particular for transition economies (TEs) because of their ability to respond to the systemic shock rapidly and their potential to generate jobs and income. In recent years, the role of entrepreneurship has also been highlighted by the new growth theory with its emphasis on “knowledge” as a major factor influencing economic growth which takes place predominantly through entrepreneurial capital or the capacity to engage in the entrepreneurial activities (Romer, 1994). According to the new growth theory both knowledge and its spill-over effects are crucial for economic growth in today’s knowledge-based economy. Although new growth theories are not directly concerned with entrepreneurship and small firms, many authors have identified these as the key mechanisms through which knowledge spill-over contributes to job creation and the overall growth of the economy (Wennekers and Thurik, 1999; Nooteboom, 1994; Audretsch and Thurik, 2001; Pagano and Schivardi, 2003; Schuh and Triest, 2000).

Small firms play similar important role in Kosovo’s economy. As of 2012 SMEs accounted for more than 99 per cent of bulk of total firms in Kosovo (Business Registry, 2012). Almost entire private sector consists on SME’s in Kosovo suggesting strategic importance for Kosovan economy (Krasniqi, 2007). Because of importance of entrepreneurship to the growth and sustainability of Kosovo’s economy, this study examines the success factors for start-up firms. Furthermore the factors that contribute to the success of small businesses are not unanimously agreed upon researchers (Benzing, et al. 2009) and this study aims to provide additional evidence on success factors of small business owners in Kosovo.

Moreover, the study aims also to provide implications for owners/managers as well as for policy makers aimed at increasing business success of start-ups and consequently improving performance of SME sector. Although the paper is based on Kosovo’s data the findings may be applicable to most start-ups in transitional and challenging environments worldwide.

The paper is organized as follows. Next section discusses literature on critical success factors of small businesses. Then paper provides the overview of sample, data and methodology and related empirical results. Finally, paper ends with some conclusions and implications for small business owners and government.

Literature Review: Critical Success Factors

CSFs can be defined as “areas in which results, if they are satisfactory, will ensure successful competitive performance for the organisation” (Rockart, 1979). Saraph et al. (1989) viewed them as those critical areas of managerial planning and action that must be practised in order to achieve effectiveness. Chourides et al. (2003) identified various critical factors for successful knowledge Management (KM) implementation in five organisational functional areas: strategy, human resource, management, IT, quality and marketing. MacMillan et al. (1987) identified four dimensions of CSF: the entrepreneur, the product, markets and finance.

Boynton and Zmud (1984) define CSFs as ‘those few things that must go well to ensure success for a manager or an organisation, and, therefore, they represent those managerial or enterprise areas that must be given special and continual attention to bring about high performance. CSFs include issues vital to an organisations current operating activities and to its future success’.

More recently, Wong (2005), proposed 11 CSFs which have to be considered for successful implementation of Knowledge Management in SMEs: management leadership and support; culture; IT; strategy and purpose, measurement; organisational infrastructure; processes and activities; motivational aids; resources; training and education; and HRM. Unger et. al. (2011), in their study based on 70 independent samples (N=24,733), found a significant but small relationship between human capital and success. Further they maintain that human capital leads to higher performance only if it is applied and successfully transferred to the completion of specific tasks that need to be performed.

Numerous studies showed different variables that influence the success of SMEs, but most of these studies concentrated on a few sets of variables: (1) the psychological and personality traits of entrepreneurs, (2) the managerial skills and training of entrepreneurs and (3) the external environment (Benzing, Chu and Kara, 2009). Psychological attributes such as a drive for independence, innovative orientation, attitude toward risk and a competitive nature are been found to relate to success (Frese, Brantjes and Hoorn, 2002). Impact of the owner/managerial knowledge and expertise on the success of SMEs was in-depth studied by numerous authors (Daily et al. 2002; Temtime and Pansiri, 2005; Ghobadian and O’Regan, 2006).

Another line of research was focused on role of external environment factors on small firm success and performance. Studies for transition and developing economies suggest that institutional settings are critical factors to success of small

businesses (Smallbone and Welter, 2009; Chu et al, 2007). Some other authors have identified factors related to entrepreneurs' characteristics and their network to be critical for business success. For example, a study of Romanian entrepreneurs suggest that small business owners ranked friendliness to customers, reputation for honesty and good customer services as top three success factors (Benzing, Chu and Bove, 2005). Study of Kenyan entrepreneurs found that availability of capital, possession of business skills, previous experience, and family support are critical for business success (Pratt, 2001). Others argue that there is a need for balanced alignment between internal (i.e. entrepreneur and managerial characteristics) and external factors to have growth and success of small firms (Krasniqi, 2012).

Research Methodology

This research design was based on the format developed by Benzing et al. (2009). The sample was not stratified in order to reflect the conclusions over whole population. The data in this study was collected through face to face personal interviews conducted with active small business owners in Kosovo. The initial sample consisted of 300 randomly selected small business owners. The selected businesses were gathered from a list provided by Kosovo Business Registration Agency (KBRA). The interviews and field survey was conducted by the Institute for Entrepreneurship and Small Business in Kosovo at the end of 2012. Out of 300 businesses, 14 businesses were closed or otherwise not reachable and 30 were either did not respond or ended the survey prematurely or after checked for inconsistency were dropped for further analysis. 256 businesses answered the survey questions, which resulted in 85,3 percent response rate.

Instrument

The survey instrument in this study is based on the work of Benzing et al. (2009) who employed items that have been previously used in Turkey, Ghana, Kenya and some other African countries that have similar institutional environment to Kosovo. These items were translated into Albanian to create instrument. The survey questionnaire included 18 questions related to success.

Sample demographics

As shown in Table 1, 77 percent of surveyed entrepreneurs are male and 23 percent female. This finding is in line with previous studies on Kosovan entrepreneurs, although there is a slight increase of female entrepreneurial participation (Hoxha and Krasniqi, 2008; Krasniqi, 2012). Over 50 percent of

entrepreneurs reported that they are married. Majority of entrepreneurs (around 38 percent) belong to the age group of 26-40 years. It can be noted that the in two tales of the age group distribution there are very few entrepreneurs.

Table 1. Sample characteristics of business start-ups in Kosovo* (N=256)

Variables	Entrepreneurial characteristics	Frequency	Percentage
GENDER	Male	197	77.3
	Female	58	22.7
MARITAL STATUS	Married	130	51
	Not married	118	46.2
AGE GROUP	From 18 to 25	44	17.3
	From 26 to 40	97	38.2
	From 41 to 55	83	32.7
	Above 55	30	1.8
LEVEL OF EDUCATION	Primary	36	14.1
	Secondary	121	47.5
	University or above	98	38.4
ENTREPRENEUR'S EXPERIENCE	No experience	25	10.8
	From 1 to 2 years	36	15.5
	From 3 to 5 years	41	17.7
	From 6 to 10 years	45	19.4
	Above 10 years	85	36.6
ENTERPRISE CHARACTERISTICS	Average no. of full-time employees	3.3	n/a
	Average no. of part-time employees	2.4	n/a
YEARS IN BUSINESS	Less than 1 year	74	29
	From 1 to 2 years	54	21.2
	from 3 to 5 years	127	49.8
SECTOR OF ACTIVITY	Retailing	111	43.5
	Wholesaling	19	7.5
	Service	83	32.5
	Agriculture	13	5.1
	Manufacturing	29	11.4
TYPE OF	Individual Business	218	85.5

BUSINESS	Partnership	25	9.8
	Company	12	4.7

*Not all respondents answered all questions. Consequently not all percentages add up to 100%

As found in Krasniqi (2009) young people do not have sufficient capital and experience accumulated to support business ownership while the middle age people do have these capacities. This is particularly true for transition economies or where available capital is scarce or costly. With respect to education 14.1 percent completed primary school, 47.5 completed secondary education and 38.4 completed university education or above.

When asked about their work experience in the past, around 10.8 percent reported no experience at all. Of total entrepreneurs, 36.6 percent reported work experience of more than 10 years and 19.4 percent reported experience of more than 5 years suggesting that experience accumulation has a significant role in supporting start-up process in Kosovo. Regarding years in business, almost half of the respondents have been in business for 3 to 5 years while remaining had less than 3 years of experience.

The sample is dominated by micro and small enterprises. Only 6 businesses reported 10 or more employees which are considered as small businesses. Average number of full time employees is around 4 which suggest very small scale of business start-ups. The small average size of start-ups in Kosovo suggests the infant phase of private sector development. At the same time there is an evidence of limited number of business partnerships in Kosovo which might have contributed to small average size to. This is particularly true for Kosovo where access and conditions to finance is not adequate to fund large scale investment projects (Krasniqi, 2010).

Retail businesses comprise 43 percent of the sample, while wholesaling and services and represent 7.5 and 32.5, respectively. This is quite similar to study for Turkish entrepreneurs (Benzing et al. 2009). Kosovan entrepreneurs reported working around 49 hours weekly. Similar studies reported 70 hours per week for Turkish entrepreneurs while 45 percent for Kenyan entrepreneurs. The lower hourly commitment may be a result of business strategy which is better than African countries but behind Turkey.

Factor Analysis Findings

This section reports findings based on Principal Component Analysis (PCA) based on rotation method using Equamax with Kaiser Normalization conducted in SPSS. Data on 18 questions/variables related to factors contributing to business success were collected based on a five-point Likert scale, with five (5) being extremely important and one (1) being least important.

Table 2. Mean score for variables contributing to business success*

Success variables	Mean	Std. Deviation
1. Good management skills	4.57	0.766
2. Charisma and friendliness	4.5	0.876
3. Satisfactory government support	2.96	1.607
4. Appropriate training	3.88	1.368
5. Access to capital	3.89	1.179
6. Previous business experience	4.16	1.075
7. Family support	4.51	0.944
8. Marketing/sales and promotion	4.07	1.128
9. Quality of product/service	4.55	0.897
10. Good customer service	4.73	0.727
11. Hard work	4.55	0.82
12. Position in society	4.18	1.067
13. Maintenance of accurate records	4.3	0.966
14. Ability to manage personnel	4.39	0.92
15. Skilled employees	4.3	0.997
16. Political activity	2.1	1.391
17. Reputation for honesty	4.16	1.126
18. Friends support	3.75	1.256

*5=extremely important, 4= very important, 3=mildly important, 2 not very important, 1=unimportant .

As reported in the Table 2, 'Good customer service' was ranked as most important variable for business success. 'Good management skills', 'Hard work and quality of product/service' were ranked as very important success variables too. The last

one partially is explained by low level of efforts measured by weekly hours. Other variables that scored above 4 point of Likert scale are 'Charisma and friendliness', 'Support of family and friends' and, 'Position in society'. As can be seen position of entrepreneurs in society including their network and support of friends and family seems to be also very important for entrepreneurs. Networking and family support is highly important for entrepreneurs in weakly installed institutional environments in Kosovo.

Entrepreneurs in Kosovo gave the least importance to 'satisfactory government support'. This may suggest that entrepreneurs are not relying too much on government support. They seem to understand market economy rules. Or, similar to Turkey they may see the government support as a mean for greater governmental interference (see Buzenitz et. al. 2009).

In addition, factor analysis provides a clearer picture of association between factors. As shown in Table 3, the factor analysis indicates that 18 success variables could be grouped into four factors. All variables in this model have factor loadings greater than 0.50, except the variable 'Marketing/sales and promotion'. Reliability Statistics show that Cronbach's Alpha 0.803 suggesting high consistency in survey data.

Table 3. Principle Component Factor Analysis (Equamax Rotation) Factor loadings for Perceived Success Variables

	Component			
	FACTOR 1	FACTOR 2	FACTOR 3	FACTOR 4
Skilled employees	0.715			
Ability to manage personnel	0.698			
Friends support	0.694			
Maintenance of accurate records	0.664			
Position in society	0.636			
Reputation for honesty	0.63			
Hard work	0.512			
Good management skills		0.755		
Good customer service		0.692		
Charisma and friendliness		0.655		
Quality of product/service		0.622		

Family support		0.582		
Previous business experience		0.504		
Satisfactory government support			0.828	
Appropriate training			0.761	
Access to capital			0.717	
Marketing/sales and promotion			0.459	
Political activity				0.898

Extraction Method: Principal Component Analysis. Rotation Method: Equamax with Kaiser Normalization.

Initial Communalities Extraction has values of at least 0.50 percent. The percentage of variance explained by the factor solution is 59.5.

The factor analysis groups the variables into a factor which are not easily named or explained because sometimes the factors are highly correlated with seemingly unrelated success factors (Benzing et al, 2009). The results show that 18 variables grouped into four factors. The first factor can be called 'Characteristics of individual, social connections and reputation' and includes variables: Skilled employees, ability to manage personnel, friends support, maintenance of accurate records, position in society, reputation for honesty and hard work. This factor explains 35.79 of variability. The second factor is named 'Management skills, social support and quality of product/service' and includes these success variables: good management skills, good customer service, charisma and friendliness, quality of product/service, family support, previous business experience. Factor 3 can be referred to as 'Market support' and includes variables satisfactory government support, appropriate training, access to capital and marketing/sales and promotion. Finally fourth factor is political involvement of entrepreneur.

Referring to Factor 1 the variables relating to skills of employees, hard work maintenance of accurate records help companies to build reputation and position in society. This suggests that managerial ability to deal with personnel is crucial to build an established position of the owner and company in society and business community which translates to business success.

In addition, good management skills is linked to good customer services meaning that without having good management skills entrepreneurs cannot build Charisma and friendliness, encourage employees, produce quality service and product and then promote success of their companies. In this process family support is important as a success factor probably because more than 90 percent of SMEs are

family businesses. Often these businesses rely on family members and their support in form of supervisors, employees because they are more reliable for entrepreneurs than variable 'friends support' which scored lower.

Appropriate training and access to capital are linked with government support. The support programs of the government have been linked with financial subsidies of training and financing with grants. These supports of start-ups from government for small business have not been sufficient or not available at all in Kosovo. The main small business support packages were initiated or financed by international donors in Kosovo.

Conclusions and Implications

This study of the 256 small business owners indicates that among the most important success factors are 'Good customer service' which was ranked as most important factor for business success. Good management skills, hard work and quality of product/service were ranked as very important success factors too. Other factors that scored above 4 point of Likert scale are charisma and friendliness, support of family, and position in society. As can be seen position of entrepreneurs in society including their network and support of family seems to be also very important for entrepreneurs. Networking and family support is highly important for entrepreneurs in weakly installed institutional environments in Kosovo. This is because the entrepreneurs have to rely on relatives and family members in their managerial work.

It is important to note that political involvement has not been very important. This finding is in contrary to previous studies for Kosovo who suggest that there is an always a need for influence of growth inside company which means variables related to individual/entrepreneur and settings he established to produce high quality service/product for which there is need of support from family and good networking. This finding emerges an important conclusion. Because all these factors in PCA are largely under the locus of control of entrepreneur, it means that entrepreneurs in Kosovo believe they can influence their own business success. This may be due to the lack of government support initiatives and entrepreneurs use their own resources to build their competitive advantages and consequently business success. This is in line with recent study for Kosovo by Krasniqi (2012) who provides evidence that internal factors have been underestimated in several studies. The study urges the need that further research in this area must include

broader variables and particular those related to individual and management skills and tested with larger sample of entrepreneurs and different contexts.

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