Abstract

This paper explore the problems facing entrepreneurs respectively business start-ups in Business Environment of Kosovo. This involved surveying 144 start-up businesses in four regions of Kosovo.

The survey method used was a questionnaire, which the respondents completed themselves. A Statistical Package for the Social Sciences (SPSS) program was then used to examine and analyze the findings.

The problems for start-ups were during both pre-start-up and ongoing business activities. The main problems during pre-start-up were: lack of initial capital, too much local and national government bureaucracy, lack of pre-start up training, getting the bank loan and corruption. Meanwhile, the key problems during ongoing business activities were: high bank interest rates, illegal competition, lack of cash, incorrect competition and disruption to electricity supply.

Key words: Start-up problems, Entrepreneurship, Business Environment, Transition, Kosovo

JEL Classification: M13; L26

1. Introduction

It is widely recognised among researchers that developed countries owe their prosperity to entrepreneurs as creators of new enterprises and thus creators of new jobs (eg. Drucker, 1985; Kuratko, 2005; Headd, 2007, Berseford and Sauders, 2005; and Zhang, 2010).

These new enterprises operate in a business environment which is influenced by politics, economic conditions, social and technological factors as well as infrastructure. So, entrepreneurs do not operate in vacuums, rather they respond to
their environment (Gartner, 1985), and depending on the conditions of this business environment the new businesses will either flourish or fail. Alongside this, every country, regardless of its stage of development, is interested in promoting business start-ups, be this to reduce poverty or to further improve their economic prosperity.

States in Transition have also accredited entrepreneurship with a key role in reducing poverty and creating wealth. For example, in Estonia entrepreneurship is recognised as making a remarkable contribution to economic development in the form of a fast growing business sector (Venesaar and Loomets, 2006). Additionally, Kolodko (2000) maintains that in the Transition economies of Eastern and Central Europe and the former Soviet Union, development of SMEs has contributed significantly to overcoming the transition depression and to the recovery of fast growth. Earle and Sakova (2000), in their study of self-employment in six transition economies (Bulgaria, Czech Republic, Hungary, Poland, Russia, and Slovakia), discovered that rapid liberalisation of the centrally planned economies and virtual collapse of State owned enterprise led to vast new opportunities for entrepreneurship. Similarly, Turkey recognises the importance of entrepreneurship to the growth and stability of its economy (Benzing, Chu and Kara, 2009).

In general, most states in transition recognise the role of entrepreneurship and are marshaling financial and technical resources to assist in creating a favorable environment for entrepreneurship development (Smallbone and Welter, 2010), through creation of new enterprises.

Kosovo, along with many other countries, including those in transition, has recognised the role of entrepreneurship in both new job creation and reduction of poverty. Since 1999 Kosovo has therefore adopted a free market economy and trade liberalisation is enforced by Kosovo’s legislative framework, which is compatible with EU legislation.

Looking at things from another angle, according to the World Bank Kosovo has the largest poverty and unemployment rates in the Western Balkans. Kosovo also has the youngest population in Europe with 20% of the population aged 18-24. According to the United Nation Development Program (UNDP), unemployment in Kosovo stands at more than 47%, five times higher than in the European Union (EU) overall, with 75% of young people out of work.
In order to address this need for employment, immediate action has to be taken. This can be achieved by encouraging and motivating young people to start their own business and by creating a favorable business environment.

This research will explore the problems of Kosovo Entrepreneurs during the pre-start-up period and during ongoing business operation. Further, this research attempts to contribute to the development of Kosovo’s economy by providing clearer insights on perceived problems of entrepreneurs in a very challenging business environment in Kosovo’s transition economy.

From this will flow the recommendations to Government and other stakeholders in order to foster business friendly environment that facilitates the establishment and growth of new businesses. The findings will also be useful for individuals considering starting-up their own businesses as it will make them aware of the potential problems that they will face during the establishment of their business and once it is up and running.

It is hoped that the findings of this research will also be helpful to the development of similar countries in transition.

2. Literature review

2.1. Business Environment as determinant of Entrepreneurship

Various factors influence an individual’s decision to start, or not, their own business and the success of the business. Gartner (1985) proposes a conceptual framework of new venture creation that portrays the process as an interaction of the environment, the individual, the organisation and entrepreneurial behavior. Korpya (2010) describes this in more detail by defining three levels of factors which influence entrepreneurship. Firstly, there are micro level factors which affect motivation and the decision to start-up in business; they include: psychological traits of an individual, family, education, age, gender and access to finance. Secondly, there are meso level factors which include: the industry or sector where an individual decides to establish his business, competition, concurrency, barriers to entry and profitability. Thirdly there are macro level factors which include: economic, demographic, legal, institutional, technological and cultural.

The business environment is different in different countries, thus creating favorable or unfavorable conditions for start-ups and entrepreneurship to occur. Depending on the environment, start-ups will be pushed or pulled to start their own businesses. Acs (2007), recognised these two types of entrepreneurship as:
“Necessity Entrepreneurship”, i.e. one who must be involved because there is no other choice; and “Opportunistic Entrepreneurship”, i.e. one who is attracted to start a business. Acs discovered that necessity entrepreneurship does not have an effect on economic development and growth, whilst opportunity entrepreneurship does have a positive and significant impact. This attractive environment, has a significant influence on the decision to start-up or not and then if one starts a business, this environment also has an impact on the business’s ability to grow and prosper or whether it fails.

Government and institutions have to promote an entrepreneurial culture and support entrepreneurial activities by creating an attractive and business friendly environment, because only if ‘triggers are bigger than barriers will individuals start-up a business’ (Volery, Doss and Mazzarol, 1999).

Aidis and Sauka (2005) identified formal, informal and economic barriers to SMEs at different stages of development, they included: too many licenses, need for advice, lack of state support, corruption, bureaucracy, motivation, infrastructure and high interest rates.

Some countries in transition such as Hungary, Latvia, Lithuania, Poland and the Ukraine have recognised a favorable economic situation as the most important factor determining willingness to start-up a business (Korpysa, 2010). Meanwhile Vidicki et al (2009) identified factors limiting SME development in the Autonomous Region of Vojvodina as: Limitations in institutional support to SMEs; limitations in financial support; limitations in local infrastructure and limitations in human resources. Troshani (2009) identified the main problems hindering businesses in the area of Shkoder in Albania were the absence of state intervention and weak infrastructure.

Umihanic, B. and Tulumovic, R. (2008) maintain that in Bosnia and Herzegovina the key factors leading to the low level of entrepreneurial activity are: Low investment in education; obvious barriers to starting a business; high tax for entrepreneurs and complex legal procedures for regulating businesses.

Kosovo, having the youngest population in Europe, being in the central part of South East Europe, having in place compatible legislation with EU, and having huge reserves of lignite and minerals and 60% of arable land, seems to be a very attractive place to start-up and do business. However, the business environment influences a business during any stage of its development and a business friendly environment is the key pre-condition for more start-ups and ongoing business success, thus increasing employment and reducing poverty.
However, starting a business involves risk and uncertainty of whether the venture will succeed or fail. On this topic, Welter and Smallbone (2011) argue that, institutions when stable and operating efficiently can reduce uncertainty and risk for entrepreneurs, as well as transaction costs connected with conducting entrepreneurial activity. If these conditions to foster entrepreneurship are not in place and many barriers exist, people will be less willing to start their own business and those who are already in business will be more likely to fail.

Unfortunately, new firm creation in Kosovo is very poor. According to SOK, over the past 5 years only 7,557 to 9,592 new enterprises were established each year. Connected to this, Kosovo’s Total Entrepreneurial Activity (TEA) of 6.4 (Krasniqi, 2009) is far below other countries in transition.

This small number of start-ups may be attributed to a number of potential reasons as mentioned above, ranging from unfavorable business environment, lack of government support, lack of motivation or fear of fail.

The difficulty of setting up and operating a business in Kosovo has also been identified by the World Bank’s “Doing Business 2013” report, where Kosovo is ranked 98th for ease of doing business and 126th for starting a business, out of a total of 185 surveyed countries.

So, this research will seek to identify the main problems in the business environment of Kosovo, that face start-ups during pre- start-up and ongoing business operations.

3. Research Method

A quantitative method has been used in order to survey start-ups in Kosovo. The research survey was undertaken at four cities, covering the south-west region of Kosovo. A sample of 144 start-ups has been used.

A face to face technique using a self-completion questionnaire was employed. The accepted wisdom is that self-completion surveys are very quick and cheap. However, to avoid the disadvantages of this method (Bryman and Bell, 2007, :241-242) the researcher of this survey was present and administered the survey.

The first 18 questions of questionnaire asked for general information about the participants of the survey, such as: Home and business address, age, gender, marital status, education level, legal form of the business and how the business start-up was financed. Question 25 detailed 16 possible problems/barriers which businesses may face prior to start-up and Question 33 contained 29 problems which may be faced by business owners once they are established.
Perceived problem variables were measured using a five-point Likert scale. Respondents were asked to rank problem variables from 1 to 5, where 5 was “a very serious problem”, 4 was “a serious problem”, 3 was “a problem”, 2 was “a minor problem” and 1 was “not a problem”.

The empirical data derived from the questionnaire were analyzed using a Statistical Package for the Social Sciences (SPSS) program.

A mean score for the factors such are problems during pre-start-up and problems during ongoing activities was calculated and factors with a higher mean score were identified as having a more significant influence on the business start-up.

4. Sample characteristics

The majority of the surveyed participants in the sample (N=144), 101 were under the age of 40. This sample of start-ups is therefore compatible with the general population of Kosovo where 70% are under the age of 35.

According to research sample, N=144 start-ups, 84.5% were established by men and only 15.5% by women; 29% of those are, from 18 to 25 year old, and 42%, from 26 to 40 year old; 61% are married.

In terms of education, entrepreneurs in the sample were well educated with around 50% having a university degree and 4% a master’s degree. Within the sample, females were found to be better educated compared with males. Within the group of 22 females 15 (68%) had a university degree and 3 a master’s degree. On the other hand, of 119 males 56 (47%) had a university degree and 3 a master’s degree.

Looking at the legal form of the businesses sampled, shows that 127 (88.8%) of the businesses were registered as individual business, and are mainly involved in business activities such as trade (42%), services (31%), and production (27%).

5. Empirical findings

5.1. Problems during pre start-up activities

Question 25 asked respondents to rank, on the five point Likert scale, the problems/barriers during the pre-start-up phase of establishing their business.

Top of the list of problems faced during this pre-start-up period of establishing the business are lack of initial capital and local government bureaucracy. Unfortunately, to date, banks in Kosovo are not providing loans for start-ups. When you add to this no government support and worse still, bureaucracy and
corruption, then it is little wonder that people are discouraged from starting their own business.

Table 1, below, ranks, according to their mean score, the main problems faced by start-ups during this pre-start-up phase.

<table>
<thead>
<tr>
<th>Ranked Pre start-up problems</th>
<th>Mean</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lack of initial capital</td>
<td>3.42</td>
<td>1.29</td>
</tr>
<tr>
<td>2. Too much Local Government Bureaucracy</td>
<td>3.08</td>
<td>1.45</td>
</tr>
<tr>
<td>3. Lack of Pre start-up training</td>
<td>3.05</td>
<td>1.45</td>
</tr>
<tr>
<td>4. Getting a Bank loan</td>
<td>2.96</td>
<td>1.52</td>
</tr>
<tr>
<td>5. Corruption</td>
<td>2.90</td>
<td>1.70</td>
</tr>
<tr>
<td>6. Finding equipment for production</td>
<td>2.74</td>
<td>1.41</td>
</tr>
<tr>
<td>7. Getting an Import/Export licence</td>
<td>2.63</td>
<td>1.61</td>
</tr>
<tr>
<td>8. Bribery of Local Authorities</td>
<td>2.48</td>
<td>1.63</td>
</tr>
<tr>
<td>9. Access to Electricity</td>
<td>2.46</td>
<td>1.53</td>
</tr>
<tr>
<td>10. Getting an operation permit</td>
<td>2.44</td>
<td>1.46</td>
</tr>
<tr>
<td>11. Complicated Business registration</td>
<td>2.41</td>
<td>1.40</td>
</tr>
<tr>
<td>12. Getting a Construction permit</td>
<td>2.36</td>
<td>1.48</td>
</tr>
<tr>
<td>13. Finding a working location</td>
<td>2.32</td>
<td>1.39</td>
</tr>
<tr>
<td>14. Problem to find a Business Partner</td>
<td>2.26</td>
<td>1.36</td>
</tr>
<tr>
<td>15. Access to water supply</td>
<td>2.08</td>
<td>1.40</td>
</tr>
<tr>
<td>16. Access to ICT</td>
<td>2.07</td>
<td>1.48</td>
</tr>
</tbody>
</table>

Gartner (1985) has placed ‘making venture capital available’ as the most important way to facilitate new business creation. Similarly, Smallbone (1991) argues that the main problem faced by UK start-ups was raising finance (In Watson and Scott, 1998).

Difficulty in obtaining finance was also found to be the biggest barrier to starting up a business in Singapore (Choo and Wong, 2006). These pre-start-up problems are identified by a number of researchers such as: Mazzarol et al, 1999; Gilad and Levine, 1996; Aidis and Sauka, 2005; and Vidicki et al, 2009. If at this stage barriers are bigger than triggers then start-ups will not occur (Volery, Dos and Mazzarol, 1999).

Therefore the clear message that government needs to hear is that, in order to trigger business start-ups, they must: Make it easier for them to access finance; provide incentives for people who want to start their own business; and they need to be very active in clamping down on corruption and lazy local governments. Some steps have been made, through the establishment of ‘One Stop Shops’ to
speed up the procedure of registering the business. Furthermore, they need to support start-ups by providing advice and training to entrepreneurs prior to them starting up in business.

5.2. Problems of start-ups during ongoing business activities

In question 33 candidates were asked to rank the problems/barriers which they faced once their business was operational. They were asked to rank the problems on a five point Likert scale where 1 was “not a problem at all” and 5 was “a very serious problem”.

The main problems identified by Kosovar start-up’s, during the operational phase of their businesses, are ranked in Table 2. below.

<table>
<thead>
<tr>
<th>Ranked Business Problems</th>
<th>Mean</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. High Bank interest rates</td>
<td>4.50</td>
<td>1.05</td>
</tr>
<tr>
<td>2. Illegal competition</td>
<td>4.05</td>
<td>1.28</td>
</tr>
<tr>
<td>3. Cash flow/Lack of cash</td>
<td>3.94</td>
<td>1.17</td>
</tr>
<tr>
<td>4. Incorrect competition</td>
<td>3.76</td>
<td>1.33</td>
</tr>
<tr>
<td>5. Electricity problems</td>
<td>3.66</td>
<td>1.44</td>
</tr>
<tr>
<td>6. Obtaining long term financial capital</td>
<td>3.63</td>
<td>1.48</td>
</tr>
<tr>
<td>7. Political Instability</td>
<td>3.34</td>
<td>1.50</td>
</tr>
<tr>
<td>8. High price of processing equipment</td>
<td>3.33</td>
<td>1.26</td>
</tr>
<tr>
<td>9. Corruption</td>
<td>3.25</td>
<td>1.62</td>
</tr>
<tr>
<td>10. Too much competition</td>
<td>3.23</td>
<td>1.25</td>
</tr>
<tr>
<td>11. High price of raw material</td>
<td>3.15</td>
<td>1.46</td>
</tr>
<tr>
<td>12. Delay in payments</td>
<td>2.93</td>
<td>1.33</td>
</tr>
<tr>
<td>13. Complex and confusing tax system</td>
<td>2.93</td>
<td>1.26</td>
</tr>
<tr>
<td>14. Problems on exporting</td>
<td>2.93</td>
<td>1.51</td>
</tr>
<tr>
<td>15. Poor roads/Transportation</td>
<td>2.74</td>
<td>1.38</td>
</tr>
<tr>
<td>16. Too much control of Inspectors</td>
<td>2.73</td>
<td>1.33</td>
</tr>
<tr>
<td>17. Lack of Business Plan</td>
<td>2.73</td>
<td>1.55</td>
</tr>
<tr>
<td>18. Lack of Skilled Workers</td>
<td>2.72</td>
<td>1.40</td>
</tr>
<tr>
<td>19. Problems on Importing</td>
<td>2.70</td>
<td>1.53</td>
</tr>
<tr>
<td>20. Fear of Crime</td>
<td>2.70</td>
<td>1.40</td>
</tr>
<tr>
<td>21. Insufficient Production capacities</td>
<td>2.70</td>
<td>1.49</td>
</tr>
<tr>
<td>22. ICT Problems</td>
<td>2.63</td>
<td>1.28</td>
</tr>
<tr>
<td>23. Too many defect in processing equipment</td>
<td>2.58</td>
<td>1.20</td>
</tr>
</tbody>
</table>
From Table.2. above, it can clearly be seen that Kosovar start-ups, once established their business, continue to have problems. High bank interest rates are ranked top of the list of problems, related to this start-ups have difficulty obtaining long term financing in order to maintain adequate cash-flow, vital to ongoing activities of any business.

A number of studies have shown that the shortage of financial capital can be a major barrier to small business success (e.g. Coleman, 2007). And where there is a shortage of capital, small businesses will fail. Similar problems were identified in research undertaken by Krasniqi (2007). He argued that the most significant problems which will hinder growth of Kosovo’s SMEs are inadequate financing, unfair competition and the tax burden. Also, Vidicki et al (2009) identified limitations in financing as a barrier to SME development in the Autonomous Region of Vojvodina.

Lack of cash can be attributed to slow sales, lack of demand and the time delay between provision of goods / services sold and receipt of payment. From the survey, it can be seen that the respondents did not face a problem with demand for their products or services (ranked 25 out of 29 problems) but they were encountering problems with receiving payment for their sales (ranked 12 out of 29 problems).

The second highest ranked problem, that of “illegal competition”, demonstrates that the Kosovar government is weak when it comes to identifying and dealing with illegal businesses in Kosovo. When you add to this the fourth highest ranked problem of “incorrect competition” between the legal players within the same industry, then one can quickly conclude that it is really very difficult to do business in Kosovo.

Problems such as unsafe location, lack of parking space, vandalism against the business, lack of demand, unreliable employees, lack of skilled workers and ICT problems are ranked at the bottom of the list of problems faced.
6. Conclusions and Recommendations

The overall aim of this research was to identify the problems facing entrepreneurs who are starting up businesses and running established businesses.

The main problems identified during the pre-start-up period were found to be: 1. lack of initial capital; 2. too much local government bureaucracy; 3. lack of pre-start-up training; 4. securing a bank loan and 5. corruption. Furthermore, those who didn’t give up and actually started their own business, encountered further problems, mainly due to external factors relating to government incompetence.

Problems faced during business operations were found to be: 1. High bank interest rates; 2. illegal competition; 3. lack of cash; 4. incorrect competition; 5. electricity supply problems; and 6. obtaining long term financial capital.

Findings of this research suggest several implications for government and other stakeholders.

Government institutions have to create a positive climate in which start-ups can thrive. It is not enough to create laws, they have to be enforced. Government also must monitor the effectiveness of their institutions and streamline the process of registering a business. They need to remove obstacles, provide relevant services to start-ups, fight corruption and deal with illegal businesses. Furthermore, the government needs to recognize the business community as a partner with whom they can solve the problem of unemployment, reduce poverty and create wealth for the country. Government also needs to create strong Business Associations, located near to start-up businesses, working closely with them in order to better understand their needs, problems and concerns, and so providing relevant support at each stage of the business’s existence.

Furthermore, government must continue to build more Incubators, Business Parks and One Stop Shops in order to encourage more young people to start a career as an entrepreneur and to provide them with as much help as possible to make their business a success. This support will need to involve reducing barriers and provision of free training and consultancy. In this way, it is hoped that start-ups will not only succeed but be ready to compete on the global market.

Government can also provide tax incentives (reductions) for businesses wishing to start-up in strategically important markets, as designated by government. Finally, government must take action to encourage a positive view of entrepreneurs and entrepreneurship in society.
Educational institutions need to include entrepreneurship at all levels of education in order to cultivate an entrepreneurial spirit in young people.

Entrepreneurs have to be aware that starting up and doing business in Kosovo is very challenging. They have to find the best strategies to overcome the obstacles relating to unfair and illegal competition, to find a way to compete with businesses that use fraud, corruption and political involvement, to recognize banks and financial institutions as partners for financing the growth of their business, to overcome and address the problems created by the shortage of electrical energy.

7. References:

1. Acs.Z.J . (2007) How is Entrepreneurship good for economic growth? The 25th Economic Conference of Progress Foundation, held on October 31, Zurich, Switzerland


