

RESEARCH ARTICLE

The Impact of SME Internationalization in Firm's Growth-Kosovo's Perspective

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Abstract

The intention of this study is to observe the importance of Internationalization in the SME sector in Kosovo. The study refers to the long-term research experience of the author in Entrepreneurship and Small Business Development especially, in designing Strategic Activities in SME Development. The subject is developed based on broad literature and practices in the SME development sector, and the great importance of Internationalization activities in the direction of firm's growth. During the preparation of this study, a range of methods were used to research and study the SME development in the era of globalization. Using a sample of BSKC (Business Support Centre Kosovo) research from 2011 and 2012, the conclusion of this study indicates that the majority of CEOs agreed that a number of the actions undertaken by enterprises in an effort to realize prosperity occur within SME internationalization, organizational learning, and growth orientation. These conclusions suggest that successful Entrepreneurship and SME Strategic Development is conditioned by factors such as: SME leadership, Local and Central Institutions, conditions of financial sector, structure of the SME sector, the business environment, and approaches to regional markets. This study is intended to support the needs of SME managers in all aspects of business performance, as well as central and local level decision-makers in the drafting of regulations, and to assist them in the development of SME policies.

Keywords: *Entrepreneurship, Growth and firm's wealth, Internalization, Organizational learning, Strategic activities.*

JEL Codes: L260, O120

Introduction

In recent years the economy in Kosovo has shown progress in moving towards a market-based system and macroeconomic stability, but it remains dependent on financial support from the international community and remittances from the Diaspora¹. However, Kosovo's economy continues to be characterized by a high level of current account deficit, which is mainly caused by the trade deficit. The trade deficit is caused by relatively low level of export and high value of import in 2012. Data on the trade balance provided by the Central Bank of Kosovo (Source: Central Bank of Kosovo – CBK Annual Report) explain that Kosovo continues to have a negative trade balance. Imports to Kosovo in 2012, according to the CBK were in the amount of € 2.36 billion, while exports were € 286.9 million.

The percentage of coverage of imports by exports was only 12.15%. Trade in services in 2012 were characterized by a surplus of € 346.2 million, compared with the previous year (€ 265 million) representing an annual growth of 30.3 percent. The main component in the context of trade in services continues to be a category that consists of selling travel services for non-residents. The important category within the service was commercial activity in communication services. Another important category within services was the export of services for the government and relates to services provided to the international presence in Kosovo, such as the presence of diplomatic missions and other international institutions (EULEX and KFOR).

The SME ownership structure in Kosovo is not satisfied taking into consideration that individual

¹ Ministry of Foreign Affairs in Kosovo; <http://www.mfa-ks.net/page=2>

businesses clearly dominate with 89.4%. The rest are general partnership companies (3.2%), limited liability companies (5.8%), foreign-owned enterprise 0.46% and 0.35% shareholding companies. The size of SME-s in Kosovo is defined by Law no. 2005/02-L5 and the Law no. 03/L-031 for SME support. The number of employees is the sole criteria for the classification of an enterprise's size in Kosovo. This differs from the EU countries, where in addition to the number of employees, annual turnover is taken into account. The Micro Enterprise clearly dominates in SME Sector with 98.3%. The rest are Small Enterprises (1.35%), Medium Enterprises (0.22%) and Large Enterprises (0.06%).

In this transition phase of Kosovo's economy, it is understandable that business start-ups will contribute to economic development (mainly through employment generation and self-employment), but in the later stages the institutional setting needs to be modified in order to create conditions for entrepreneurship development. The SME sector in Kosovo will be faced with new problems such as critical challenges to change, the need for strategic flexibility, and potential problems in the implementation of the recommended integration process to EU. But they can benefit from the advantages of being small businesses, as they are more flexible and they easily adjust to changes. For this purpose, they have greater need of managerial advice.

Literature Review

Entrepreneurship and strategic management are related to the behaviour and performance of companies. Strategic management seeks to create and exploit competitive advantages for companies within a particular environmental situation. Entrepreneurship promotes the search for competitive advantages by bringing products, processes and innovations to market. Entrepreneurial and strategic activities seek new markets or strategic competitive positions for firms in order to create profits.

One of six fields analysed in our study was Internationalization, which is a tool that expands the scope and potential of the firm; it affects the number of entrepreneurial and strategic operations used throughout the company. Due to the speedy development of worldwide markets, managers at all levels should be enthusiastically implicated in internationalization [1]. Companies can use a range of forms of involvement to internationalize their operations in efforts to generate prosperity (e.g. exports, licensing,

acquisitions, strategic alliances, and foreign direct investment). Forms of involvement that are appropriate depend on the size of the company and their entrepreneurial actions. One technique for companies to generate prosperity can be international diversification. The organizational learning and improvements of innovation and new skills improvements, resulting from such diversification, will contribute to higher revenue. Nevertheless, international diversification can be counterproductive if the firm lacks the infrastructure, and entrepreneurial and strategic capabilities required to handle with the complexities of operating in diverse markets [2,3] In order to succeed in the worldwide economy, companies must develop a "global mindset." As Pucik [4] stated, "Unlike firms with an ethnocentric mindset, a firm with global mindset accept diversity and heterogeneity as a source of opportunity."

Research Methodology

The study is based on statistical analysis of data collected from a sample developed by BSCK in 2011 and 2012, including 500 companies in Kosovo.² Interviews were conducted with key persons from companies, mainly managers/owners or financial managers. The respondents were asked to provide quantitative and qualitative answers (their motives for growth, data on firm performance, perceptions regarding the business environment and information about entrepreneurship and strategic management activities). The business sample was selected at random from the business register Kosova Business Registration Agency (KBRA) from the Ministry of Trade and Industry (MTI).

Procedures for the selection of sample size and the companies that will be interviewed are made with Excel and Top Caats (sample stratification). The Data Analyses were made in SPSS program.

Data analysis and Interpretation

The distributions of the sample were based according to the size of the company and the sector in which the business operates (See table 1).

According to this survey, the number of exporting companies in Kosovo increased by 0.74% compared to 2011 the total of which is only 5.91%. The key export barriers identified in 2011 and 2012 in the SME sector in Kosovo are:

² BSCK Study Research 2011 and 2012

Table 1: The Share of enterprises in the population and the sample by size and sector

Sector Size	Micro	Small	Medium	Total	Share of sector in population	Share of sector in the sample
Manufacturing	95.2	2.4	2.4	100.0	10.1	23
Services	97.0	1.7	1.3	100.0	40.0	35
Trade	98.7	0.8	0.6	100.0	50.0	42
% share of company size in the population	97.7	1.3	1.0	100.0	100.0	100
% share of company size in the sample	70	25	5	100	-	-

Note: total number of enterprises is 100,000; Source: BSCK Study Research 2012

Delays in border, Inadequate Legislation, Poor Infrastructure, Political Risk, Personal documentation (ex. Visa), Implementation of contracts, Lack of information on market, Quality Certificate and Certificate of origin, and Banks efficiency.

The presentation and analysis of the data results in this study includes the responses of managers/owners of SMEs, as well as those from the questionnaire mentioned in the paper. One of our goals was to investigate the degree of reliability factors (scales) and factorial analyses including all stages of the six fields of integrated activities of Entrepreneurship and Strategic Management. Correlation matrices presented in the table indicate a moderate correlation of the issues included in the study. These correlations indicate that the fields are not fully independent. These correlations are expected, because the measuring points in these areas were connected, so it should not be considered as a serious problem as it was in previous research.

Accordingly, there was general consensus among the managers/owners, showing that innovation, networking, internationalization, organizational learning, top management teams and orientation towards growth are critical to the integration process of entrepreneurship and strategic management in order to increase the level of profit and overall turnover.

Table 3: The statistical average for export barriers in 2012-Descriptive statistics (by Author)

	N	Min	Max	Mean	Std. Deviation
Export barriers- high tariffs	37	1	5	2.41	1.658
Culture of doing business in exp. country	36	1	5	3.39	1.517
Lack of personal documents	36	1	5	3.17	1.630
Inefficiency of banks	36	1	5	3.25	1.481
lack of market information	36	1	5	3.19	1.618
Quality certificate	37	1	5	3.30	1.614
border delays	36	1	5	2.11	1.450
transport costs	34	1	5	2.29	1.169
the work of border agent	35	1	5	3.29	1.296

In contrast to research done in different economies, ranking the integrated activities of entrepreneurship and strategic management in SMEs of Kosovo is showing a rate that varies due to the specific requirements of the enterprises: Internationalization; R & D and Innovation; Growth orientation; Networking; Management and Business strategy; Organizational learning.

SME Internationalisation in 2012: The Factor Analysis and Data Regression

With regards to SME internationalization in Kosovo, we have done two types of factor analysis:

- Factorial analysis of export barriers, and
- Factorial analysis for the opinions of CEOs on internationalization of SMEs.

Table 2: Reliability Statistics for export barriers (by author)

Cronbach's Alpha	N of Items
.802	10

The Reliability data analysis for export barriers were satisfied (Cronbach's Alpha 0.802). It must be noted in this case that relatively good results also showed the average statistical analysis which ranged from 2.11 "delays at the border" to 3:39 "the culture of doing business in the country where export is realized." See the following table below).

Functionality of food agency	26	1	5	2.85	1.642
Valid N (listwise)	26				

Table 4 : The factor analyses for export barriers in 2012 - Grouping of barriers (by Author)

	Component		
	1	2	3
Culture of doing business in exporting country	.836		
Functionality of food and veterinary agency	.813		
The work of border agent	.761		
Border delays		.808	
Transport costs		.773	
Lack of personal documents (visa)		.609	
Export barriers-tariff (the amount of tariff)		.580	
Lack of market information			.769
Inefficiency of banks			.709
Quality certificate			.573

Extraction Method: Principal Component Analysis; Rotation Method: Varimax with Kaiser Normalization; a. Rotation converged in 6 iterations.

The Regression data analysis for export barriers to level of profit has shown a satisfactory significance only in the case of "Functionality of Food and Veterinary Agency" with 0.067 significance and amount of export tariffs with significance of 0.178. See table below.

Table 5: The Regression data analysis of export barriers to the firm's level of profit (by Author)

Model	Unstandardized coefficients		Standardized coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	.695	.471		1.476	.161
Export barriers-tariff (the amount of tariff)	-.127	.090	-.442	-1.412	.178
Culture of doing business in exporting country	.000	.112	.001	.002	.998
Lack of personal documents (visa)	.009	.087	.032	.105	.918
Inefficiency of banks	.000	.094	.000	-.002	.998
lack of market information	-.091	.153	-.296	-.592	.562
Quality certificate	.071	.109	.238	.650	.525
border delays	.048	.092	.153	.518	.612
transport costs	.018	.133	.044	.136	.894
the work of border agent	-.125	.129	-.347	-.972	.347
Functionality of food and veterinary agency	.186	.094	.614	1.976	.067

a. Dependent Variable: Lev. profit

While regression of data analysis for export barriers to overall turnover shown satisfied level of significance only for "delays at the border" (Sig. 0.072) and "the work of border agents" (Sig. 0.13). See table below.

Table 6: The Regression data analysis of business barriers to overall turnover of firm (by Author)

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	.753	.449		1.677	.114
Export barriers-tariff (the amount of tariff)	-.021	.086	-.072	-.246	.809

Culture of doing business in export country	.020	.107	.060	.185	.856
Lack of personal documents (visa)	-.075	.083	-.255	-.908	.378
Inefficiency of banks	.014	.089	.042	.154	.880
lack of market information	.088	.146	.279	.600	.558
Quality certificate	.077	.104	.253	.742	.470
border delays	-.170	.088	-.532	-1.936	.072
transport costs	.058	.126	.139	.461	.651
the work of border agent	-.197	.123	-.532	-1.601	.130
Functionality of food and veterinary agency	.120	.090	.387	1.338	.201

a. Dependent Variable: Overall Turnover

The factor analyses of CEO’s opinions about SME Internationalization

Table 7: The Reliability Statistics (by Author)

Cronbach's Alpha	N of Items
.942	15

The data reliability statistics for the CEOs opinions about internationalization was very high (Cronbach's Alpha 0.942). While factorial analysis showed data grouping CEOs opinions (see table bellow).

Table 8: The factor analyses for CEOs opinions about internationalization (by Author)

	1	2
Impact of internationalization in the field of product increase		.917
Impact of internationalization in the field of investment funding		.891
Impact of internationalization in the field of product development		.887
Impact of internationalization in the field of markets for company		.852
Our Executive Manager has favorable attitude for internationalization		.849
Impact fields of internationalization in the field of company market		.825
Our Executive Manager is supporting internationalization of company		.807
Opinions about Firms – internationalization is desired duty for my company		.802
Our company to export services		.639
Scales of firm's strength for company image		.790
Sc. of firm's strength that helps firm to compete successfully-Technology competence		.767
Scales of firm's strength for adequate financial assets		.742
How is Firm's internationalization linked with strategic company motives-result of careful strategic planning		.646
The result of our desire to profit from potentially big markets		.604
The result of our desire to be known as offer for international services		.594
Extraction Method: Principal Component Analysis; Rotation Method: Varimax with Kaiser Normalization; a. Rotation converged in 3 iterations		

Regression data analysis of CEOs opinions about firm’s internationalization regarding to level of profit showed satisfied significance only about

"our executive manager is supporting the firm’s internationalization (Sig. 0.081). See table below.

Table 9: The Data Regression Analysis of firm’s Internationalisation to level of profit (by Author)

Model		Unst.	St.	t	Sig
		Coef.	C.		
	B	Std. E.	Beta		
1	(Constant)	-.479	.419	-	.259
				1.144	

Internationalization is desired duty for my company	.000	.106	-.002	-.008	.994
Our company to export services	.046	.089	.117	.512	.611
Our Manager has favorable attitude for international.	-	.236	.133	-.599	1.784
Our Executive Manager is supporting intern. of company	-	.004	.111	-.011	-.037
Impact of intern. in the field of product increase	.026	.185	.058	.138	.891
Impact of intern. in the field of product development	.222	.175	.514	1.270	.211
Impact fields of intern. in the field of investment funding	-	.106	.145	-.244	-.734
Impact fields of inter. in the field of markets for company	-	.008	.126	-.018	-.063
Impact fields of intern. in the field of company market	.091	.119	.211	.768	.447
Scales of firm's strength that helps company to compete successfully-technology competence	.085	.067	.211	1.272	.210
Scales of firm's strength for company image	.003	.112	.005	.027	.979
Scales of firm's strength for adequate financial assets	-	.004	.080	-.009	-.045
How is Firm's internationalization linked with strategic company motives-result careful strategic planning	-	.061	.095	-.146	-.639
The result of desire to profit from potentially big markets	.086	.102	.210	.842	.404
The result of desire to be known as offer for int. services	.101	.101	.239	1.001	.322

a. Dependent Variable: Level of profit

While, the Regression Data Analysis of opinions for firm's internationalization to overall turnover

did not indicate satisfactory level of significance. See table bellow.

Table 10: The Regression Data Analysis of opinions for firm's int. to overall turnover (by Author)

Model	Unst. Coef.		St. C.	t	
	B	Std. E.	Beta		Sig
1 (Constant)	.231	.423		.547	.587
Internationalization is desired duty for my company	-.070	.107	-.163	-.649	.519
Our company to export services	.073	.090	.186	.807	.424
Our Manager has favorable attitude for international.	-.143	.134	-.362	-1.067	.292
Our Executive Manager is supporting intern. of company	-.043	.112	-.115	-.386	.701
Impact of intern. in the field of product increase	.159	.187	.361	.851	.399
Impact of intern. in the field of product development	.102	.177	.235	.575	.568
Impact fields of intern. in the field of investment funding	.028	.146	.064	.189	.851
Impact fields of inter. in the field of markets for company	-.024	.127	-.057	-.193	.848
Impact fields of intern. in the field of company market	-.088	.120	-.203	-.729	.470
Scales of firm's strength that helps company to compete successfully-technology competence	.019	.068	.046	.275	.784
Scales of firm's strength for company image	-.114	.113	-.185	-1.006	.320
Scales of firm's strength for adequate financial assets	-.027	.081	-.065	-.338	.737
How is Firm's internationalization linked with strategic company motives-result of careful strategic planning	.020	.096	.049	.212	.833
The result of desire to profit from potentially big markets	.071	.103	.175	.695	.491
The result of desire to be known as offer for int. services	.121	.102	.288	1.192	.239

a. Dependent Variable: Overall Turnover

Conclusions and Recommendations

The SME sector in Kosovo faces various managerial issues which, if ignored, will

negatively affect their effectiveness. Small businesses are more exposed to the threat, compared to large businesses, due to their incapability to expand, insufficient capital to

compete with the decline or loss of market revenues, and higher operational costs per unit of revenue. But they can profit from the advantages of being a small business, as they are more flexible and they easily regulate to the quality of changes. For this reason, they have more need of managerial guidance. The study offered in this manuscript leads to the following conclusions and recommendations:

- The highest reliability of the data statistics in our survey showed in the field of SMEs internationalization, which is a tool that expands the scope of the firm in international markets. Firms or SMEs can use several ways to create growth and wealth. A Higher Confidentiality of data analysis was indicated in the instance of the opinions of CEOs for the firm internationalization (Cronbach 's Alpha 0.942).
- The average of Factor analysis for the opinions of CEO was 0.761, respectively ranged from 0.917 for "the impact of SME internationalization in production growth" to 0.594 for "the CEO desire to become known as the provider of international services".
- The average of factor analysis for export barriers was 0.726, respectively ranged from 0.836 for "the culture of doing business in the country where the export is realized" to 0.573 for "the products quality certificate".
- The Regression analysis of export barriers to the level of profit showed a significance in "the functionality of Food and Veterinary Agency" (Sig. 0.067) and "the amount of export tariffs/fees" (Sig 0.178).
- The regression analysis of export barriers to the overall turnover showed significant level only in "delays at the border" (Sig. 0.072) and "the work of customs agents" (Sig. 0.13). So, these two barriers exceeded the desired level of significance (0.05).
- The Regression analysis for the CEO opinions and the impact of these factors on the level of SME showed relatively unsatisfactory significance "the firm's executive manager is

- supporting internationalization" (Sig. 0.081), then "Scale of the firm's strength for the company image" (Sig. 0.210) and "the Impact fields of internationalization in the field of investment funding" (Sig. 0.211).
- The Regression Analysis for the opinions of the firm's internationalization to the overall turnover did not indicate satisfactory significance, being lower than the desired level for "the Internationalization is a desirable task for our company" (Sig. 0.229).
- The lack of emphasis on motivation and delegation of authority to the businesses shows that entrepreneurs or owners of firms are not yet convinced of the crucial role of managers in their business's success.
- It is imperative to stress that, compared to earlier years, the consciousness of companies for collaboration with university institutions is increasing,
- Another pathway to growth for SMEs measured by businesses is worldwide diversification, which in this case can be infertile if Kosovo's companies lack the necessary infrastructure and strategic vision to effectively handle the difficulties of worldwide markets.
- In conditions of organizational learning in the SMEs of Kosovo, companies attempt to be dedicated, but it is not as necessary to be adapted with the fast changes of the environment [5-9].

The importance of this study research depends on the consistency and sincerity of the responses of SME managers. There are also a number of other factors that influence the performance of a company, which are not incorporated in this study research, that involve vigilance in interpreting the results. Nevertheless, we suppose that the results from this research once again demonstrate that strategic development is serving small firms to be efficient in combating the competition and discover more successful ways to grow.

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