“St. Kliment Ohridski” University - Bitola

HORIZONS

INTERNATIONAL SCIENTIFIC JOURNAL
(SPECIAL EDITION)
ECONOMICS

Year X Volume 12 April 2014

Publisher: University St.Kliment Ohridski-Bitola
For the publisher: Prof. Zlatko Zhoglev, PhD, Rector

ISSN 1857- 856X
Print: AD Kiro Dandaro - Bitola, printing copies: 200

The young researchers in the fields of economics, management and business are permanently facing challenging tasks imposed by the contemporary scientific development.

"St. Kliment Ohridski" University -Bitola, the Faculty of Economics-Prilep and the Doctoral Programme in Entrepreneurship and SME Management for the Western Balkan Countries organized an international conference entitled **"Contemporary research issues in economics, management and business"** with three main **Conference topics:**

- Economics including all related sub-disciplines

- Management including all related sub-disciplines

- Business including all related sub-disciplines

Being aware of the fact that the doctoral thesis represents an autonomous scientific paper resulting from an independent scientific work of the candidate and contributes significantly to the development of the respective scientific area, the aim of this conference was to provide possibility for the doctoral students in the fields of economics, management and business to present the results from their research and to initiate debate about the recent policy challenges.

Through facilitating the exchange of knowledge among PhD students and supporting the establishment of network of scholars currently undertaking research in this region, our tendency was to overcome the usual academic isolation as a problem that many doctoral students face today. "St. Kliment Ohridski" University - Bitola recognized the relevance of these issues and decided to give the support to the young researchers by publishing all positively reviewed papers in the special edition of the magazine "Horizons".

prof. Marika Baseska –Gjorgjieska

Scientific Board representative

Dear readers, you can afford an access to the newest issue of *Horizons*, the scientific magazine of “St. Kliment Ohridski” University-Bitola but this time it has a new form and a new structure, as well as prepared and published in a new technology. The journal starting with this issue, opens up new horizons, educational scientific and research not only locally but spreading to reach the European higher education area.

This special edition of the scientific magazine Horizons represents a medium through which the research papers of the participants in the International conference “Contemporary research issues in economics, management and business” get international dimension.

What is considered a matter of even greater visibility is the international dimension of the scientific papers submitted for publishing, evident in the large number of papers by authors from abroad. This is in confirmation and enlargement of the promotion function the journal has regarding the scientific-research activity of the young researchers in front of the international auditorium. The University scientific magazine Horizons confirms the role that St.Kliment Ohridski University-Bitola plays in the development of advancement of the scientific thought in Macedonia in a number of scientific fields as a proof of its scientific approach. Thus, this issue of the journal contains papers dealing with topics in the area of economics.

Editorial Board

CONTENT

336.77:334.722.012.631.64(497.7)

THE IMPORTANCE OF RELATIONSHIP LENDING FOR THE DEVELOPMENT OF SMEs IN THE REPUBLIC OF MACEDONIA[1]

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Abstract

We are witnessing a period in which the world is being shocked by political and financial crisis and as the economy slows, the banks are becoming stricter. They are lending less, usually by reserving their funds for larger companies with whom they have built long-term relations. The established relations ease the collection of information and helps for better knowledge of the company`s business activities which increases the loyalty and ultimately makes credit decision easier and quicker. The aim of this paper is to show how important are long term relations between banks and borrowers and the research should emphasize the existence of relationship lending. The paper uses data from survey and from existing variables by loan applicants for the past 3 years in Stopanska Banka a.d. Bitola, and examines relations between those variables using the correlation method. Although it is difficult to draw causal inferences from these data, existing evidence suggests that the majority of the rejected credit requests are to SMEs that are not prior clients.

Key words: Relationship Lending Banking Development of SMEs

[1] original scientific paper

INTRODUCTION

We are witnessing a period in which the world is being shocked by political and financial crisis, when large corporations are closing down their subsidiaries and firing employees. The SMEs are not exception of this general trend. Five years after the outset of crisis, its effects are still visible in advanced countries as well as in emerging markets. Presented in numbers the global recession left a worldwide increase of 30 million in the number of unemployed (Claessens, Kose, Laeven and Valencia, 2013). In the aftermath of the global financial crisis of 2008–2009, there has been an increased interest in the role of small and medium enterprises in job creation and economic growth (Ardic, Mylenko and Saltane, 2011), especially in the poorest countries where on average almost two thirds of workers are employed in very small (micro) enterprises with less than five employees (Cull, Davis, Lamoreaux and Rosenthal, 2005). Regardless, in almost all of the countries, wealthy or in development, the SME sector is the backbone of their economy and makes a crucial contribution to GDP and employment. In this respect, creating and maintaining growth of SMEs is essential to be on the policy agenda and measures are necessary to be undertaken to ease the access to finances for the SMEs, which will enable firms to grow and prosper.

The fact that the SMEs have been an important part in national economy is recognized, but their financing difficulties have become common problem all over the world. Firms with greater access to capital are more able to exploit growth and investment opportunities (Thorsten, Demirgüç-Kunt and Maksimovic, 2006). Unfortunately most small, less wealthy firms, especially in poor countries, cannot afford some financial services that are easy affordable for large firms, a kind of financial development that disproportionately facilitates the growth of firms (Greenwood and Jovanovic, 1990). Large firms everywhere generally have more access to bank credit, both local and foreign than small firms, whereas the latter rely heavily on internal funds and retained earnings. Because the internal funds and retained earnings are usually not enough to achieve fast growth or not even enough to maintain status quo during crisis, small firms are forced to ask for the much needed finance in banks. It seems that the banks are the main source of external finance, financial development for SMEs to boosts economic growth by disproportionately fostering small firm growth (Beck, Demirguc-Kunt, Laeven and Levine, 2004). The countries in which SMEs have access to different kinds of external finance sources are those with more advanced financial systems (Cull, Davis, Lamoreaux and Rosenthal, 2005) and in developed countries of the world having a relationship with a bank is not particularly important to a firm, because it is less likely to need additional financing. Unfortunately, firms that do not have strong bank relationships however, may find the terms of such supplemental financing too difficult and consequently their prospects will diminish (Longhofer and Santos, 1998).

IMPORTANCE OF RELATIONSHIP LENDING

Bank relationships are valuable in a way that they allow the bank to distinguish between good and bad firms in times of economic distress. Historically, SMEs have been more likely than larger firms to be rejected from new loans during a financial crisis (Ardic, Mylenko and Saltane, 2011). A number of studies have shown that the fundamental reason of the problem is information asymmetry and because banks always bear into mind of the security and profitability when they make loan to SMEs (Guohui and Lifen, 2009). As a result, firms with bank relationships are more willing to exert the effort necessary to ensure the quality of their projects (Longhofer and Santos, 1998). In order to approve credit request, the bank need some information about the firm which easily can be obtained from written documents like the financial statements. Large firms can easily provide true financial statements and other written data and as a result they can easily obtain credit. In opposite case, small firms lack that information and that is why it is difficult for them to obtain standardized credit. Only when SMEs' massive soft information is effectively collected, processed and transmitted by bank, the information asymmetry can be fundamentally eliminated, where a long built relationship can be helpful with resolving information asymmetry. Having an ongoing relationship with a bank is valuable because it allows high-quality firms to obtain supplemental financing more readily when they face a liquidity crisis. In contrast, firms without bank relationships are easily mistaken for "bad" firms when they seek additional financing (Longhofer and Santos, 1998). Small businesses are typically much more informationally opaque than large corporations which are able to signal their quality to financial markets by merely communicating audited financial statements. To address this opacity problem about the information asymmetry, financial intermediaries use a number of different lending technologies (Cornee, 2012), and many countries have adopted proper loan technology where the relationship loan is more successful among those technologies (Guohui and Lifen, 2009).

Once a firm has borrowed from a given bank, it has an incentive to borrow from it again. In the case where a firm works closely with a bank year after year that can be defined as relationship banking, a type of banking where the bank is better positioned to enforce compliance with the terms of the new loan because of the information on the firm it has already learned (Haubrich, 1989). A firm enters into relationship banking through concentrated borrowing with the objective to increase the likelihood of access to bank credit in tough times. Smaller the number of financial institutions a firm does business with-the stronger is its relationship with its lenders. Thus relationship gets weaker as lender diversity gets larger (Jiangli, Unal and Yom, 2004). The relationship lending is a type of financing based primarily on "soft" information gathered by the loan officer through continuous, personalized, direct contacts with SMEs, their owners and managers and the local community in which they operate (Beck, Demirgüç-Kunt and Pería, 2010). Uzzi and Lancaster confirm that this type of soft information is gathered over time through contact with its owner and managers and by being embedded in the local community (Uzzi and Lancaster, 2003). Berlin and Mester (1997) defined that the relationship loan is a lending agreement through establishing comprehensive long-term cooperation between banks and SMEs, an agreement that can largely reduce the SMEs' lending risk (Berlin and Mester, 1997).

Only trade credit and relationship lending technology can utilize the soft information in order to make decision. Which technology is going to be used depends of the bank policy. Large banks and small banks may have different comparative advantages in utilizing different lending technologies, but it is generally accepted that small and domestic private banks are more likely to finance SMEs because they are better suited to engage in relationship lending. In fact financing small businesses has traditionally been a local and close-knit affair, where the bank acquires expertise about the credit-worthiness of its customer by keeping close contact with the management of the firm. To maintain close and regular contact there has to be fulfilled one condition - close location (although in present time with the development of IT technology and globalization process it is believed that geographic distance is irrelevant). Small banks have essentially relied on tight location-based credit relationships to underwrite their small business loans (Meyer, 1998). Opposite, large banks are better suited to engage in transactions-based lending technologies that rely on quantitative and transferable information referred to as hard information. When it comes to the degree of success to process the soft information, small banks are considered to have a comparative advantage in underwriting SME loans utilizing the relationship lending technology, which relies primarily on qualitative non-transferable information referred to as before mentioned-soft information (Uchida, Udell and Watanabe, 2007). Stein (2002) also agrees that small banks with simple organizational structures have comparative advantages in producing soft information and thereby excel at providing relationship lending (Stein, 2002), reasons why banks primarily engage in relationship-based lending rather than other based lending (Dalberg`s Report, 2011).

SINGLE OR MULTIPLE BANKING RELATIONSHIP?

It is a fact that the quality of the small and medium sized enterprises is strictly correlated to their access to funds, like it is a fact that the opposite of relations with single bank is the multiple relations with different banks. Finding the true path to funds actually affects the decision upon single versus multiple bank relationship lendings. Which strategy should the firm choose? A firm may choose multiple lending as a ”diversification” strategy: maintaining diverse sources of funds which will help to limit hold-up costs associated with single lending (Barboni and Treibich, 2012). Also, the firm may play the competition card, requesting offers from more banks with probability that they will improve the previously offered contract conditions. Smaller firms may be less likely to enter into multiple banking relations if there are duplication of monitoring costs and other problems which will increase the costs. Such costs would reduce the effectiveness of multiple relationships in reducing hold-up problems (Jiangli, Unal and Yom, 2004). Previous works on multiple lending have shown that financially constrained borrowers tend to spread their lending requests in order to maximize their chances to get funding (Detragiache, Garella and Guiso, 2000; Farinha and Santos, 2002), usually they are firms with low financial discipline or bad financial manager. The reason to have multiple banks in order to reduce the risk of banks limitation to give credit is justified in cases where small firms become larger over time and smaller banks cannot meet their constant or future demands for funds. This defines two types of firms that will initiate multiple banking: 1) firms with more growth opportunities and more bank debt that are more likely to initiate multiple relationships and 2) firms with poor performance too are more likely to initiate multiple relationships (Santos and Farinha, 2000). Some can argue that firm’s creditworthiness is naturally close related to relationship lending, that is the ability to create a stable relationship with one lender and define single lending as the best strategy. As Barboni and Treibich would say that honest borrowers have to keep signaling their trustworthiness by choosing the single lending strategy even when they are rationed. (Barboni and Treibich, 2012).

RELATIONSHIP LENDING: WORLD PRACTICE, PROBLEMS AND SOLUTION

Smaller enterprises borrow from smaller banks and smaller banks have stronger relationships with their borrowers (Berger, Miller, Petersen, Rajan and Stein, 2005). Recently markets have changed considerably as a result of technological innovation especially following the numerous mergers and acquisitions between banks even those with local reach (Cannari, Pagnini and Rossi, 2010). There is fairly widespread concern that the banking consolidation process, with growth in bank size and less intensive relationship lending could have had a negative impact on bank-firm credit relations, especially as regards small and medium-sized enterprises, due to the implementation of rating methodologies (Beretta and Del Prete, 3013). There are different experiences in different countries regarding the relationship between the bank and the borrower. The relationship in Japan is long and very strong, that firms rarely change banks where large banks did not managed to become primary lenders to SMEs and the role of small banks is still irreplaceable (Berger, Miller, Petersen, Rajan and Stein, 2005). Relationship lending is particularly widespread in the euro area, specially regarding small and medium sized enterprises (Issing, 2002), and that is also the case in the USA where the bank-firm relationships for small banks in the U.S. tend to i) have a longer duration, ii) reflect a shorter distance between borrower and lender, iii) be more personal (more face-to-face interaction), and be more exclusive (more likely to be associate with a sole lender) (Berger, Miller, Petersen, Rajan and Stein, 2005). Having the long-term contact can help the banks to conveniently gather and accumulate the soft information that may largely substitute the needed official financial data and other hard information. relationship lendings between innovative enterprises and their main lenders last longer and have greater scope economies, even if with a lower credit concentration (Micucci and Rossi, 2011), on the other hand, this also makes up credit gap which SMEs can't gain loan owing to lack of qualified financial information and mortgage. As a result, relationship loan is helpful to improve SMEs' credit condition and solve the SMEs' financing problem (Guohui and Lifen, 2009) a win-win situation for both parties.

Still, Guohui and Lifen (Guohui and Lifen, 2009) have defined some problems in the development of relationship loan in practice such as credit officers' quality, SMEs' credit, social credit system and so on. In order to have a successful relationship lending, the credit officer has to have great knowledge in finance and great communication skills to gather the soft information. If the credit officer is not good enough, he may try to conceal the true information about the creditworthiness of the client which will cause breach of the contract between the bank and the borrower. That will cause risk and break the relationship. The other problem is monopoly that the bank may have over the lending operations for the specific firm. It is believed that the accumulated information that bank has about the SME, supposing that the firm is in great condition, solvent, capitalized etc, can be misused by the bank itself by implementing a clause that will prevent the firm to borrow from other banks without the consent of the main bank. That is a serious trust problem, because if a bank may want to commit itself to a risky loan in order to encourage a firm to invest in a good project, still fears that the firm will switch lenders once the project succeeds (Miwa and Ramseyer, 2005). That may cause conflict and break the relationship loan. Obviously there are many problems in practice in the development of relationship loan and it is needed for the bank and SMEs work together to find solution for the problem, banks have to find a way to gather more quality soft information with fewer costs which can be done successfully by doing it with trained credit officers that will follow every activity of the firm and establish good relations. The other partner in the contract, the SMEs have to find a way to present their information more transparently and they must have honest intentions fulfilling their contract obligations to maintain the long-term bilateral relationship.

CASE STUDY – STOPANSKA BANKA A.D. BITOLA

The share of loans each bank lends to a firm relative to the total amount of credit granted is the best proxy to capture the strength of exclusivity in credit relationships between banks and firms: some papers show that, especially during financial turmoil, firms with a single-financing bank or with fewer lenders have been the best protected in the event of a reduction in credit availability (*D*e Mitri, Gobbi and Sette, 2010). Lead by this, the paper uses data from survey and from existing variables by loan applicants for the past 3 years in Stopanska Banka a.d. Bitola, and examines relations between those variables using the statistical and correlation method. The survey that was approved and answered by employees of the credit department for SME in Stopanska Banka ad Bitola, gathered data from 331 active clients, shown in table 1.

Table 1 - Approved and denied credit requests

			New Clients – total 160			Existing clients – total 171		
	A	B	C	D	E	F	G	H
	Total	% (A/A)	New client	% Approved or denied / total	% Approved or denied / new clients	Existing client	% Approved or denied / total	% Approved or denied / exis. clients
Observations	331							
Number of Aproved requests	236	71,30%	87	36,86%	54,38%	149	63,14%	87,13%
Number of Denied requests	95	28,70%	73	76,84%	45,63%	22	23,16%	12,87%

As shown in table 1, the percentage of denied requests is almost 28,70% of total clients, not taking in count multiple requests from single client, if done so the percentage will decrease significantly. From the total amount of denied requests, 76,84% originate from new clients, statistic that is definitely proving the importance of relationship lending. The number of approved credit requests to existing clients is 149 or 63,14% from all approved requests, but if you put that number in proportion with the total sum of approved and denied requests to existing client (171), the percentage will be 87,13% and that shows that there is a small chance that the firm with built long relationship with the bank will be denied for credit (12,87%). Contrary to that, new clients have almost “fifty-fifty” chance to get finance and the results suggest that a close banking relationship improves loan availability. Although the percentage of approved credit requests to new clients is above 50%, still there is a good chance that in time of recession or other crisis banks will choose to entrust their money to well known firms, instead of new ones. During a recession, small and medium sized enterprises that have ongoing relationships with a bank are better able to obtain additional financing, allowing them to weather the recession with minimal loss (Longhofer and Santos, 1998). Another factor that may have great influence is the policy of the bank, the monetary policy of the Government, National Bank etc. If the policy is strict and the banks are releasing less money in the economy, it is expected that the amount will be reserved for first class clients, client with whom they have built strong relationships and have trust in. The new clients will have difficulties to get to finance in this type of situations.

With the second survey conducted on 48 firms, I took in calculation the number of years that the firm has built relations with the bank and the number of active credit requests per firm. Given a set of observations (x_1, y_1),

$(x_2,y_2),...(x_n,y_n)$, the formula for computing the correlation coefficient is given by:

$$r = \frac{1}{n-1} \Sigma \left(\frac{x - \overline{x}}{s_x} \right) \left(\frac{y - \overline{y}}{s_y} \right)$$

Where the "X" is the years of relations with the bank, and the "Y" is the number of active credit claims.

Table 2 – Correlation coefficient years vs. active credit claims by client

Correlation coeficient	***X - years***	***Y - claims***
X - years	1	
Y - claims	0,52	1

The result is a positive correlation of 0,52 which indicates a strong positive association between the variables, explaining that the increase in the number of active credit claims correspond to the increased values in years of relations. Expressed in percentage, 69% of new firms have only one claim, and most of the existing clients have more than one claim.

Another type of survey was performed on 114 credit requests, where a multiple requests may have originated from single client, or to be clearer, the total amount of approved credit was taken in calculation. The survey took two variables, first "X" - the number of years of relations with the bank and the second "Y" - the total amount of approved credit per client. The result is presented in table 3:

Table 3 – Correlation coefficient years vs. total amount per client

Correlation coeficient	***X - years***	***Y – total amount per client***
X – years	1	
Y – *total amount per client*	0,3714	1

The coefficient shows moderate positive relationship between the number of years of cooperation and the total approved amount. Meaning, the longer relationship creates confidence between the two parties, expressed by approved multiple successive claims, aggregating larger amounts of credit.

When it comes to separate credit requests, there are situation where the approved amount for new client is larger than the amount of client with a

10 year relationship. In the same survey of 114 credit requests, correlation coefficient shows no or negligible relationship of only 0,19.

Table 4 – Correlation coefficient years vs. amount approved per request

Correlation coeficient	***X - years***	***Y* - amount approved per request**
X – years	1	
Y – amount approved per request	0,19	1

The results show that the bank approved almost 90% of the credit requests made by the existing clients, meaning that firms do benefit from the long term relationship established with the bank. The study confirmed the previous results by showing that there is a strong positive correlation between years or relationship and the number of active credit claims of each client, with a coefficient of 0,52. A weaker correlation, or to be more precise moderate correlation coefficient of 0,37 is a result by the correlation of the numbers of years of cooperation between the firm and the bank and the total approved amount of credit. The last coefficient shows no or negligible relationship, or to be more elaborate the long term relationship helps only in the bank decision process whether to approve or deny the request, regardless of the stated amount in the request.

CONCLUSION

The paper first analyzes the importance of small and medium sized enterprises for the economy especially after the crises that occurred just a few years ago. These enterprises are recognized as a valuable element for the economy and their growth is in the center of attention for maintaining a certain level of GDP, employment etc. But, in order to keep the SMEs in good shape and motivate them to expand, create added value, a proper finance must be secured. Who will secure the finance, the SMEs themselves, the Government, international funds, banks? The first source is the owner's capital that usually is enough to start the company and to maintain a simple reproduction. The capital market in Republic of Macedonia is not developed in that degree to be significant source for finance for SMEs. The international funds are granting small amounts in smaller number of cases. The Government is helping start-ups, or via Macedonian Bank for Development Promotion is making effort to provide cheap international credit lines. The most important and used source of finance are banks. Firms in Republic of Macedonia are using the banks as a source to get the finance they need to invest in working capital, equipment or buildings. A good long relationship helps the firms for easier access to finance.

Paper later presented a study about the importance of relationship between the company as borrower and their lending bank. Small and medium sized banks have certain advantages when it comes to relationship lending, usually by being more open to the firms operating in the region in which the main quarters of the banks are located. That allows the contact to be more direct, making it easier to reach the management and negotiate the credit request directly. By having a more direct and frequent contact the bank can monitor the firm, give directions for future development and give assurance that if the firm will fall into financial distress, the bank will do everything to resolve the situation, by giving new loan, lower the interest rates, expand the period of return and decrease the payments. As Bodenhorn stated, borrowers with strong built bank relationship are more likely to have loan terms renegotiated during a financial crisis (Bodenhorn, 2003)

As said before the share of loans each bank lends to a firm relative to the total amount of credit granted is the best proxy to capture the strength of exclusivity in credit relationships between banks and firms. In the case of Stopanska Banka ad Bitola it is proven that the bank takes good care for existing clients approving almost 90% of their credit requests, and also creating a path for new clients. The study showed that there is a strong correlation between years or relation and the number of credit lines of each client. If we keep in mind that the data is from the past 3 years, a period in which the crises had its effect we can say that even in time of crisis, the existing clients passed very well in term of percentage of granted credit. But what happened with the new clients? Credit was approved only to the best companies in which the bank had analyzed the official financial statements and had great collateral. Although it is difficult to draw causal inferences from these data, existing evidence suggests that the majority of the denied credit requests are to SMEs that are not prior clients. The ending of this paper hold up the above argument that firms with bank relationships are in better situation because they acquire finance easier and possibly in better terms than the firms which do not rely on relationships. Overall we can summarize that the relationship between the bank and the firm is important for decision making, regardless of the amount requested. The above results show that the best way to secure future funding is to have long term relationship with the bank.

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334.722.012.63/.64-027.233.4(497.115)”2000/2012”

MAIN FACTORS THAT INFLUENCE FAILURE OF SMEs[2]

Kosovo Case

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Abstract

This study attempt to identify factors that are affecting business failure of small and medium enterprises (SMEs) in Kosovo. Based on the literature review on the empirical studies utilized in identification of factors that lead to success or failure by emphasis in Small and Medium Enterprises (SMEs). From the literature review it became clear that there are a numerous advantages and disadvantages associated with operating SMEs. Recently, in developing countries Small and Medium Enterprises have the most important role of employment opportunities. Despite this fact for new opportunities for employment, economic growth, employment generation, subcontracting for larger organizations, providing new products and services SMEs in Kosovo have faced such difficulties, especially financing. The environment for doing business in Kosovo is such that it constrains businesses and hauls them into failure.

The methodology used in this paper is secondary data provided by Riinvest Institute, BSC Kosovo we provide that these possibilities for funding are very difficult to build the capacity of enterprises in Kosovo. This statement derived from the fact that interest rates of commercial bank-the main source of financing are very higher and often unaffordable by enterprises in general.

This study intends to fill the gap in studies on factors influencing SMEs failure in Kosovo and also to provide the understanding on helping people to reduce the risk of failure and increase chances of success.

[2] professional paper

Key words: Success, Failure, Small and Medium Enterprises, Environment, Kosovo.

INTRODUCTION

The importance of Small and Medium Enterprises (SMEs) for economic and development, as dominant source of employment, social stability and innovation is unavoidable. Moreover in the most world economies, SMEs are considering as main force of economic growth. Also, SMEs are quite flexible for economy and social in general, let's make easier technological innovations. In the most of country SMEs are the main forces of new product or services, the main sources of new ideas and advanced strategies for management. Besides their success, it is more important to understand the factors contributing to the failure of SMEs. Also the latest definition from European Commission show us how important are SMEs, Micro, small and medium-sized enterprises (SMEs) play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises (New SME Definition, page 5).
The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.' (Extract of Article 2 of the Annex of Recommendation 2003/361/EC)

The importance of SMEs is recognized from a lot of scholars, scientific institutions and different organizations. This makes that researchers and studies in the SMEs field. Regarding to the type of ownership in Kosovo we have shown the type of entrepreneurship required by Law for commercial companies' nr. 02/L – 123, that provides this structure: Individual businesses, partnership, limited partnership, corporation, public entrepreneurship, private entrepreneurship. (See annexes, table 1)

Table 1: Categorized of SMEs

Enterprise Category	**Number of Employee**
Micro	1 - 9 employee
Small	10 - 49 employee
Medium Sized	50 - 249 employee
Macro	over 250 employee

Source: Ministry of Trade and Industry, SMEs Support Agency 2000-2012

Literature Review

There are a number of reasons that makes small and medium businesses fail, starting from internal and external factors. Business failure, regardless of the cause, means that the business is unable to face with commitments, due to lack of financial capital, lack of access to information on areas that could assist in their operations, such as market opportunities, technologies, business link and training opportunities (Sera Julius Tlhomola, 2010). Friedlander and Pickle (1968) said that small firms tend to treat the organization as a closed system by concentrating upon principles of internal functioning as if these were independent of the external. There tends to be a lack of information acquired by small firms because of unawareness that it is needed: An imbalance of functional skills can lead to a failure to recognize, or tardiness in recognizing, impending difficulties and the need to find early solutions. Where such a lack of awareness exists it explains a failure to seek outside advice or to acquire the knowledge which would avoid such difficulties (Wiltshire Inquiry, 1974).According to national annual reports under the Bankruptcy Act, internal factors relating to the quality of management are reported as major or contributing causes of failure at least as twice as often as factors external to the firm (Williams 1986; McMahon et., al 1993).
Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, *et al.,* 2006).

Also access to the foreign market is seen to been difficult for small and medium businesses, including here different technical standards, exchange rate fluctuations, identifying new markets. All these barriers have their impact to enter in international trade and globalization. In Kosovo most of these factors are inherited from the past, the others are as result of continued uncertainties that are present in our country especially in this last years. Some investigation completed from Riinvest Institute in 2000 tells the main barriers of SMEs in their business activity. A result presents that from 2002 that unfair competition including here taxes, informal economy and public services are main barriers for these years. But these dates are update in 2006, and noticed that main barriers that mostly faced our business are factors that are related with external environment, as far as the internal factors ranks as secondary.

Table 2: Main Barriers of SMEs in Kosovo

Barriers	Intensity
Unfair competition	78
Corruption	76
Informal economy	73
Public Services	70
High taxes	69
Roads and Telecommunication	64
Tax evasion	62
Strong competition	60
Administrative burden	58
Lack of legislation	58
Delays in payment	54
Access to financing	44
Lack of request	44
Lack of information of businesses	39
Insufficient capacity	28
Material and equipment	27
Knowledge of employee	13
Management skills	8

Source: Riinvest 2006

Moreover, developing of private sector in economy of Kosovo, as one country in transition, after the last war until now had been many changes, passing through from socialist system in fear economy. Starting and registrations of new businesses begun after the war in 2000, until 2012 the total number of registration businesses reached 119149. Despite the not very favorable environment doing business, in the last year had an undoubted progress, with their desire to do business. SMEs that are driven by entrepreneurs, typically seeking to exploit an opportunity that they have perceived to exist. And it is the "innovative tension" that arises which drives an economy forward; hence the crucial importance of property rights (including intellectual property rights). In the context of developing and less developed economies, Gries and Naudé (2008a), in the context of an endogenous growth model they developed, depict the role played by entrepreneur-driven SMEs in advancing an economy thus:

In essence the transformation from a low-income, traditional economy to a modern economy … involves significant changes to production methods, a process of change where … entrepreneurs provide essential roles: first, in creating new firms outside of the household, second by absorbing surplus labor from the traditional sector, third by providing innovative intermediate inputs to final-goods producing firms, fourth by permitting greater specialization in manufacturing, and fifth by raising productivity and employment in both the modern and traditional sectors. (Gries and Naudé 2008a, 25).

The opportunity and performance of SMEs depends on the business environment in which they are obliged to operate. But in this last year, it seems this sector of SMEs is more stability and sustainable. The differences between the sectors are almost the same, as in trade industry, service or in manufacturing. Regarding to the issue of funding, this is one of the main barriers because banking sector has rapidly development in these recent years and consider as one of the most successfully in economy Kosovo. Even despite this development, interest rates are still high, especially for long-term investment needs are the highest in region. This higher rate results in higher costs for domestic company, as this result are less competitive in local and foreign market. Continuously considering that increasing in number of banks will result in increased competition and lower interest rate, but this still doesn't happen. This higher interest rate still is the challenge for new businesses and existing businesses. With the reduction of interest rate we will have mutual benefits, starting from higher private investment that will increase employment. In the other side, we will have higher consumption that will increase GDP of country and overall development economy. Regarding the trend of interest rate on loans and deposits (average 12 months) in December 2010 was not noticed any substantial change. The average interest rate on loans remained almost at the same level as in 2009 14.6% (14.4% in 2009), while the average interest rate on deposits declined to 3.7% from 4.3% in December 2009. Consequently, the difference between interest rate on loans and deposits rate reached 10.9%. (See at annexes, Graph1).The collective consequences of SME business failure are also a

serious matter for national economies: 99 % of all businesses in the European Economic Area are SMEs and two thirds of the workforce is employed in SMEs (Source: 2002 Observatory of European SMEs). In December 2010, total banking sector loans was 1.5 milliard Euros that represent an annual increase from 13.2%. The fastest growth of loans compared with deposits has resulted in slight increase of ratio between loans and deposits. At the end December 2010, report loan-deposit stood at 75.3% compared with the previous year, 2009 (See at annexes graph 2).
Extent to which financial support or incentives are provided to offset the costs or increase the short term benefits of environmental improvement (Mir and Feitelson, 2007; Studer et al., 2006), or taxes/charges/fines are introduced to discourage negative environmental impact by making it financially unattractive (Revell and Blackburn, 2007; Simpson et al., 2004; Studer et al., 2006). Extent to which the direct and indirect costs of and resources needed for environmental improvement are exceeded by the short-term economic benefits of and competitive advantage for the business from such actions (Bradford and Fraser, 2008; Clement and Hansen, 2003; Collinsetal. 2007; Drake et al., 2004; Revell and Blackburn, 2007; Simpson et al., 2004; Studer et al., 2006).

According to the Timothy S. Hatten (Small Business Management, Entrepreneurship and Beyond, Fifth edition) it seem the main causes of business failure is economic finance.

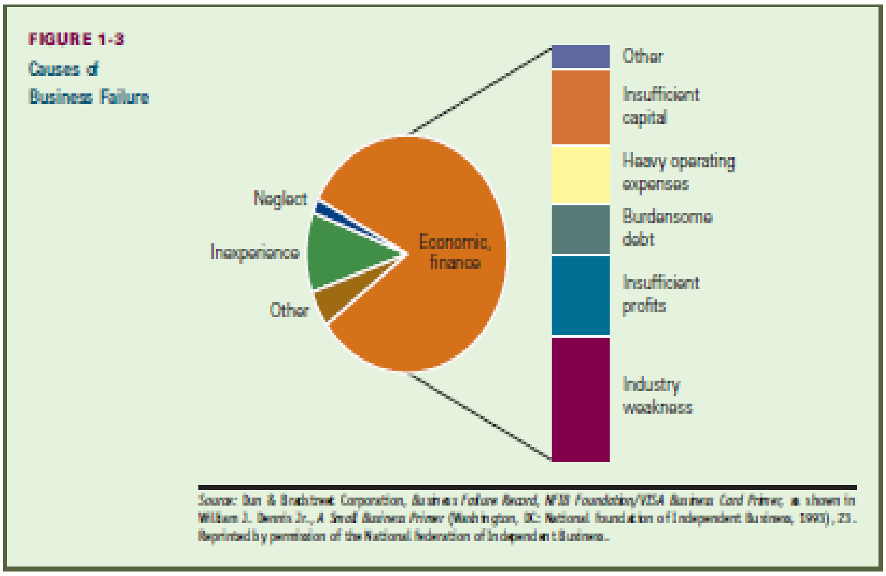

Figure 1: Causes of Business Failure

Despite financial factors, another internal factor that cause fail business is poor management or lack of skills. Similarly, business consultants claimed that 90% of business failures were due to management inadequacy (48% incompetence and 42% inexperience) (Perry and Pendleton 1983). A typical situation in which the entrepreneur might lack managerial skills is the case of succession, when the successors of the entrepreneur who take over the business at his death lack the necessary management skills to manage the business efficiently. The new generation of owners may be totally unprepared or unsuited for its new responsibilities, or just not interested. As a result, a viable business may be sold at a fire sale price to a competitor or may drift from growth to survival to failure (FEE Publication ‘Keeping it in the Family. June 2000). These difficulties in recruiting staff and skilled workers are also the major barrier for growth SMEs.

Another barrier of SMEs is lack of strategic planning. Studies has consistently shown that most small and medium sized enterprises (SMEs) do not engage in strategic planning (e.g., Robinson & Pearce 1984; Sexton & van Auken 1985; Berman, Gordon & Sussman 1997; Orser, Hogarth-Scott & Riding 2000; Sandberg, Robinson& Pearce 2001; Beaver 2003). . This is at odds with much of the strategy literature that dictates that enterprises “must actively plan for the future" to compete effectively and survive (Ennis 1998, p.54). Accordingly, SME owner-managers have been accused of being "strategically myopic" and lacking the "long-term vision as to where their company is headed" (Mazzarol 2004, p.1). The concern is that by neglecting strategic planning, SMEs may not achieve their full performance and growth potentials, and their survival could be placed at risk (Berry 1998). Continuously are having done studies why SMEs doesn't have a long term plan, strategic planning maybe they don't have securing doing business and any support from government, in order to balance the costs.

Increasing the number of enterprises – establishment and dissolution of businesses (2000 – 2010)

The data records that have been made during the year and cessations made within that year is presented in a graph, which shows datas from 2001 until 2010. (See annexes, graph 3)
Based on SMEs support agency datas show us that in 2001 we have in totally 10530 registered businesses. In 2002 we have an increased registered business that reached 14318 new businesses and also in this year we have two cessations-bankruptcies. If we compare 2003 with previous years we have a decrease in the number of business registration because it was made the registration of businesses from temporary to permanent registration and changing also from temporary certificates to permanent ones that results with decrease total number of business in 2160 businesses. Than in 2004 again start a significant increase in the number businesses which are registered 6460 new businesses. While we note in the last three years we have an approximately same number of registration businesses. Bankruptcies in total of businesses arrived in 12172. From these closed enterprises in Kosovo by type of ownership shows that individual businesses dominate significantly with a number of 11106 businesses of, expressed as a percentage 91.24%, while organizations as partnerships are 726, expressed in percentage 5.96% and limited liability company 233, expressed as a percentage 1.91% and others nder 1%. (See annexess, table 2).
Considering regional areas from the totally number of businesses, we break down Kosovo in five regions (Prishtina, Peja, Prizreni, Mitrovica and Gilani). From the graphs it seems clearly the total number of registered businesses from the regions, while Prishtina regions compared with the others dominate with registered businesses, with 34114 businesses, expressed in percentage 36.74% of the total number of businesses. The next region, after Prishtina we have Gilani region with 21513 or 20.73%, while Mitrovica region ranked with smaller business registered in total 11099 businesses, percentage 10.70%. According to the Business Registration

Agency that was processes by Agency fir Supporting Small and Medium Enterprises, in 2012 compared to 2011 we have an increased number of businesses for 1691 new businesses.

Research Methodology

This study is descriptive study with most of the data and sources that have been used in papers, academic journals, government, books and official documents. Different authors using criteria of definitions in different countries that depend on the criteria what is small and medium enterprise they define businesses in different ways. Although these determine criteria about the importance of factors differ a lot, again still exist the general criteria that define business as small, micro or medium comparing with macro businesses. The European Union has come up with a definition about Small and Medium Enterprises, enabling a consistency in quantitative terms when their definitions vary not only from one economy to another but also between different industries. This was first introduced in 1996 but was updated in 2004 to account for the impact of inflation and productivity changes (Sara Carter et al, 2006). Considering this, we have the classification of businesses and the average of number employee.

Conclusions

From the literature review and datas we can say that micro, small and medium enterprises are on of tha main indicators of economic development. Also SMEs in Kosovo are the main sources of employee, that employes a significant number of country population and are also quite profitable in profits, and domestic reveneues of GDP. They have their advantages in operating, because they using the lokal resources (national) as well as thoshe materials and human, doing theis activities in Kosovo also they have an another advantage because they usinë a cheap labor force, as a result of the large number of unemployed in the country. It would be mentioned that the majority of registered businesses in Kosovo are micro enterprises (1 to 9 employee) abort 98.39%, as businesses mostly are registered as individual businesses, on percentage 88.72%. Statistics datas show that since the beginning of business registration after the war (1999), according to data from Agency for registration businesses in Kosovo, the total number of enterprises regardless of size Sector Trade leads with 43.1%, than ranked Transport sektor, strage and communication with 12.5%. Hotel and restaurants 9.7%. production of fond, tobaccos 9.4%, and construction 7.1%. Competition between enterprises within the branch is tougher every day, managers of sucessful companies need a powerful weapon to fight with such an environment not suitable, quick decisions were needed to cope with rapid changes and complex in this direction. To achieve their mision, goals and objektives of the enterprises owner needs a clear vision to assesi the strengths and weaknesses of the company and environmental threats. In the end we can say, that government should strengthen economic growth, in macroeconomic level by making reforms in the business environment by reducing the level of informality economy, unfair competition, excessive taxation and government inappropriate regulations.

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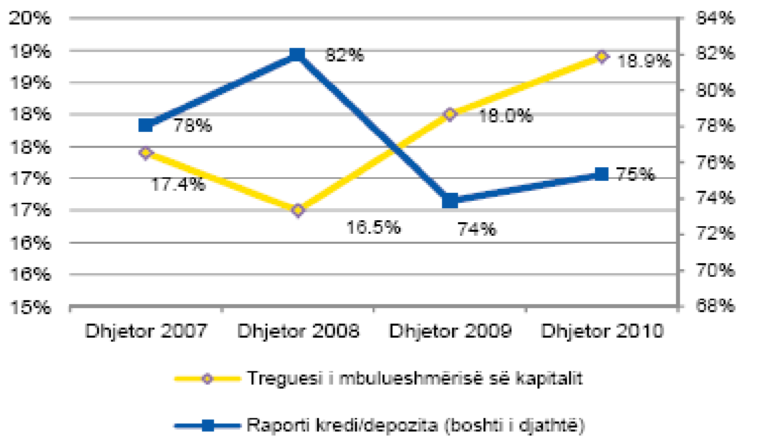
Annexes

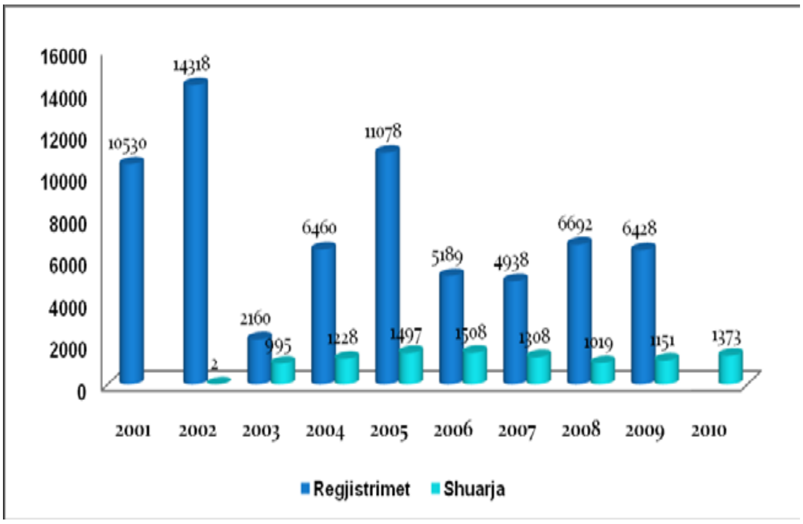
Graphs:

Graph 1: Interest rate on deposits and loans corpora

Graph 2: Reports loans/deposits



Graph 3: Registration and extinction of enterprises in 2001 and 2010



Tables:

Years	2012	Total closed number of businesses
Total closed number of businesses	1107	12172

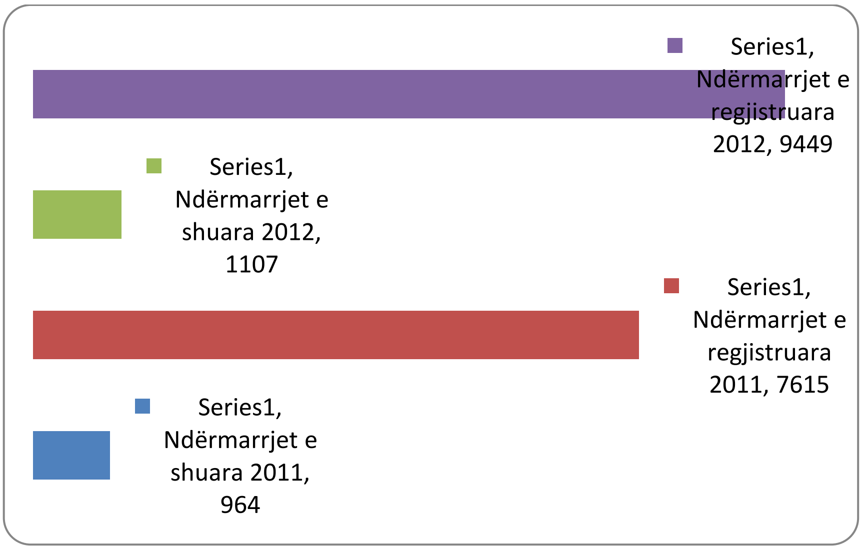
Tables 1: Closed businesses in 2012

Nr.	Category	Registration	
1	Individual businesses	105 706	88.72 %
2	Partnership	3 422	2.87 %
3	Limited Partnership	86	0.07 %
4	Limited Liability Company	8 808	7.39 %
5	Coorporate	389	0.33 %
6	Foreign Company	596	0.50 %
7	Social Enterprises	23	0.02 %
8	Public Enterprises	10	0.01 %
9	Agricultural Coorporate	76	0.06 %
10	The ther businesses	33	0.03 %
Total		**119 149**	**100.00 %**

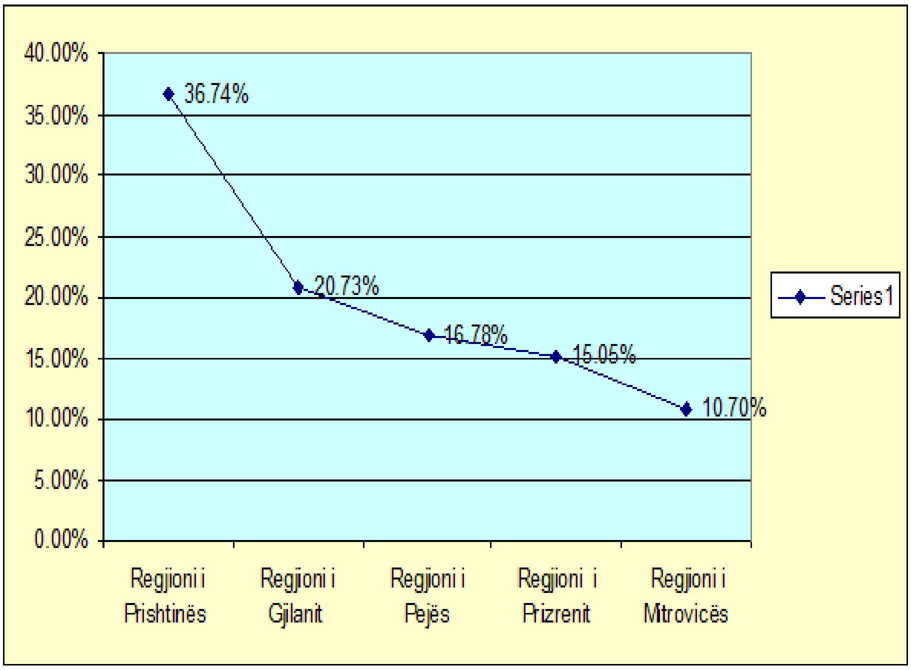
Table 2: Structure of enterprises by type of ownership, 2000 until 2012

Table 3: Registration and Closed of Enterprises period from 2001 – 2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Regjistrimet	10530	14318	2160	6460	11078	5189	4938	6692	6428	6398
Shuarja		2	995	1228	1497	1508	1308	1019	1151	1373



Graph 2: Registration and closed businesses between 2011 dhe 2012



Graph 3. Number of registered businesses in Kosovo, regional zone

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ENTREPRENEURSHIP DEVELOPMENT AND USING THE PROJECT MANAGEMENT SOFTWARE APPLICATIONS[3]

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Abstract

Generally, emerging business patterns in Macedonia shows that small businesses will continue to be the source of jobs and growth in the economy. Many activities have been undertaken and being associated with small businesses, such as finance and access to them, market information, managerial skills, implementation of IT, software's and etc.

Small businesses are one of the key engines of growth (in many developing countries) contributing to employment creation. In this paper, it is argued that SMEs cannot grow or succeed unless they are entrepreneurial and uses information technology. Also, main emphasis is placed on the development and entrepreneurial behaviour in small businesses with tends to be achieved growth in Western Balkans Countries. So, this paper provides a description and analyses to entrepreneurship where using software applications for management projects in SMEs are the underlying factor to the development of any business.

Key words: Software Application, Project Management, Entrepreneurship, Business Development

[3] professional paper

INTRODUCTION

The production of a Project Plan is a main part of the development of projects. The schedule will set out the key stages to be completed during the project, with their starting and finishing dates, and the resources that need to be allocated.

The stages in any project plan can be turned into bite size pieces, which are then much easier to budget for, and can be smoothly allocated to one or more people as tasks.

The reliance on one piece of work finishing before the next can begin is readily visible and so a fairly accurate timescale for the whole project can be set, alongside a cash flow profile which will show at what stages of the project money will be spent.

Progress can be monitored against each stage and completion readily reported on. Planning brings other more subtle benefits. The planning process can be a very effective tool for communication[1].

At each stage of the process, from setting objectives to deciding on tasks, you will need to talk to all those people who can bring knowledge to the project or are likely to be involved in its implementation. If handled well, the planning process will set up channels of communication and draw participants into involvement in the project. This will provide the basis for good teamwork. Objectives and roles should be clear.

People will know where the project is going and what they have to do. In most projects some tasks will be "dependent" on each other – you can't paint a wall until the bricklayers have finished building it, for example, or you can't run a playgroup until you have found a suitable venue.

The Project Plan should make these dependencies clear – if the wall is not built on time, or if you cannot find a venue for the playgroup, other tasks in the project may be delayed. There are many ways to produce this Project Plan. It could be done with pencil and paper; be a word-processed table as in our case study or use a spreadsheet; or be a set of dates in a calendar or on a wall chart. Other techniques like the Ghant chart shown below, which show the dependencies within a project, are an excellent aid to project planning.

PROJECT PLANNING SOFTWARE

Computer software is available to help with the planning process. The software will produce attractive project plans complete with Ghant charts, and can also be used to allocate resources. These systems deal with the planning and scheduling elements of project management – they don't help with defining or managing the process. The software package that most voluntary sector managers are likely to have available is Microsoft Project[2]. Most people who come to use MS Project for the first time are learning two things: how to use the software and how to do project planning.
Both elements involve a fairly steep learning curve. Coming to grips with Project will take several days and can be a very frustrating process. Most people will want to attend a proper training course. This learning process may be unwelcome, especially at the beginning of a new project; but if you're likely to plan more than one project, the time spent learning a new skill will be repaid.

You'll probably be happy sticking to a spreadsheet or to word processed charts if project management is only incidental to your work and you don't enjoy learning new software.

Project management software doesn't have to become the whole basis of project planning. It can be used in a fairly modest way as a tool to identify and break down the key tasks of a project and produce Ghant charts, which provide an excellent representation of how the tasks fit together over time. Used in this way the software is very good at 'what-if' analysis, in the same way that a spreadsheet can be used for budgeting. The speed at which this can be done makes the software a very useful tool when breaking down the subtasks for a project, and displaying the results in a visual way.

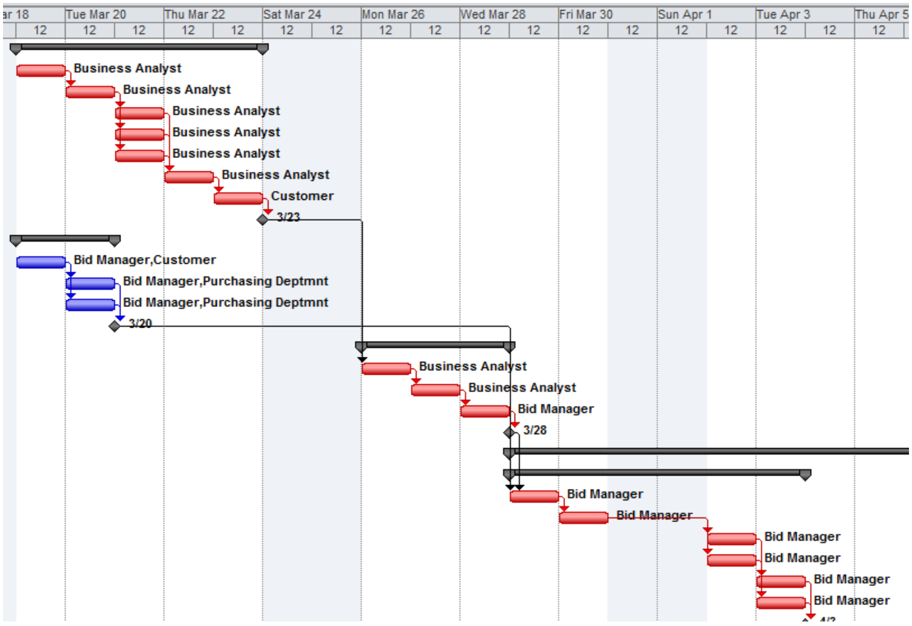

Fig. 01. Ghant Chart Diagram of Entrepneural Process of Project Planning

IT PROJECT MANAGEMENT

The Project Manager has a lot in common. Both work to achieve organizational goals by directing the activities of people. They employ many of the same knowledge sets, skills, abilities and personal traits to plan, organize, staff, direct and control their teams, including[3]:

- Strong leadership and interpersonal skills
- Ability to manage people, time and resources
- Ability to develop people
- Excellent communication and presentation skills
- Good organizational and problem solving abilities
- Good negotiation, conflict resolution and decision making skills

• Talent to handle clients

• Knowledge/awareness of the requirements of the relevant legislation and regulations

• Honesty and integrity.

		Task Name	Duration	Start	Finish	Predecessors	Resource Names
1		**Data Gathering**	**8 d**	**Mon 3/19/07**	**Wed 3/28/07**		
2		**Define customer needs**	**5 d**	**Mon 3/19/07**	**Fri 3/23/07**		
3		Map current processes	1 d	Mon 3/19/07	Mon 3/19/07		Business Analyst
4		Evaluate customer problems	1 d	Tue 3/20/07	Tue 3/20/07	3	Business Analyst
5		Define needs: goods	1 d	Wed 3/21/07	Wed 3/21/07	4	Business Analyst
6		Define needs: services	1 d	Wed 3/21/07	Wed 3/21/07	4	Business Analyst
7		Define constraints and interactions	1 d	Wed 3/21/07	Wed 3/21/07	4	Business Analyst
8		Write customer needs statement	1 d	Thu 3/22/07	Thu 3/22/07	5,6,7	Business Analyst
9		Customer needs statement approval	1 d	Fri 3/23/07	Fri 3/23/07	8	Customer
10		Customer needs statement ready	0 d	Fri 3/23/07	Fri 3/23/07	9	
11		**RFP environment definition**	**2 d**	**Mon 3/19/07**	**Tue 3/20/07**		
12		Get preliminary budget statement	1 d	Mon 3/19/07	Mon 3/19/07		Bid Manager,Customer
13		Obtain agreement process - RFP content	1 d	Tue 3/20/07	Tue 3/20/07	12	Bid Manager,Purchasing Deptmnt
14		Obtain agreement process - post RFP activities	1 d	Tue 3/20/07	Tue 3/20/07	12	Bid Manager,Purchasing Deptmnt
15		RFP environment defined	0 d	Tue 3/20/07	Tue 3/20/07	13,14	
16		**Define the solution**	**3 d**	**Mon 3/26/07**	**Wed 3/28/07**		
17		Find documentation on solutions	1 d	Mon 3/26/07	Mon 3/26/07	10	Business Analyst
18		Study documentation on solutions	1 d	Tue 3/27/07	Tue 3/27/07	17	Business Analyst
19		Write solution content	1 d	Wed 3/28/07	Wed 3/28/07	18	Bid Manager
20		Solution content ready	0 d	Wed 3/28/07	Wed 3/28/07	19	
21		**The RFP document**	**8 d**	**Thu 3/29/07**	**Mon 4/9/07**		
22		**Writing the RFP elements**	**4 d**	**Thu 3/29/07**	**Tue 4/3/07**		
23		Copy and adapt company's general conditions	1 d	Thu 3/29/07	Thu 3/29/07	15,20	Bid Manager
24		Write chapter on customer environment	1 d	Fri 3/30/07	Fri 3/30/07	23	Bid Manager
25		Write chapter on customer needs: goods	1 d	Mon 4/2/07	Mon 4/2/07	24	Bid Manager
26		Write chapter on customer needs: services	1 d	Mon 4/2/07	Mon 4/2/07	24	Bid Manager
27		Write acceptance criteria	1 d	Tue 4/3/07	Tue 4/3/07	25,26	Bid Manager

Fig. 02. Table of Project Costs

Although most managers have similar skills sets, there are some differences between the roles of IT Managers and Project Managers. The main difference is one of focus. The IT Manager is responsible for an on-going program of IT services, while the Project Manager's accountability and authority last only for the life of the project. In fact, it is the time-limited nature of projects that makes the role of Project Manager so important.

Despite such similarities and differences, it is important for the IT Manager to know the basics of formalized project management. Why? Because every organization needs to be able to implement changes, and almost all important changes are defined or implemented through project teams. Does everyone in the organization (or in IT) need to know project management, or is it safe to leave it in the hands of a highly trained few? Spread the knowledge around!

Project teams are frequently cross-functional with members from many parts of the organization. Project teams must be able to interact successfully with people throughout the organization in order to plan and complete the project. Everyone in the organization will be affected by what the project teams do, so the more members of the organization understand about project management, the better they will be able to support, guide, and interact with the project team.

While many organizations have trained Project Managers or a Project Management Offices, IT Managers without these resources can still benefit from project management frameworks that describe best practices such as the Project Management Institute's PMBOK® (Project Management Book of Knowledge), the United Kingdom government's PRINCE2 (Projects In Controlled Environments) and Visual Paradigm (UML Software Platform).

It is not necessary or possible for everyone in an organization to be project management professionals. But that doesn't mean that they should be ignorant of the essentials of project management. The important thing for the entire organization is to select an approach to managing projects and socialize it in the organization[4].

Let's talk a little more about projects themselves. We've said that change is reason for projects. Changes in the business are naturally reflected, or anticipated, in the technology supporting the business. We agree on where they come from, but what is a project? A project is a one-time, multitask job with clearly defined starting and ending dates, a specific scope of work to be performed, a budget, and a specified goal or outcome to be achieved. You can easily understand that the amount of time, energy and focus required to get a project done would place an unacceptable burden on any IT manager if added to current responsibilities. Enter the project team.

When the need for a change is identified, the search is on for a Project Manager. Someone is needed to focus on the initiation, planning, executing, monitoring and controlling, and closing the work of the project. However, the Project Manger does not perform the activities that make up the project; this is the purpose of the project team.

The IT Manager supports the project by providing staff resources and by lending authority to the Project Manager. Unlike IT Managers who have positional authority, Project Managers derive their authority from the project charter. This can lead to confusion among team members when normal workload and project activities conflict. The IT Manager can facilitate project success by adjusting workloads and priorities to free up project team members.

The PMBOK defines Project Management as “the application of knowledge, skills, tools and techniques to project activities to meet project requirements”. Simply stated, it is a process-oriented approach to defining, doing and measuring the work required to get the desired outcome. It is in the familiarity and facility with the tools and techniques of formal project management that the Project Manager diverges from other managers in the organization.

The professional Project Manager has devoted significant time and effort to learning and applying the best practices appropriately, and the ability to match the framework to the organizational style and culture is the result of both training and experience.

What every IT Manager needs to know about Project Management is that there are best practices which when socialized into an organization can greatly enhance the success of projects. Project Management is a serious, professional field of interest with its own practices and attainments. Adopting Project Management will make the work of effectively managing change in the IT environment easier and more consistent.

It is important to remember that any framework or tool is only as good as the people who use it. Picking a framework and tools that suit your organizational culture, familiarizing the entire organization with the chosen framework, and training staff in the use of and reasons for the tools can make the handling of changes more consistent, efficient and successful. The IT Manager and the Project Manager are not at odds. The Project Manager’s ability to focus knowledge, skills, tools and techniques on the temporary endeavour frees the IT Manager to focus on keeping the wheels of commerce turning.

PROJECT PLANNING

Define how you will arrive at your objectives. This involves planning how many people, resources and budget are required. If delivering this in house, decide what activities are required to produce each deliverable. For example, you might decide a web designer will develop page layouts and navigation diagrams.

You might decide the marketing team will supply all product details and photographs. You might decide the finance manager will set up merchant and payment gateway accounts to enable e-commerce transactions via your website. If outsourcing work, specify exactly what the sub-contractor should deliver. Estimate the time and effort required for each activity and decide realistic schedules and budget. Ensure key stakeholders review and agree the plan and budget[5].

PROJECT TRACKING

Constant monitoring of variations between actual and planned cost, schedule and scope is required. Report variations to key stakeholders and take corrective actions if variations occur. To get a project back on track you will need to juggle cost, scope and schedule.

Suppose your programmer hits technical problems which threaten to delay the project. You might recover time by re-organising or shortening remaining tasks. If that's not possible, you might consider increasing the budget to employ an additional programmer, or consider reducing the scope in other areas. Be aware that any adjustments you make to the plan might affect the quality of deliverables. If you need to increase the budget, seek approval from the project sponsor.

CHANGE MANAGEMENT

Once started, all projects change. Decide a simple change strategy with key stakeholders. This could be a committee which decides to accept or reject changes which comprises of you and one or more key stakeholders. Assess the impact of each change on scope, cost and schedule. Decide to accept or reject the change. Be aware that the more changes you accept the less chance you have of completing the project on time and within budget unless you reduce scope in other areas.

Suppose the marketing manager wants to add a popup window to display full size photographs of products. Assess the impact of this change. You might need to remove some remaining tasks to include this change and stay within budget. Or, it might be impossible to include the change without increasing the budget or schedule. Don't blindly accept changes without assessing the impact or your project will overrun.

RISK MANAGEMENT

Risks are events which can adversely affect the success of the project. Identify risks to a project early. Decide if each risk is likely or unlikely to occur. Decide if its impact on the project is high or low. Risks that are likely to occur and have high impact are the severest risks. High impact but unlikely risks, or low impact but likely risks pose a medium threat. Unlikely and low impact risks pose the least threat. Create a mitigation plan of the actions necessary to reduce the impact if the risk occurs. Start with the severest risks first, then deal with the medium risks.
Regularly review risks. Add new ones if they occur. Suppose the Entrepreneurial manager cannot decide what he wants from the some tasks so then are use Critical Path of Task and Task dependency in Ghant Diagram[6].

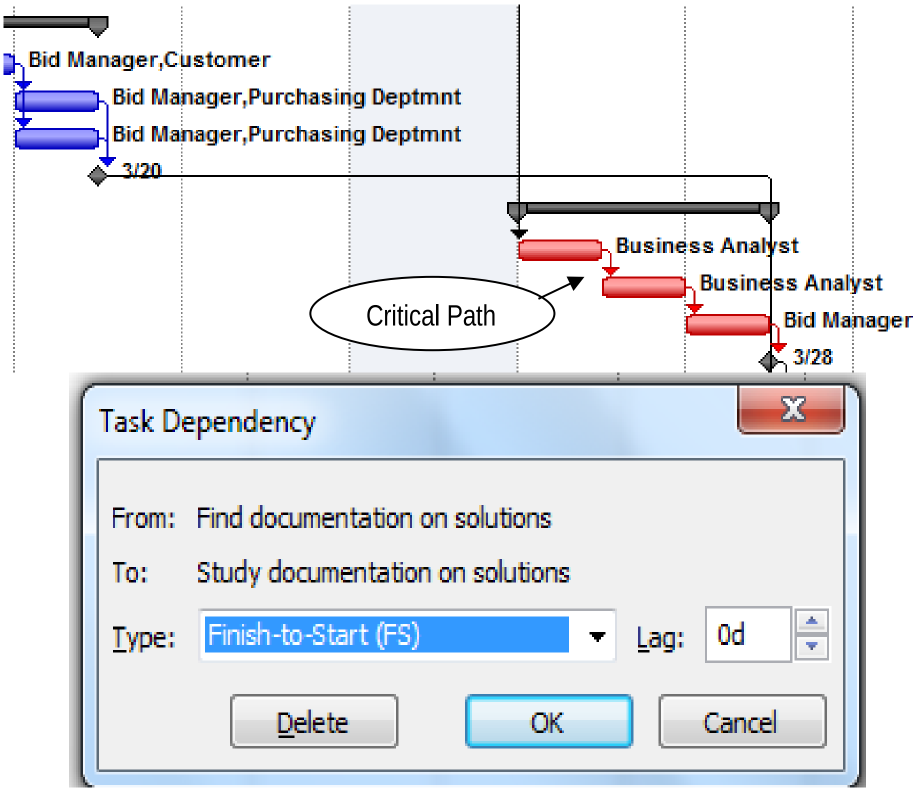

Fig. 03. Critical Path in Ghant Diagram

Without knowing what the Entrepreneurial manager wants, the team cannot deliver a website to meet his expectations. You assess this risk as highly likely to occur and having high impact. Your mitigation plan might be that the web designer develops page layouts to be reviewed by the manager early in the project.

SUMMARY

Influence of Project management software to planning, organizing, motivating, and controlling resources to achieve specific goals in Entrepreneurial Project. A project is a temporary endeavor with a defined beginning and end, undertaken to meet unique goals and objectives, typically to bring about beneficial change or added value. The temporary nature of projects stands in contrast with business as usual, which are repetitive, permanent, or semi-permanent activities to produce products or services.

In practice, the management of these two systems is often quite different, and as such requires the development of distinct technical skills and management strategies by using an IT technologies and Software applications. Benefits of project management with software applications are: to achieve all of the project goals and objectives while honoring the preconceived constraints (constraints are scope, time, quality and budget) and to optimize the allocation of necessary inputs and integrate them to meet pre-defined objectives.

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ACCEPTANCE OF E-BANKING SERVICES FROM SMALL AND MEDIUM ENTERPRISES[4]

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Abstract

In addition to technological development, Internet, Information systems, E-business and E-payments are becoming part of everyday life of all people. This study discusses and explores the acceptation of E-banking services as well the obstacles in the context of its usage by small and medium enterprises. The aim of this paper is to investigate the factors influencing the acceptance of E-banking services by small and medium enterprises provided by banks that operate in Kosovo. For the purposes of this study, I have collected a sample of 106 respondents. With the Internet usage period, perceived ease of use; quality of the Internet and demographic factors as independent variables, this paper examines how these factors influence the acceptance of E-banking services from small and medium enterprises. The Internet usage period shows it is relatively important compared to the two variables as indicated by the results of the correlation coefficients.

Keywords: SMEs, E-banking, Internet, acceptance.

[4] original scientific paper

INTRODUCTION

E-banking is the provision of banking services through electronic channels. The customer can access the data without any temporal and geographical constraints. Electronic banking has caused massive changes in the banking practice since it was first introduced as “home banking” by the main New York banks in the 1980’s (Osho, 2008). This service enables consumers to use the Internet to access their bank account anytime and anywhere. E-banking involves facilities such as full access to accounts, money transfer and the purchase of financial products or services online. From the banks’ point of view, the use of Internet Banking leads to larger customer coverage, more effective marketing of their services and products internationally (Tuchila, 2000), more substantial cost saving (Sathye, 1999, Robinson 2000), better enhanced competitiveness, higher increase in customer satisfaction and personalized relationship with customers.
In today’s knowledge based economy, the use of information technology by firms adds to their competitive advantage. The majority of companies in Kosovo use computers for purposes of financial record keeping, while some of them use them for planning and for market research. SMEs in Kosovo are very important for the economic growth. There are 87,960 registered businesses in Kosovo. The percentage that SMEs account for is around 98.4% and approximately 65% of employees in Kosovo are represented by SMEs. The enterprise structure is mainly dominated by micro enterprises and the growth level, although steady, is still at low levels.

There are nine banks currently operating in Kosovo, representing 76.3 percent of the total assets in the financial sector. Commercial banks in Kosovo are universal banks therefore they carry out a whole range of banking activities. Their products and services include bank accounts, loans, domestic and international payments, deposits, foreign exchange transactions, bank cards, bank guarantees, e-banking, m-banking and others. The access to these services is assured through 310 branches and sub branches, 415 ATM’s, 8,361 POS and 55,292 e-banking accounts. E-banking services have been available in Kosovo since 2007 and the number of users was very small. Nowadays almost all banks in Kosovo offer e-banking service to their clients. Even the number and value of E-Banking transfers is growing continuously, still it is worth mentioning that this service has not yet found widespread use by the public. In the payment service market, there has begun an increased interest in the payments by mobile phone (mobile banking). Having in consideration the high penetration of mobile phones to citizens, and the high coverage in the country by the telecom operators, this method of payments appears quite promising in the future. Despite the growing trend of e-banking services, Kosovo continues to have relatively small number of e-banking service users.

According to the Central Bank of Kosovo report the growth rate of the number of accounts which can be accessed through e-banking service in 2011 compared with the previous years was about 25%, while a year ago the growing rate was 35%. If we compare 2012 with the end of 2011 will determine 40.7% more accounts which can be accessed through e-banking service. According to growth rate of e-banking users that results high, it can be concluded that Kosovo will be close to the average of the region in a relatively short period of time. Currently, Kosovo has 53.9 thousand e-banking users per million people which remains a very low number of accounts which can be accessed through e-banking.

Table 1 presents the number of e-banking service users by the type of account, divided into individuals and businesses. According to data that Central Bank of Kosovo presented in this table we can see that 79.15% of all e-banking accounts are those of private persons, while only 20.85% are accounts used by businesses.

Table 1. Number of e-banking accounts by type

Description	Number	%
Individual's accounts	76,844	79.15%
a - individual (resident)	74,099	
b - individual (non-resident)	2,745	
Business accounts	20,245	20.85%
a - business (resident)	20,099	
b - business (non-resident)	146	
Total	97,089	100.00%

Source: CBK 2013

The adoption of online banking channels by SMEs in Kosovo has been rather slow when compared with the large companies. Given that e-services are new products in Kosovo and their usage in the market is not very large, some banks hesitate to report about these products with the excuse that the data is internal and confidential. This paper attempts to bridge this gap by exploring e-banking acceptance and adoption, as well as the obstacles toward its usage by SMEs in Kosovo.

METHODOLOGY

In this study, a single case study approach was employed with intention to explore and gain preliminary understanding of the e-banking adoption in Kosovo from the perspective of small and medium size enterprises. The objective of this paper is to explore the factors that are affecting the adoption of e-banking among the SMEs using a research model that was adapted (Fig. 1). The study attempts to identify the "push" factors encouraging the use of Internet banking, as well as the barriers that prevent SMEs to adopt this technology.

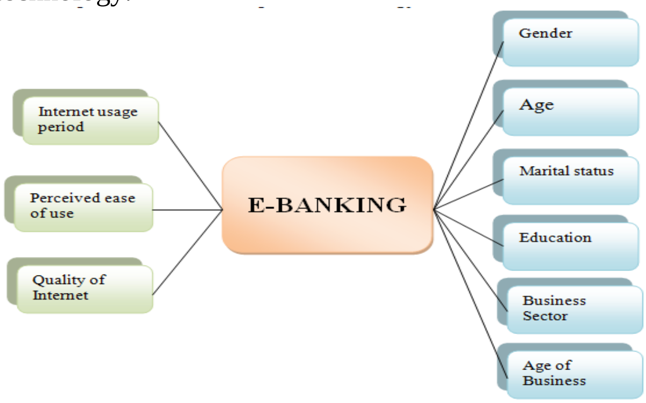

Figure 1. Research Model

(adapted from Chong et al. 2010; Polasik and Wisniewski 2009)

Hypotheses of the Study

Based on the objective of the study, five testable non-directional hypotheses were developed to address the research question:

H_1: There is significant relationship between Internet usage period and E-banking services usage.

Taking into consideration that prior Internet experience, familiarity with computers gives more confidence to the costumers to interact online with their banking accounts therefore hypothesis H_1 is proposed.

H_2: There is significant relationship between Perceived ease of use and E-banking services usage.

As Radner and Rothschild (1975) stated that perceived ease of use refers to the degree to which a person believes that using a particular system would be free of effort. Effort is a finite resource that a person may allocate to the various activities for which he or she is responsible, hence an application perceived to be easier to use than another is more likely to be accepted.

H_3: There is a significant relationship between Quality of Internet and E-banking services usage.

Good and secure Internet connections increase the security of E-banking services thus the significance of this factor is explored.

H_4: There is a significant difference between business sectors as to the E-banking services usage.

Variability exists among different business sectors about E-banking adoption. IT companies are more likely to adopt online banking rather than food industries, cosmetic salon and restaurants.

H_5: There is a significant difference between ages of business as to the E-banking services usage.

Existing companies tend more to use E-banking services than Start ups.

Questionnaire design

A questionnaire was used to achieve the objectives of our study. The questionnaire was sent to people that operates with SMEs banking accounts: owners, managers and financial directors with an invitation to participate. In order to maximise the number of responses, the purpose of the questionnaire was clearly stated and the respondents were given assurance that the information being collected is highly confidential and used only for the purposes of this study, without their real names being published. Out of the

total of 145 distributed, only 106 valid questionnaires were collected back, which represents a response rate of 73%. From 106 valid responses that provide information about the company 60 of them were from SMEs owners, 27 managers and 19 financial directors.
The questionnaire comprised four sections. It was designed with simplicity and ease of understanding in mind, with closed questions. The first section was composed from two parts. The first part asked for general information about the owners, managers, financial directors of the company (gender, age, marital status, and education) and second part asked for general information about the company (business sector, age of business and area of business). The second section seeks the Internet status of the SMEs (Internet usage period), the third section seeks E-banking usage and the quality of the relationship the SMEs have with their banks (perceived ease of use E-banking services). The fourth section sought information about the Quality of the Internet. Questions in the second, third and fourth section were measured by using a five-point Likert scale.

The data obtained from questionnaire were analysed using multiple regression analysis and frequency counts. Pearson Correlation was used to assess the relationship among independent and dependent variables. The data was computed using the Statistical Package for Social Science (SPSS) version 19 application to strengthen accuracy of results.

RESULTS AND DISCUSSIONS

The result of reliability testing of the variables was found to be 0.82; it is considered that the coefficient of the data generated is acceptable.
People with high education may have aptitude for computer literacy and information processing skills. All these qualities are essential for E-banking usage and therefore there is relationship between education and E-banking usage. The results reported that males were more likely to use E-banking. Based on Akinci et al.'s (2004) findings, in Turkey mid-aged consumers are more likely than younger or older consumers to use Internet banking. Similar results found in this study shows that there is a negative relationship between age and online banking activities.

From the Table 2 it can be seen the demographic profile of the sample in this study. Number of respondents for the study was 106 out 6529 population of the Mitrovica region.

Most of surveyed respondents were male: 64.15% and 35.85 were female. Based on age, most of the respondents were from 31-40 years old, which is

44.34%, 33.96% from 41-50 years old, 11.32% are less than 30 years old and 10.38% are from 50 years old and above. The vast majority of the respondents were married which made up to 60.38%, 30.19% were single, while 9.43% of the respondents were divorced. Based on the sample results: most the SME Managers 47.17% have High School, 32.08% have secondary school, 14.15% have undergraduate degree, 2.83% have graduate degree and primary school. Only 0.94 % of SME Managers/owners have PhD degree.

As can be seen from the table 2 regarding the business sector most of the SMEs were from the food sector 28.30%, salon and cosmetics 18.87%, clothing Store 16.98%, restaurants 15.09%, pharmacy 13.21% and electrical 7.55%. According to the age of the business: 47.17% of respondents have 2-5 years; 29.25% have 6-10 years; 12.26% have more than 10 years and 11.32% have less than 2 years.

Table 2: Frequencies of Demographic Variables

Respondent profile	Frequency	Percent (%)
GENDER		
Male	68	64.15
Female	38	35.85
AGE		
Less than 30 years old	12	11.32
31-40 years old	47	44.34
41-50 years old	36	33.96
Above 50 years old	11	10.38
MARITAL STATUS		
Single	32	30.19
Married	64	60.38
Divorced	10	9.43
EDUCATION		

Primary school	3	2.83
Secondary school	34	32.08
High school	50	47.17
Undergraduate	15	14.15
Graduate	3	2.83
PhD	1	0.94
BUSINESS SECTOR		
Food	30	28.30
Pharmacy	14	13.21
Salon and cosmetic	20	18.87
Clothing Store	18	16.98
Electrical	8	7.55
Restaurant	16	15.09
AGE OF BUSINESS		
Less than 2 years	12	11.32
2-5 years	50	47.17
6-10 years	31	29.25
More than 10 years	13	12.26

The results reported that most of the SMEs from the sample are urban 82 (77.36%), while only 24 (22.64%) are rural (table 3).

Table 3. E-banking users and non-users in Mitrovica region

	Area	Total		Users		Non-users	
		n	%	n	%	n	%
E-Banking	Urban	82	77.36	70	66.04	12	11.32
	Rural	24	22.64	7	6.60	17	16.04
Total		106	100	77	72.64	39	27.36

According to the table 3 urban SMEs are more likely to use E-banking services than rural. From 82 the urban SMEs from the sample, 70 SMEs use E-banking services and 12 of them are non-users. In rural, results differ among 24 rural SMEs 17 are non-users, while only 7 SME use E-banking services. Some of the interviewed rural SMEs declared that they lack E-banking services due to the quality of Internet and they were seeking better Internet in order to increase e-banking services usage.

Correlation Analysis of the selected variables

The Pearson Correlation was used in order to assess the relationship among independent and dependent variables. According to Table 4 all the hypothetical independent variables were statistically significant with the p-value lower than 0.05 ($p < 0.05$).

Table 4: Correlation Coefficient Analysis

Variables	Online Banking	Internet usage period	Perceived ease of use	Quality of Internet
Online Banking	Pearson 1	0.306^{**}	0.283^{**}	0.208^{*}
	Correlation Sig. (2 tailed)	0.001	0.003	0.032

N: 106

**Correlation is significant at the 0.01 level (2-tailed).

*Correlation is significant at the 0.05 level (2-tailed).

Based to the analysis, the dimension concerning Internet usage period indicated the highest strength with r = 0.306, shows that this variable has positive correlation with online banking, followed by perceived ease of use with r = 0.283 and quality of Internet r = 0.208. Based on the analysis, results indicate that three variables have positive correlation respectively.

The Pearson Correlation analysis as a whole suggested that there were significance between independent variables with online banking. Further evidence displayed in table 4 confidently supports hypothesis 1, hypothesis 2, and hypothesis 3 since the significant p-value was lower than 0.05.

Table 5: Regression Analysis (Multiple Regressions)

Variables	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	β	t-value	Sig.
Constant	1.710	0.493		3.470	0.001
Internet usage period	0.381	0.134	0.257	2.855	0.005
Perceived ease of use	0.163	0.061	0.236	2.678	0.009
Quality of Internet	0.061	0.072	0.076	0.845	0.400

R^2=0.489

Table 5 displays the summary of the multiple regression analysis among all the independent variables towards E-banking service usage as the dependent variable. Among all the independent variables, Internet usage period indicated the highest significance with the t-value equal 2.885 and the beta score of 0.257, perceived ease of use indicates the t-value equal 2.678 and the beta score of 0.236, while quality of Internet indicated the lowest significance with the t-value equal 0.845 and the beta score of 0.076.

As can be seen from the table 5 the mentioned variables are able to explain 49% the usage of e-banking among SMEs in Mitrovica region. The unexplained (51%) may be the result of the influences from others factors that have not been yet explored such as: awareness, accessibility, security, trust and others.

ANALYSIS OF DIFFERENCES FOR BUSINESS SECTOR AND BUSINESS AGE WITH ONLINE BANKING

Table 6 displays the test results of significant differences for variables among multiple groups.

Table 6: One-way ANOVA

Factor list	Dependent variable	df	Mean Square	F	Sig.
Business sector	E- Banking	5	2.282	3.413	0.007
Age of business	E- Banking	5	1.831	6.800	0.001

The differences between the business sector and the E-banking services; the result on the ANOVA indicated that there was a significant difference 0.007, based on significant level 0.05 (F=3.413, df=5). With the calculated value, the evidence suggested that there was a significant difference among the six groups of the business sector (food, pharmacy, salon and cosmetics, clothing store, electrical and restaurants) in terms of their participation in E-banking services. For the analysis of differences between age of business and E-banking services usage, result indicated that there was a significant difference 0.001, based on significant level 0.05 (F=6.800, df=5). This was evidence indicating a significant difference between the age of business and the E-banking services usage. As shown in table 6 hypotheses 4 and 5 were significantly supported.

CONCLUSIONS

The emergence of the internet seems to have a significant impact on the diffusion of electronic banking. With the diffusion of the internet banking transactions, the small and medium enterprise is no longer bound to the limitation of time or geographical factors.

Even currently, Kosovo has 53.9 thousand e-banking users per million people it still remains a very low number of accounts which can be accessed through e-banking. E-banking services are used more from private person accounts than from businesses accounts. Among the three independent variables identified that Internet usage period is the most influential factor towards usage with r = 0.306 and followed by Perceived ease of use and the quality of Internet. With this finding, all hypotheses of the study were accepted.

Based on the results, we can conclude that small and medium enterprises with the higher Internet usage period of the persons that operate with the firms' banking accounts are willing more to use e-banking services. The age of the managers, owners and financial directors results to have a negative influence on E-banking acceptation.

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INTERNET, E-COMMERCE AND SOCIAL NETWORKS AS A KEY FOR BUILDING ICT INNOVATION[5]

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Abstract

Internet, e-commerce and especially social networks attract a huge number of visitors. Furthermore, they are spreading rapidly and many of them cater to a specific segment of the population. This opens the door for several ICT innovations in the organization.
The innovation has the central importance for organizations survival in rapidly changing competitive environment by changes and developments on products, services, sales and manufacturing processes. It becomes clear that ICT and innovation are closely coupled and the ability to capture the opportunities of innovation is contingent on approaches to investment and management of ICT capability.

The paper reviews theoretical and methodological conceptions in studying that originate from general knowledge and special economy disciplines most important fields of study of social networks, internet and e-commerce as a key for building ICT innovation. Some influential studies are analyzed; some key weaknesses are pointed out, as well as possibility of their future development.

Key words: social networks, internet, e-commerce, innovation

JEL classification: O32, M20, M1

[5] professional paper

INTRODUCTION

An increasing number of researchers in fields such as industrial dynamics, technology policy and firm strategy claim that technological development cannot be viewed as an isolated phenomenon but has to be studied as a part of a larger system, an Innovation System. Bringing the concept of social networks into Innovation System's analysis provides an essential tool for understanding the logic of technological development and industrial structures.

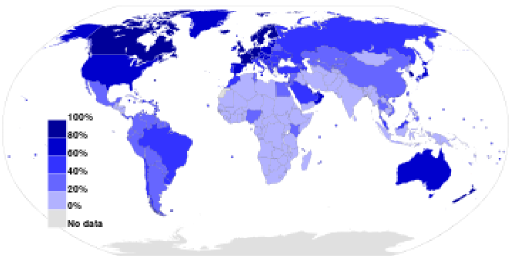
Porter (2001) argues that today the issue for organizations is not the acquisition and deployment of technology but rather how companies innovate. "Companies must be able to innovate on a global frontier. They must create and commercialize a stream of new products and processes that shift the technology frontier, progressing as fast as their rivals catch up." Porter was referring to large organizations however his comments are no less true for small businesses.

We argue that bringing the concept of social networks would provide us a key for the dynamic analysis of National Innovation Systems (NIS) configurations. The main purpose of this paper is to explain the social networks as ICT innovation and that create themselves new innovation.

THE MEANING OF INTERNET AND E-COMMERCE

Internet and e-commerce has drastically changed the traditional way of working and make it more profitable and efficient. The Internet is the driving force of the new economy. The concept of e-commerce is known as a model of global network operations.

Traditional companies have realized the value of e-commerce and the Internet, and through partnerships with Internet Companies they want to redesign their operations and achieve a competitive advantage. Internet companies offer a sustainable competitive advantage, global presence, reengineering operations, dramatically reducing costs, improving the performance and integration of business processes. Therefore, the willingness to accept the partnership significantly affects the success of the companies in the future. Internet becomes the perfect market and globally it is a virtual oasis. As a major global communications network, affirms the electronic market and the emergence of new services that significantly affect the operation and development in the society. He affects of the creation "intangible" modes of operation. Michael Dell founder and general manager of Dell Computers said: "The Internet will be an essential part of any business, such as electricity for decades" and that the Internet will grow three times faster than television, ten times faster than radio.



Picture 1.Internet users in 2010 as a percentage of a country's population

Source: International Telecommunications Union[6]

Internet users by region		
	2006[b]	**2011**[a,b]
Africa	3%	13%
Americas	39%	56%
Arab States	11%	29%
Asia and Pacific	11%	27%
Commonwealth of Independent States	13%	48%
Europe	50%	74%

[a] Estimate.

[b] Share of regional population.

Source: International Telecommunications Union.

[6] Percentage of Individuals using the Internet 2000-2011, International Telecommunication Union, accessed on 19 August 2012.

New technologies and digital media have made significant progress and generated impact and improvement on the conditions for learning in education, training and Lifelong Learning (LLL).

Internet is more widespread than ever before. All EU Member States have developed programs and specific actions for the integration of Internet in the companies. Internet is a global system of linked computer networks that allows data communication services such as remote log in, file transfer, electronic mail, bulletin boards and news groups. The Internet is also the foundation for the World Wide Web (WWW). Internet in particular reflects the work and life of people who are actors in the rapid development of science, engineering and technology. Electronic commerce refers to commercial transactions occurring over open networks, such as the Internet. Both business-to-business and business-to-consumer transactions are included.

SOCIAL NETWORKS AND ICT INNOVATION

The network literature underlines the innovative and stabilizing aspects of network patterns. Network building and maintenance is often seen as a precondition for successful innovation and trust but it can also lead to inertia and malfeasance as well as high social and personal costs.
All social networks are, more or less important for ICT innovative activities because they are ICT innovation. Nevertheless, a systemic approach to technological change requires an effort of classification of social networks according their modes of influence on innovative activities.

Social network is a place where people create their own space, or home page, on which they write blogs (web logs), post pictures, videos or music, share ideas and link to others Web locations they find interesting. Social networkers *tag* the content they post with keywords they choose themselves, which makes their content searchable. In effect, they create online communities of people with similar interests.

MOST APPLIED SOCIAL NETWORKS

So we propose the following types of networks of innovation:

Facebook **-** is a social networking website intended to connect friends, family, and business associates. It began as a college networking website and has expanded to include anyone and everyone.

Facebook was founded in 2004 by Harvard student Mark Zuckerberg and originally called thefacebook. In August of 2005, thefacebook was renamed Facebook. At that time, it was only available to schools, universities, organizations, and companies within English speaking countries, but has since expanded to include anyone.

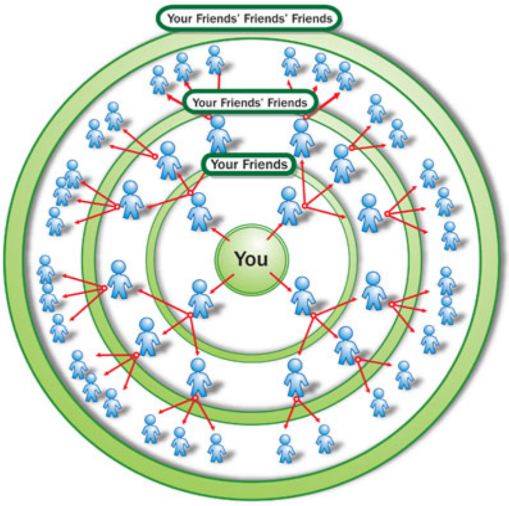
Facebook users create a profile page that shows their friends and networks information about them. The profile typically includes the following: Information, Status, Friends, and Friends in Other Networks, Photos, Notes, Groups, and The Wall. Facebook had a redesign in late 2008, intended to streamline the website and make it easier to see what friends were doing. In early 2009, Facebook users worldwide were nearly double that of its older competitor MySpace.

Twitter - is a real-time information network that connects you to the latest stories, ideas, opinions and news about what you find interesting. You can see photos, videos and conversations directly and you don't have to build a web page to surf the web, Twitter was created in March 2006 by Jack Dorsey and by July, the social networking site was launched. Since its launch, Twitter has become one of the ten most visited websites on the Internet, and has been described as "the SMS of the Internet, and is available in more than 20 languages,

MySpace - is a social networking site that allows its users to create webpage's to interact with other users. MySpace networking works something like this:

1. You join MySpace and create a profile.
2. You invite your friends to join MySpace and search MySpace for your friends who are already members. These people become part of your initial "Friend Space."
3. All of the people in your friends' Friend Space become part of your network. You now have connections to more people than you did 15 minutes ago.

This is the idea:



The site has grown tremendously since its inception in 2003 (MySpace was founded in 2003 by Chris DeWolfe and Tom Anderson) and has even launched the careers of some music artists and actors.

The big question is why MySpace has succeeded where so many others have failed. Lots of people expound on this mystery from a business or philosophical perspective, but there are at least a few obvious answers. First and possibly foremost, there's the music connection. Some of the first people to utilize MySpace were musicians and bands, who may have heard about it in the first place from the Web site's founders, who were active in the L.A. music scene. Bands used it to establish a free online presence to post performance dates and communicate with their fans.

In 2004, MySpace became a full-fledged internet indie-music portal with the creation of MySpace Music, a subsection on MySpace. The new area let bands not only create an online presence, but also stream their music through their MySpace profiles and let people download MP3s of their songs, all for free. Unsigned bands use the site to get their music out there and build a following. Established artists like Madonna, the Black Eyed Peas, Audioslave and Billy Corgan use the site to communicate with fans and get feedback on tracks.

Google Google - is an American multinational corporation specializing in Internet-related services and products. These include search, computing, software and online advertising technologies.

Google was founded by Larry Page and Sergey Brin while they were Ph.D. students at Stanford University on September 4, 1998. An initial public offering followed on August 19, 2004. Its mission statement from the outset was "to organize the world's information and make it universally accessible and useful", and its unofficial slogan was "Don't be evil". Google's offers online productivity including email, an office suite, and social networking. Rapid growth since incorporation has triggered a chain of products, acquisitions, and partnerships beyond Google's core search engine. It offers online productivity including email, an office suite, and social networking. Desktop products include applications for web browsing, organizing and editing photos, and instant messaging. The company leads the development of the android_mobile operating system. In December 2012 Alexa listed google.com as the most visited website in the world.

Y! Yahoo – is an Internet portal that incorporates a search engine and a directory of World Wide Web sites organized in a hierarchy of topic categories. As a directory, it provides both new and seasoned Web users the reassurance of a structured view of hundreds of thousands of Web sites and millions of Web pages. It also provides one of the best ways to search the Web for a given topic. Since Yahoo is associated with the most popular Web search sites, if a search argument doesn't lead to a Yahoo topic page, it will still lead to results from the six or seven popular search engine sites Yahoo links to.

Yahoo is an American multinational internet corporation headquartered in Sunnyvale, California.

Yahoo! began as the bookmark lists of two Stanford University graduate students, David Filo and Jerry Yang in January 1994 and was incorporated on March 1, 1995. Yahoo operates a portal that provides the latest news, entertainment, and sports information. The portal also gives users access to other Yahoo services like Yahoo Mail, Yahoo Maps, Yahoo Finance, Yahoo Groups and Yahoo Messenger.

YouTube YouTube - is a video-sharing website and is a true global community-with numerous user groups and contests to encourage users to create their own videos. YouTube discourages users from downloading videos to their own computers, preferring that they watch videos online. However, you may embed videos in your own website. YouTube created by three former Pay Pal employees in February 2005.

The company is based in San Bruno, California and uses Adobe Flash Video and HTML5 technology to display a wide variety of user-generated video content, including movie clips, TV clips, and music videos, as well as amateur content such as video blogging, short original videos, and educational videos. In November 2006, YouTube, LLC was bought by Google for US$1.65 billion, and operates as a subsidiary of Google.

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All these social networks are the new ICT innovation while they themselves create new ICT innovations. Through the use of these social networks all companies can promote their ICT innovations. It is the easiest and most efficient way to access customers and service users. Social networks are the most used and on the social networks may soon be able to see all the changes that have occurred at a company. Most important in recent years as every household has internet is given on the use of social networks that represent ICT innovation of modern times and through which you can promote any innovation. And this is the fastest way to reach customers.

THE MOST IMPORTANT AREAS OF RESEARCH SOCIAL NETWORKS

It is not possible to describe social networking without mention the possibility for users to directly and easily create contents, even if they do not possess technical skills so every user can add or modify contents, search for existing ones and be part of a large number of communities. Everyone can be an author. Below are data that summarize the growth of social networking and their general relevance. In the table are listed ten social networking sites for each site is indicated in column the millions of unique visitors for April 2009 and April 2010, and the year over year growth percentage.

Site	Apr-09 (000)	Apr-10 (000)	YOY Growth
MySpace	8,21	38,359	367%
Blogger	10,301	18,508	80%
Classmates Online	11,672	12,865	10%
YouTube	N/A	12,505	N/A
MSN Groups	12,352	10,57	-14%
AOL Hometown	11,236	9,59	-15%
Yahoo! Groups	8,262	9,165	11%
MSN Spaces	1,857	7,165	286%
Six Apart TypePad	5,065	6,711	32%
Xanga.com	5,202	6,631	27%

Table1. Top 10 Social Networks Sites

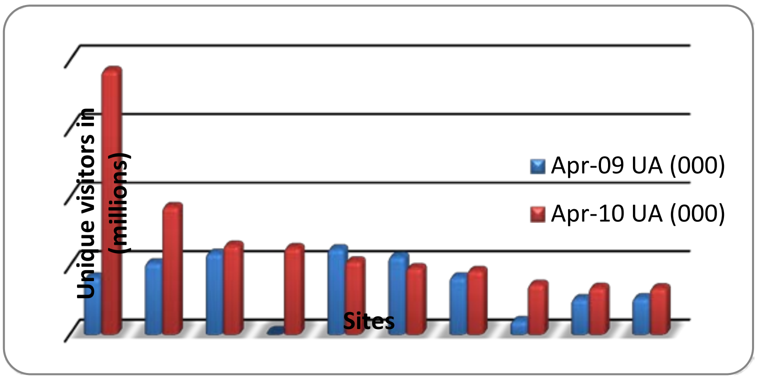

Chart1. Top 10 Social Networks Sites chart

From the charts above it is possible to say that social networking is certainly a relevant element in our digital lives, giving to all users the opportunity to keep in contact with a large number of different communities by subscribing to specific services that offers specialized platforms for video, blog, photos, etc. Finally, network studies often show the state of the network as she was found at the intersection during the study period. It is necessary, however, to develop and insights dynamics and processes of development, reconfiguration, and even collapse network.

CONCLUSIONS

We had demonstration in the paper that social network is a key to the understanding of the phenomenon of how do social networks change and evolve over time. Social networks are important because they played a significant role for building ICT innovation in the organization. However, new type of innovative networks takes time to emerge seeing the structural inertia of business groups and regional networks. Innovations have become the driving force of rapid economic change and apply the main driver of growth and development of the modern economy. Innovation in business for their formation requires extensive knowledge, creativity, motivation and ultimately capital. Their familiarity with information and communication technology should encourage institutions and promote their cooperation through networking. Governments are faced with the task of stimulating the development of so many innovative and high-tech companies and how to enable them to better develop their whole inner potential.

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THE PROCESS OF KNOWLEDGE MANAGEMENT AND ITS IMPACT ON SMALL AND MEDIUM ENTERPRISES AND MARKET DEVELOPMENT[7]

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Abstract

In this paper it is explained what is the meaning of the term knowledge management and what is the process of knowledge management. It is also explained why the process of knowledge management should be implemented in the small and the medium enterprises and what kind of benefits these enterprises get if they implement this process. The aim of this paper is to contribute for raising the awareness in the small and medium enterprises to appreciate the knowledge which they posses and the importance of efficient and effective management of it. After the theoretical research, a practical research is done in the small and the medium enterprises in the Republic of Macedonia. The main research goal is to estimate the degree of familiarity that enterprises have, regarding the process of knowledge management and its use.
Key words: knowledge management, small and medium enterprises, market development

KNOWLEDGE AND KNOWLEDGE MANAGEMENT PROCESS

Knowledge is a combination of embedded experiences, values, contextual information and expert findings which provide a framework for assessing and obtaining new data and information. It originates and is applied in the minds of the people. In the enterprises, knowledge is not built only in documents and repositories of data, but it is also embedded in routines, processes, practices and norms of the enterprises (Davenport & Prusak, 2000). From this sentence it can be seen that the knowledge in an enterprise is a set of people, skills, experiences, data, information, documents, routine behaviors, practices, norms and cooperation between members of the

[7] professional paper

enterprise. In recent years, enterprises manage much easier with the traditional three factors for successful working: land, labor and capital; while managing the fourth factor, the knowledge, although it is not new, it is becoming increasingly known and this topic is getting more importance (Castells, 1998). The trend of continuous technological development caused knowledge to be a key resource for success, and managing it represents a set of activities that are necessary for successful work and sustainability of the enterprises in the dynamic environment. Knowledge management (KM), without any doubt could be considered as one of the hottest research topics of the past decade (Brane Kalpic and Peter Bernus, 2006). Knowledge management, as a process, represents creation, acquisition, merger, storage, sharing and application of overall knowledge in an enterprise. The knowledge in the enterprise can be identified, defined, organized, built and distributed in order an enterprise to have a progressive and successful management. Knowledge management, within the institutions, is used to increase productivity, solve the problems faster, get new ideas, give creative solutions, meet with the diverse requirements; it is used for additional education, for increasing the communication in the enterprise and for merging people from different sections and areas. An enterprise's ability to learn and to change, more important- to learn faster than other enterprises and turn the learned things into action, is the biggest advantage that an enterprise can possess (Branislav Mašić, Jelena Đorđević – Boljanović,2008). Knowledge management in the enterprises is a constant process of renewal and update of the knowledge. The knowledge management process is a process of continuous innovation and modification of the existing knowledge; thus the enterprise could be up to date with the activities that are happening in the environment that surrounds it.

KNOWLEDGE MANAGEMENT MODELS

Nowadays many enterprises realize that they are not effective if they do not capitalize the knowledge of their employees and that their long-term well-being depends on their efforts to manage with this knowledge well and to use it as a source for development, growth and profit (Herschel and Nemati, 2000). To be relevant in the 21st century, an enterprise should rely on knowledge management models that are used as benchmark tools which can focus the enterprise on the areas that require more attention. Also, an enterprise should identify appropriate knowledge management practices that can be used in it (Haslinda A. and A. Sarinah,2009).

KNOWLEDGE MANAGEMENT MODEL IN SMALL SIZE ENTERPRISSES

Despite some human and financial restrictions of the smaller companies, knowledge management can help them, preserving organizational memory and increasing processes' efficiency (Ana Carolina Manfrinato Pimentel,2009). While it is true to say that small sized enterprises have traditionally had a great understanding of the importance of tacit knowledge for their business enhancement, they have fallen behind when it comes to managing or leveraging the knowledge assets they possess (Ana Carolina Manfrinato Pimentel,2009). Small size enterprises must discover what kind of knowledge they possess and what kind of additional knowledge they need. When they will consider all these concerns, they should create strategy for using the existing and new knowledge in order to improve their work with faster performance of their tasks, better management of documentation, better distribution of knowledge, division of the responsibilities between employees, faster replies to the requests from the clients and recruitment of new clients. The challenge for the smaller-sized enterprises of deploying the knowledge assets of the enterprise to create the necessary competitive advantage has become critical for the. The knowledge driven, rocket-paced global marketplace in which the smaller-sized enterprises must operate is more vibrant and competitive than at any previous time in recorded history. In addition, technological innovation improves at such a rapid rate, that to remain viable in the market place, smaller-sized companies must quickly capture, assimilate and use effectively 'just in time' knowledge (Antoinette Hylton, 2012). The process of knowledge management that should be implemented in small size enterprises can be composed from elements and sub-processes, depending of the number of the employees and the business activities of the enterprise. If the small size enterprise uses good and appropriate knowledge management process, it can overcome the new challenges of working; it can become larger, get new clients and achieve greater profits.

KNOWLEDGE MANAGEMENT MODEL IN MEDIUM SIZE ENTERPRISSES

Small size enterprises have smaller number of employees and smaller number of activities than medium size enterprises, and they still need knowledge management. If we go by this logic, for medium size enterprises, knowledge management should be essential part of their work. If medium size enterprises want to become larger, gain greater importance of their activities, employ more people, get more clients, increase their sale and increase their profit- they should appropriately manage with their knowledge. The knowledge in the medium size enterprises first should be identified in order to be seen if they had gap in their knowledge. If an enterprise has gap in the knowledge, the missing knowledge should be imported. Because medium size enterprises have bigger number of employees, knowledge should be shared and distributed between all the employees. Also, medium size enterprises all the time should create new knowledge and should storage it. All stored knowledge should be updated in order the enterprise to be up to date with all events and activities from inside and outside of the enterprise. Medium size enterprises should define the specific points where knowledge is to add value on it, and to transfer back in the enterprise (Institut 2004). Medium size enterprises should use the knowledge management strategy for establishing sharing of knowledge culture, because people should first learn how to share their knowledge and why they should do that.

KNOWLEDGE MANAGEMENT IN SERVICE OF MARKETING DEVELOPMENT

What is knowledge-based marketing? It is marketing which makes use of the macro- and micro-environmental knowledge that is available to the marketing functional unit in an organization. It is not a case of “knowing what you know” but “what you need to know” in the changing micro- and macro-environment (Yoosuf Cader,2007).To develop a market where enterprises are positioned, a company should find out a lot of information about that market: discover who are the clients of the markets, what do they want, what are their wishes, how their wishes are changing in time, what is specific for that clients, what kind of innovations they want and to discover the best way for satisfying the requires of the clients. All this information means knowledge for one enterprise and should be managed appropriately in order to be used for market development. All this information can be collected from personnel of the enterprise and then transferred in the enterprise. When the information will be in the enterprise then information should be analysed. According to that information the enterprise should create strategy with actions for how they are going to use all the information. The strategy with actions will present knowledge management model. In order the knowledge management model to be in service of the market development it should contain information which will help the enterprise to do costumer profiling, give information about frequency of purchases, size of purchases, sequence of purchases; then identify typical customers group, explain the customer lifetime values and defend the prospective customers. All these things are very important because if one enterprise wants to develop its market position and get new customers, it must do all these things that arise from the knowledge management model. These things are essential for further activities like trend analysis, deviation analysis, forecasting future sales, evaluating performance of the products or other marketing activities. Also it is good to be mentioned that all these activities that arise from the knowledge management model can be supported with the new technology and software.

PRACTICAL RESEARCH IN SMALL AND MEDIUM ENTERPRISSES IN REPUBLIC OF MACEDONIA

Through this research should be depicted the situation in the small and medium enterprises in Macedonia, regarding presence of the process of knowledge management in the enterprises and enterprises' familiarity with this term. Besides receiving results, the research should emphasize the importance and the need of using knowledge management. The research that is done is descriptive, and the method that is used is method of examination. This method is done with questionnaires in total number of 40 small and medium size enterprises in Macedonia. The sampling is intentional. The results are processed with SPSS statistic software. The main hypothesis is that enterprises in Macedonia are not familiar with the process of knowledge management. The sub hypotheses are that they store and update the information which they possess but they are not aware that this is part of the knowledge management. Also they think that they will get improvement of their work and increase of their sales if they have on disposal all nessesary information, documents, good collaboration between employees, and if they know the request from their clients. The research was done in 15 enterprises with 1-9 employees, 15 enterprises with 10-49 employees and 10 enterprises with 50-100 employees. More than a half of the enterprises declared that they connect knowledge with education, skills and experience of the employees. 35 of the responded enterprises declared that exchange of knowledge that employees possess is a necessary part of the enterprise in order for it to operate successfully and achieved positive results. 30 of the responded enterprises declared that they store and update their knowledge. Total 40 enterprises declared that it is necessary for an enterprise to manage with its information, documents and other intellectual capital in order to have success. Just 10 of the responded enterprises have heard of knowledge management, and 5 of the enterprises that had heard of knowledge management know what this term is. Almost all responded enterprises- 35 of them, declared that if the enterprise has on disposal all nessesary information and documents, the work will be done much easier, faster and with higher success. 26 of the responded enterprises declared that if the employees share their knowledge, the cooperation in the enterprise will be on a much higher level. 16 from these enterprises have 50 to 100 employees, 8 enterprises have 9 to 49 employees and just 2 have 1 to 9 employees. From this we can consider that the enterprises that have larger number of employees mean that collaboration between employees is essential part of enterprise. And almost all 38 of the enterprises declared that the availability of all the information for the market, clients and requests of the clients can help the enterprise to increase its sales.

CONCLUSION

Regarding theoretical and practical research, we can notice that small and medium size enterprises need to have proper knowledge management in order to have good organization of their tasks and to archive greater success in their work. Small and medium size enterprises constantly need to get new data and information which are crucial for their daily working and to exchange the documents and other intellectual capital from the internal and external environment. Among the benefits of the process of knowledge management are better collaboration between employees and better understanding of the knowledge, skills, experiences and responsibilities of each person. The process of the knowledge management supports the enterprises to deal with the daily problems much easier and faster. Also, the process of the knowledge management supports enterprises to provide all information which are nessesary for the market and its clients in order for an enterprise to attract new clients and develop its market. Regarding the practical research, we can notice that the main hypothesis is true regarding the small and medium enterprises in the Republic of Macedonia; that they are not familiar with the term and the process of the knowledge management. Also the sub hypotheses are correct; i.e. the enterprises store and update the information which they possess but they are not aware that that is part of the knowledge management. Also they think that they will improve their work and increase their sale if they have on disposal all necessary information, documents, good collaboration between employees, and if they know the requests from their clients. The enterprises know all of the things mentioned above and they believe that these things will help them improve their working; in fact, they are using their knowledge, but they are not aware that all these things are part of the knowledge management. Just few of the enterprises are familiar with the term and the process of the knowledge management. That is why small and medium enterprises should become more familiar with the process of the knowledge management and learn more about the benefits which they can get if they use this process properly. Also based on the theoretical and practical research for the term and the process of knowledge management, we can concur that the future and the progress of one enterprise is found exactly in the suitable understanding and managing of the knowledge, which is one of the most valuable intellectual capital resources of an enterprise.

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338.439-021.475.21.4(496.5)

THE POTENTIAL ADVANTAGES AND DISADVANTAGES OF CONTRACT FARMING[8]

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ABSTRACT

In most of the Albanian regions, the relationships among suppliers, farmers, and intermediaries are not based on formal contracts. Usually input suppliers and intermediaries act in their own interest only, without considering the long-term business relationship aspect with the farmers. In this context displayed the need of an instrument that could integrate the farmers vertically in the value chain as contract is. As a result, the main purpose of this paper is to deal with the problem of agricultural inputs at the farm level, in the context of the profitability of the use of these inputs and making evident some potential advantages and disadvantages of contract farming. In order to reach this purpose, this study is based on primary and secondary data collected through focus groups and in-depth interviews with farmers and input suppliers in the rural area of Grabjan in Lushnjë. This paper suggests that farmers of Grabjan area should integrate vertically by establishing contracts especially with intermediaries, who can provide for them also inputs. Farmers' participation in contracts provides them with several advantages such as reduced risks, financing opportunities, access to market information, increase revenues.

JEL classification: Q11, Q12.

Keywords: Contract farming, agricultural input, financial profitable, economic profitable.

[8] professional paper

INTRODUCTION

Cost estimation is an important element of the decision making process at the farm level because knowing the profitability of each product, helps future planning (Cesaro et al., 2008). Usually, Albanian farmers face high production costs, which result by low profitability levels from the use of agricultural inputs. Several factors cause this lack of profitability, the most important is the high price of inputs. This may result from the influence that the agricultural input supplier has on the price due to their power. Consequently, a significant concern emerges, since the price increase of inputs is greater than the price increase of the output that the farmers sell (Ministry of Agricultural, 2008-2010). The problem becomes more visible when the relative ration input-output shows significant differences among farmers, as is the case in Albania. This situation may derive also from the instability of the relationship supplier-farmer-intermediary.

In most of the Albanian regions (including also Grabjan area, where the questionnaire was conducted) the relationships farmers-intermediaries are not based on formal contracts. Thus, from the analysis of the survey conducted in Grabjan, 87% of the surveyed farmers did not use a contract in their trading relationship with the input supplier. As a result, this gives to the input supplier the opportunity to exercise their power to influence the price obtained by the farmer.

Several agricultural researches focus on farm and farmers characteristics, leaving out the understanding of the trading relationship farmers-suppliers or farmers intermediary. Furthermore, farmers' preferences are studied rarely (Schipmann and Qaim, 2011). Usually input suppliers and intermediaries act in their own inters only, without considering the long term business relationship aspect with the farmers. In this context raise the need of an instrument that could integrate the farmers vertically in the supply chain. One of the well-known ways of vertical integration is contract farming (Rehber, 1998).

The role of contract farming in developed countries has been a topic of large interests and debate at least since the 1970s (Glover, 1984). The reason behind this is the fact that contract farming usually includes the offering of seeds, pesticides, assistance, financing, price guarantee, etc. This form of vertical integration has a positive impact on the productivity/efficiency of small scale farming such as reduced risks, farmers' access to market information, farmers' access to agricultural inputs etc, (Sachiko et al., (2009).

The actual farmers' situation requires an analysis of the trading relationships that the farmers use to get agricultural inputs. Besides the problems of securing the supply of agricultural inputs, farmers face also the problem of the profitability of the use of those inputs. As a result, the papers aim is to deal with the problem of agricultural inputs at the farm level, in the context of the profitability of the use of these inputs and making evident some potential advantages and disadvantages of contract farming.

THEORETICAL BACKGROUND

Several studies (Rimjhim and Aggarwal, 2005, Macher et al., 2009, Schipmann, and Qaim, 2011) point out how small scale farmers can be part of the value chain successfully by using contracts. Some of the advantages of the use of contracts by farmers are shared risks, stable and long term relationships, increased revenues, access to market information, etc. These studies view contracts as an instrument that offers a better coordination of the supply chain by providing greater benefits to participating supply chain agents. Minot (1986) concluded in his work that farmers' participation in contracts increases their revenues. On the other hand, other studies point out the disadvantages of contracts (Little et al., 1994). These works denote that intermediaries and input suppliers aim to conduct their transactions with big scale farmers. Obiovusly, this shows the discrimination of small scale farming that in Albania are in majorance. However, Runsten et al., (1996) during their study in Mexico observed that international processing companies after establishing contracts with big farmer were forced to contract small scale farmers. The reason for this was because the selling price of small scale farmers was an element of dissatisfaction for the big farmers which were their contractual party. Therefore it can be seen the negative element of partecipating in contracts the imposition of lower prices.

METHODOLOGY

This study is based on primary and secondary data both the qualitative and quantitative data. The primary data have been collected through focus groups and questionnaires with farmers and input suppliers in the rural area of Grabjan in Lushnje. First, were collected quantitative data through structured questionnaires and then qualitative data through focus-group. The period of collecting these data was 1 week. The program used to analyze data was SPSS. The secondary data have been secured by previously conducted studies such as the statistical year book of the Albanian Ministry of Agriculture Food and Consumer Protection (MAFCP), which offer the price trends of the input and output at the farm level.

RESULTS AND DISCUSSION

In developed countries due to pollution and productivity reasons it is aimed reduce the use of inputs such as pesticides by employing more ecological alternatives (Biala, 2007). Whereas, in developing countries the use of agricultural inputs is in the consolidation stage, in contrary to developed countries, studies in developing countries aim to identify the barriers in the expansion of the agricultural inputs (Kelly et al., 2003). This results from several reason such as high prices, lack of inputes, lack of quality control etc. Around 95% of the surveyed farmers stated that their major problem was the high production costs, which was due to the high input price used.

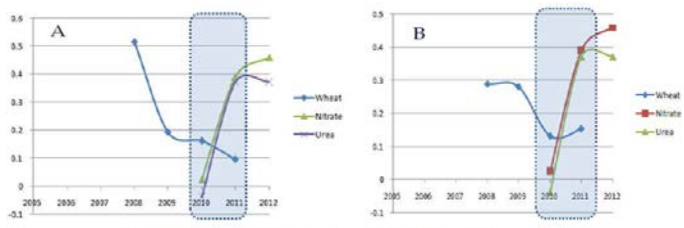
Economic and Financial Profitability of Using Agricultural Inputs

Financial profitability estimates the financial incentives for the farmers to use inputs and it is measured with the price of the farm products influenced by taxes and subsidies (Kelly et al., 2003, pp. 381). This incentive for using agricultural inputs offers farmers only achieving a level of production but not profit maximization. The reason is that financial profitability can be influenced artificially by government intervention through subsidies and taxes. As a result, financial motivation is necessary but not a sufficient condition to the use of an optimal level of agricultural inputs. On the other hand, economic profitability estimates the profitability of using inputs by measuring the prices of inputs and outputs in the conditions of an absence of government subsidies and taxes (Kelly et al., 2003, pp. 381).
Economic profitability is an incentive to farmers to use the optimal level of inputs in their production. This means that in case the farmers do not have the support of the government through subsidies and taxes, their activities should be profitable. In fact, this incentive it is used also in evaluating government policies.
There can be four combinations of economic and financial profitability (Kelly et al., 2003) which are:
1. The use of inputs is neither economic nor financially profitable. In this case there is a significant lack of technology usage, high input prices, and low output prices. An appropriate policy in this case would aim in reducing the input costs and increasing the output prices through integrating the farmers in the supply chain or by reducing the transaction cost.
2. The input usage is economically profitable but not financially profitable. The combination at hand shows a situation where the costs of inputs are high but the production costs are low. Policies that might influence the prices of inputs and outputs should be avoided.

3. Inputs are financially profitable but not economically. As a result of inadequate policies input and output prices are distorted. In this case, it necessary the government intervention through output taxes or input subsidies.
4. Lastly, the inputs usage is economically and financially profitable. Farmers do not use the optimal level of inputs, even though their usage is economically and financially profitable.

In the survey conducted in Grabjan, 95% of the farmers claimed that one of their main problems is high input prices. In regards to the question “which are your three major concerns”, they ranked high production costs and low output prices as their biggest concerns. There are several factors that might explain this situation (i.e. high input prices low output prices), such as lack of access to information, input supplier and intermediaries power who set the input and output prices. Furthermore, as argued by Xhoxhi (2012) intermediaries and input suppliers transfer to farmers’ excessive risks and unexpected costs.
Brasley (1997) points out that the inputs quantity and prices are influenced by the output market. The quantity of input that is going to be used is determined by the quantity of planed output. Also input prices are dependent on output prices (Brasley, 1997). The demand for inputs is determined by:
1. The quantity of output produced by this inputs
2. The output prices

This means that input-output quantity and prices should be related positively (i.e. if output prices raise also input prices should rise and vice versa). However, in the Grabjan area even though the output prices have been stable or decreasing the input prices have increased.



Source: Statistical Yearbook of MAFCP and Survey

Fig. 1. Performance in percentage (%) of Wheat prices as well Nitrate and Urea (**A**), and performance in percentage of Wheat production and use of Nitrate and Urea (**B**).

As can be seen from the graphs, the prices of Nitrate and Urea have increased from 2010-2012 by 45%, the wheat prices from 2008-2011 have decreased by 40% (Fig 1-A)[9]. As the graph demonstrates, the input-output prices are not as the theory says. A similar situation exists in regards to input-output quantities (Fig 1-B). As the graph shows, during 2008-2009 wheat production are stable, then in 2009-2010 they decrease by 17%, followed by a slight increase in 2011. Even though, there is a general downward trend the input quantities (Urea and Nitrate) have increased. This means that the production costs have risen during these last years.

The advantages and disadvantages of the participation in contract farming

Value chain modernization in agriculture, trading relationship, contracts that farmers do with intermediaries or input suppliers are cause and effect of economic development. In developing countries, where market developments have a high dynamicity, it emerges the need to establish new ways to improve the trading relationship among the agents of the value chain. There are problems on both sides (demand and supply). Kelly (2003) in his study some African countries identified several problems of concern to the farmers (demand). Some of the identified problems were lack of farmers' knowledge in regards to the profitability of using agricultural inputs, lack of inputs for the agriculture production, lack of farmers buying power, etc.
What needs to be emphasized from Kelly (2003) study is the fact that there exist problems on both sides (demand and supply) and these problems can be categorized as below:

- Risk sharing
- Financial
- Informational

These problems are what the Grabjan farmers face. The data collected from the survey shows results that the main farmers concern are the high production cost which derive from the high input prices. Furthermore, they also face difficulties in commercializing their outputs, which in some case derives from lack of market information. The information generated from the interviews also suggests that the trading relationship farmers–input suppliers is not formal (i.e. on contractual bases), it is mainly verbal. It is necessary to identify ways that offer solutions to reduce or solve the farmers' problems as agents of the supply chain. 95% of the surveyed farmers are willing to be part

[9]Due to lack of data, it is possible to compare only the prices of input-output among 2010-2011.

of contracts in securing their input supply with the conditions that the prices are favorable for them. As this paper proposes, contracts are an alternative that could improve farmers' position in the value chain especially in developing countries (Schipmann et al., 2011). This instrument in principle might solve the three problems categories highlighted above: risk sharing, financial and informational. Miyata et al. (2009) in their study in Shandong of China, where farmers have similar characteristics with Albanian farmers in regards to scale, show a successful model of farmers' integration in the supply chain. Miyata et al. (2009) suggest that farmers should secure inputs by creating contractual relationships with the intermediaries but not with the input suppliers. Thus, their suggestion means to shift form the backward vertical integration to secure inputs (fig. 2 A) to forward vertical integration to secure inputs by establishing contracts with intermediaries (Fig. 2 B).

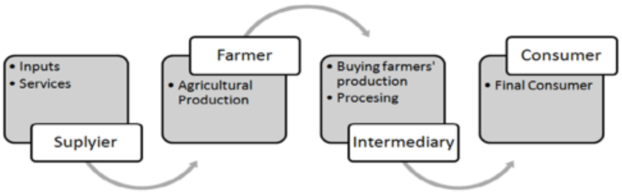


Fig. 2-A. Traditional forms of providing agricultural inputs and the sale of products by the farmer.

As it is shown in the figure 2.A farmers are between the intermediary and input supplier exercised power. Some of the reasons that might explain the intermediaries and input supplier power over farmers are small scale farming, large number of farmers compared with the input suppliers and intermediaries, farmers lack of market information, farmers high pressing needs for money, etc (Xhoxhi, 2012). On the other hand, mediators are smaller in number, are well organized, have greater funding abilities, and are more powerful in terms of size.

Farmers and other stakeholders that surround them in the value chain, we can draw a presumption that it is necessary another shape of possible farmers' relationships within value chain.

Miyata et al. (2009) study shows this below scheme:

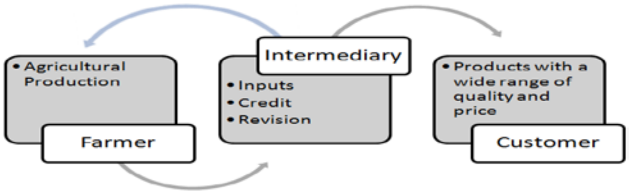


Fig., 2-B. Vertical integration of farmers (forward) to provide input on the right quantity and quality at the prices agreed between the parties (with supplier or mediators).

In conditions when farmers face with circumstances of lack of access to agricultural inputs, technology, information and services, agribusiness firms provide them to farmers as part of the contract farmers. In the case of fig., 2.B farmers could ensure their inputs by contracting the intermediaries. This way of contracting provides farmers facilities to ensure agricultural inputs in the right quality and at the proper time. This comes as a result of intermediaries' interest which intends to buy from farmers products with the right quality and at the proper time. While, farmers having relations with intermediaries to ensure agricultural inputs they can exploit these relationships to sale their production to intermediaries and thus reducing risk of production decay (Birthal, 2007). Availability of secured market for their production sale constitutes an addition motive more farmers use agricultural inputs with a high quality adopting new technologies and scale up their production systems. On the other hand, this way of contracting provides the intermediary the opportunity to control the quality of the product they are going to buy. Contracts with a large number of small farmers, spread supply risk (Birthal, 2007). Schipmann and Qaim (2011) intermediary during the establishment of the contract conditions demand request that are difficult for small scale farmers to follow, such as the quantity to be supplied should be spread in time in smaller supplies (i.e. this transfers to farmers more costs). Aggarwal R. (2005) point out that risk sharing is not an important factor during the contract establishment, as it is said to be in the literature.
The financial problem seems to be solved by contract farming. Schipmann and Qaim (2010) argue that one of the most important elements that urge farmers to participate in contract is the opportunity to get financing. Farmers when participate in contracts with intermediaries, are interested in the quality of produce that they are going to buy, which are a resultant of the input used, time when they are use, etc. Thus, they provide financing for the farmers to get the required inputs. This provides financial liquidity for the farmers.
Lastly, the problem of access to market information is an incentive for farmers to establish contracts in exchange of market information, especially

in developing countries. Farmer participation in contracts offers them the opportunity to increase their incomes. Little (1994, pp. 221) concludes that farmers partecipation in contracts have resulted in an increase in their revenue levels by 30-60%. Also Miyata et al. (2009) showed that 75% of the farmers surveyed had revenue increase by participating in contracts.

CONCLUSIONS

It can be concluded that small scale farmers face several problems in securing agricultural input supply of the appropriate quality and price. It is suggested here that these farms should integrate vertically by establishing contracts especially with intermediaries, who can provide for them also inputs. Some of the conclusions of this paper are, firstly, the input usage by farmers is not economically and financially profitable. Consequently, it is required that the current agricultural policies of subsidies and taxes should be reviewed. Secondly, contract farming could be an alternative to improve financial and economical profitability of input usage. Third, Farmers' participation in contract provides them with several advantages such as reduced risks, financing opportunities, access to market information, increase revenues, etc. Lastly, as pointed out in the discussion section, it is suggested that the contract should be established with the intermediaries, who can offer more benefits to the farmers such as guaranteed market and prices for their production.

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334.722:005.591.6(497.7)

THE INFLUENCE OF THE ENTREPRENEURSHIP DEVELOPMENT ON THE INNOVATION PROGRESS[10]

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ABSTRACT

The purpose of the paper is to examine the influence of the entrepreneurship factors on the innovation progress in Macedonia. The paper at first explores the innovation progress of Macedonia in comparison with other SEE countries and then it tries to find if the determinants of entrepreneurship such as: regulation & taxes, permits & licenses and access to finance, stimulates / underpins the level of innovation in the country. The data analysis is conducted based on the OECD indexes for measuring entrepreneurship and the indicators for measuring innovation according to the World Bank 'DoingBusiness' reports and databases. Descriptive and regression analysis together with multiple country analysis are used. Although comprehensive understanding is still lacking concerning the interface of entrepreneurship, innovation and growth, the findings show that there is a relationship among the entrepreneurial determinants that impact on the job creation and economic growth and innovation development in Macedonia.

Key words: entrepreneurship, innovation, economic growth

INTRODUCTION

The relation between the innovation and the economic growth is historical, starting with Robert Solow's models in the 50s, through Schumpeter's *creative destruction* and having its culmination in the Keynesian theories. Innovation is a key factor for economic development. The establishment and growth of new enterprises is of immense importance for the young market based economies, as those in SEE countries, that have experienced a process of transition from the centralized system toward the entrepreneurial,

[10] original scientific paper

knowledge based economy. Many authors (Kornai 1990, McMillan and Woodruff 2002) argue that the creation of
the firms *de novo* would be the primary mechanism of the transition. The incentives for innovation and efficiency were weak under communism (Hayek 1945), so,reformers in the transition economies have been also greatly concerned with Schumpeterian entrepreneurship (Schumpeter 1934). Over-centralization and inappropriate management incentives were the key reasons of the stagnation in the last decades of the previous system. Together with the innovation, as a driving force, the 'high-level' entrepreneurship was expected to be achieved. Innovation processes are neither tidy nor easy to delineate or manage (Pavit, 2005). Innovativeness reflects a tendency to support new ideas, novelty, experimentation, and creative processes, thereby departing from established practices and technologies (Lumpkin & Dess 1996).

Innovations are considered to be important autonomous factor causing wide economic and social change, usually steaming from entrepreneurial enterprises. The broad use of the term innovation is sometimes equated with invention. When it comes to its distinction, Feldman appears among those who have well illustrated the distinction:

"Invention is about discovery and the creation of something novel that did not previously exist. Innovation, on the other hand, carries invention further with the commercial realization of the value of the invention or the receipt of an economic return".

Schumpeter, on the other side, distinguishes between invention, which is a scientific activity not necessarily motivated by economic advancement, and innovation. The inventor develops a technique which the innovator seeks to exploit for the creation of wealth. For example, new techniques often have important implications for product quality. It is assumed that the new technique is a proprietary technique, but that the old technique is not. The entrepreneur has a temporary monopoly of the new technique stemming from the superiority of his judgment (Hutt, 1939). The old technique may at one time have been a proprietary technique too, but now there is free access to it. As a result, there are now many producers using the old technique, and so product price is competitively determined.

Many authors use the terms 'innovation' and 'entrepreneurship' more or less interchangeably referring to the development of new products, processes or services, particularly within small firms. On the other hand, within some areas in the literature, there has emerged a broad distinction that entrepreneurship tends to be associated with individuals or small firms and innovation is generally used to discuss such phenomena within medium and large firms (Simmie 1998)2. While this distinction is not clear-cut for SEE countries, it is useful to consider how some of the key factors for development of entrepreneurship influence the innovation, representing something if continuum which relates the development of new products and services to the size of the firm in which it originates.

Regulation and tax, permits and licenses and access to finance seems to be of these with high level of influence toward innovation progress in SEE countries. The impact on entrepreneurship is however sensitive for the possibilities to arbitrage between tax bases (Gentry and Hubbard 2000, Parker and Robson 2003, Cullen and Gordon 2007). Taxes that lower the possibilities for individual wealth, thereby adding to financial constraints are also reported to have a negative effect on entrepreneurship (Hansson 2008). Furthermore, the administrative burden associated with taxes only affects entrepreneurs negatively (Djankov et al 2008).Those will be particularly explored and discussed within this paper.

RESEARCH DESIGN, METHODOLOGY AND DATA COLLECTION

By its nature, the paper is deductive since it applies mostly quantitative research design which is employed by using secondary data of official statistics, suggesting a realistic approach to the subject of analysis. This enables explicit findings to be confirmed or rejected. It is based on a positivist epistemology with a constructionist ontological position bringing together different methodologies (OECD's, World Bank's ones) and approaches in order to construct analytical and critical pathways for reflection and discussion.

It is likely that this research is high in trustworthiness since the World Bank's Doing Business and Enterprise Surveys database is used predominantly as a source for secondary data collection and it seems to offer genuine insight into how entrepreneurship influences innovation. The data analysis is conducted by using descriptive analysis, multiple country and regional analysis and regression analysis with its variety of statistical techniques whose common objective is to represent a broad set of variables in terms of a smaller number of hypothetical variables.

To quantify a firm's innovativeness, researchers have focused on three measures. The first is the firm's Research and Development (R&D) expenditures. Second, the number of patents it produces, and third, the number of new products or technologies introduced. The measurement of quality is related to patent citation rates, and the (subjectively) assessed importance of new products/technologies. *R&D expenditures* are considered an input for innovations. Several studies reach the conclusion that irrespective of modest R&D investments, small and entrepreneurial firms contribute substantially to aggregate innovation (Audretsch 1995, Feldman and Audretsch 1999). Micro studies also suggest that entrepreneurs/small firms have their knowledge producing activities spread across a number of different functional areas apart from formal R&D activities (Freel 2003) and that these firms draw on many knowledge sources other than R&D in their innovation (Shane 2000). *Patents* are used as a proxy for a firm's level of innovations, while the measure of innovation that is related to *new products and technologies* is most often quantified based on subjective answers from firm-managers as to whether they have introduced a new product or technology.

I believe that in the case of Macedonia, and in all SEE countries, the most appropriate measures of SME innovation are those offered in the database of the World Bank. In these cases, the number of companies that invest in R&D is negligible, while the evidence of patents still needs improvement in several areas. The five indicators for measuring innovation and technology offered by the most recent World Bank's database are as follows:

Percent of firms with internationally-recognized quality certification;

Percent of firms with annual financial statement reviewed by external auditor;

Percent of firms using technology licensed from foreign companies;

Percent of firms using its own website;

Percent of firms using e-mail to communicate with clients / suppliers.

As far as the entrepreneurship development factors, we use the OECD – Eurostat Entrepreneurship Indicators Programme that has developed a set of measures as core entrepreneurship indicators for measuring the entrepreneurship. In this paper, the regulation & tax, permits & licenses and access to finance are used as determinants for entrepreneurial performance to measure the innovation progress in Macedonia. We chose those as the key determinants of the entrepreneurial impact on the job creation and economic growth of a country.

RESULTS

Concerning the first indicator for measuring innovation, according to the most recent data of the Enterprise Survey from World Bank in Macedonia, in average, 21.46% of firms possess internationally - recognized quality certification (21.61% of small companies, 36.38% of medium ones, and 52.10% of large ones). The regional analysis shows that the percent of Macedonian small firms which possess internationally-recognized quality certification on averageis the same as those in its regional group (Eastern

Europe and Central Asia), while for 3% points more than those firms in low -middle income countries, in which Macedonia belongs too, according the classification of countries by income. The percent of Macedonian medium - size firms which possess internationally recognized quality certification on average is greater than those in its regional group, while double than those firms in low - middle income countries. The graphical representation is deployed in Exhibit 1.

Concerning the second indicator, in Macedonia, in average, 61.93% of firms have annual financial statement reviewed by external auditor (58.92% of small companies, 64.55% of medium ones, and 84.30% of large ones). The regional analysis shows that the percent of Macedonian small firms that had annual financial statement reviewed by external auditor on average is double than those in its regional group, while for 17% points more than those firms in low - middle income countries, in which Macedonia belongs too. The percent of Macedonian medium - size firms that had annual financial statement reviewed by external auditor on average is for 17% and 5% greater than those in its regional group, i.e. than those firms in low – middle income countries, respectively. The graphical representation is deployed in Exhibit 2.

The third indicator which effectively illustrates the innovation development is probably one of the most influential in this base of indicators for measurement of the innovativeness in Macedonia and EECA countries. In average, 41.17% of firms in Macedonia are using technology licensed from foreign companies (39.40% of small companies, 41.54% of medium ones, and 48.24% of large ones). The multiple country and regional analysis shows that the % of Macedonian small firms that use technology licensed from foreign companies on average is for 22% greater than those in its regional group, while for almost 29% greater than those firms in low - middle income countries, in which Macedonia belongs too. The percent of Macedonian medium-size firms using technology licensed from foreign companies on average is for 19% and 23% greater than those in its regional group, i.e. than those firms in low – middle income countries, respectively. The graphical representation is deployed in Exhibit 3.

Concerning the fourth indicator, in Macedonia in average, 39.46% of firms are using web site (28.41% of small companies, 60.13% of medium ones, and 63.71% of large ones). The multiple country and regional analysis shows that the percent of Macedonian small firms that use web site on average is for 12% lower than those in its regional group, while for almost 7% greater than those firms in low-middle income countries, in which Macedonia belongs too. The percent of Macedonian medium-size firms that use web site on average is for 3% and 20% greater than those in its regional group, i.e. than those firms in low - middle income countries, respectively. The graphical representation is deployed in Exhibit 4.

In the regression analysis presented in Appendix 1, the influence of entrepreneurship determined by three key factors - regulation and tax, permits and licenses and access to finance to the level of innovation is examined. The regression has satisfactory fit – 63% of the variations of the innovativeness are explained with the variations of the independent variables. The innovation as a dependent variable was calculated as an average of the previous mentioned indicators. The Discussion segment of this paper is based on the regression results.

DISCUSSION, POTENTIAL STRATEGIC MECHANISMS

From the theoretical perspective, the paper contributes to the literature by presenting a framework for measuring the influence of entrepreneurship toward innovation in SEE countries, particularly regarding the firms in deregulated markets allowing measuring a newly developed or developing a stronger market orientation. The framework is holistic by nature and flexible enough to combine existing surveys in the area.

From practical perspective, the paper could be seen as a diagnostic tool for determining areas to promote entrepreneurship as a vital element in tackling the creation of more innovative companies, and favoring the development of new technology and knowledge-based activities. Innovation is a necessary condition of entrepreneurship, just like the existence of entrepreneurial opportunities and heterogeneous risk taking individuals that organize the exploitation of these opportunities. In Macedonia, 1% increase of the time needed for entrepreneurs to deal with regulation influences on the reduction of the innovation in average for 0.31%points. If the percent of the firms that identifies the tax administration as a constrain increases for 1% point, the innovation will increase for 0.00067% points. Having in mind that this is not what we expected, and the fact that the estimated magnitude of the relationship is very low, we conclude that the tax administration does not play role in the explanation of the level of innovation. It is interesting that if the number of firms that identifies the process of obtaining licenses and permits as a constrain rises for 1% point, the innovation will increase for 0.29% points, which makes the conclusion far from logic, but on the other side if obtaining licenses manifests as an obstacle for firms, they might seek alternative (innovative) ways to complete the needed process or use the needed patent. The outcomes regarding the financial aspects of the analysis are expectable. Thus, if the number of firms considering the access to finance as an obstacle increases for 1% point, the innovation will drop for

0.4% points, while if there is rise in the number of firms using loans from banks for 1% point, than, the innovation will also increase for 0.4% points. The rest of the variables does not have significant influence on the innovation in this regression analysis, even thought some authors consider them as one of the factors that need not to be out of the scope regarding the discussion on the level of innovation.

Recently, in Macedonia, there has been a growing interest in promoting entrepreneurship as a method of stimulating local economic growth and development. One method of encouraging entrepreneurial activity within community is to create a climate in which entrepreneurs and their businesses can flourish (Goetz and Freshwater, 2001). A number of factors are believed to influence the entrepreneurial climate of communities, such as local government responsiveness to the needs of small businesses, public attitudes toward entrepreneurial ventures, community size, proximity to metropolitan areas, quality of physical infrastructure, access to high speed Internet, good community quality of life, and the availability of building space, business networks, business services, small business training, and financial resources (Dabson, 2001; Henderson, 2002). It seems that there is a positive relation between entrepreneurship and innovation and their interaction helps a company to prosper. They are complementary processes and by combining them, a company manages to achieve success and sustainability in today's aggressive and inconsistent business environment. Entrepreneurship and innovation aren't limited to the early stages of a new business rather they are dynamic and integrated processes in entrepreneurial and innovative organizations. Macedonian economy lags in many areas according to the innovation and sophistication factors sub-index measured by Global Competitiveness Indicator. Negative factors are the state of cluster development, nature of competitive advantage, extent of marketing and willingness to delegate authority. An additional problem is the absence of investment in R&D activities, lack of scientists and engineers as well as university-industry collaboration on R&D. Therefore, A more integrated vision of innovation needs to be imbued, from the institutions working in basic research, through to the businesses that take their products and services to compete in the market, to the market itself where the economic and social results of innovation are put to the test.

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APPENDIX 1

Regression analysis results

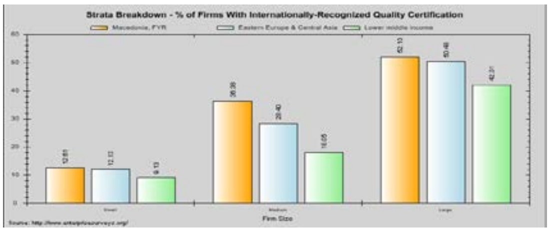
Number of obs = 56
F(13, 42) = 21.71
Prob > F = 0.0000
R-squared = 0.6304
Root MSE = 7.9037

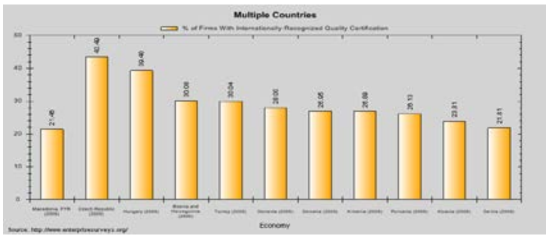
innovation	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
regul	**-.3108815**	**.1729832**	**-1.80**	**0.080**	**-.6599756**	**.0382126**
taxofficials	.4339592	.9110271	0.48	0.636	-1.404568	2.272486
taxrates	.1822859	.1123164	1.62	0.112	-.0443777	.4089496
taxadmin	**.0006785**	**.0002076**	**3.27**	**0.002**	**.0002597**	**.0010974**
llicence	.2442289	2.495863	0.10	0.923	-4.792627	5.281085
limportlic	3.554413	2.379612	1.49	0.143	-1.247838	8.356664
lpermit	-1.417756	2.276251	-0.62	0.537	-6.011416	3.175904
businesslic	**.2881192**	**.1491537**	**1.93**	**0.060**	**-.0128852**	**.5891236**
credit	.1074868	.1852561	0.58	0.565	-.2663752	.4813488
banksinv	**.395659**	**.1406993**	**2.81**	**0.007**	**.1117163**	**.6796017**
banksexp	-.0532461	.2556296	-0.21	0.836	-.5691276	.4626354
collateral	.0051449	.0254461	0.20	0.841	-.0462074	.0564972
access	**-.4009696**	**.0893774**	**-4.49**	**0.000**	**-.5813405**	**-.2205988**
europeasia	(dropped)					
_cons	16.03423	9.689818	1.65	0.105	-3.520615	35.58907

Senior Management Time Spent in Dealing with Requirements of Government Regulation (%)	REGUL
Average number of visits or required meetings with tax officials,	TAXOFFICIALS
% of Firms Identifying Tax Rates as Major Constraint***	TAXRATES
% of Firms Identifying Tax Administration as Major Constraint***	TAXADMIN
Days to Obtain Operating License	LICENCE
Days to Obtain Construction-related Permit	PERMIT
Days to Obtain Import License	IMPORTLIC
% of Firms Identifying Business Licensing and Permits as Major Constraint***	BUSINESSLIC
% of Firms with Line of Credit or Loans from Financial Institutions	CREDIT
% of Firms Using Banks to Finance Investments	BANKSINV
% of Firms Using Banks to Finance Expenses	BANKSEXP

APPENDIX 2

Exhibit 1





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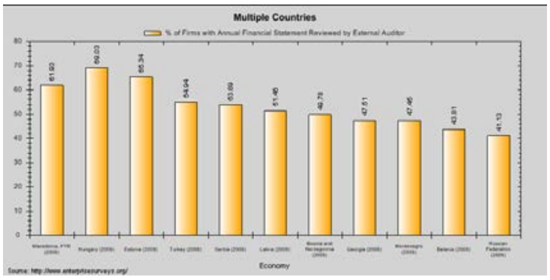

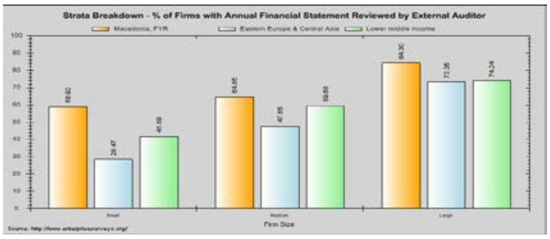

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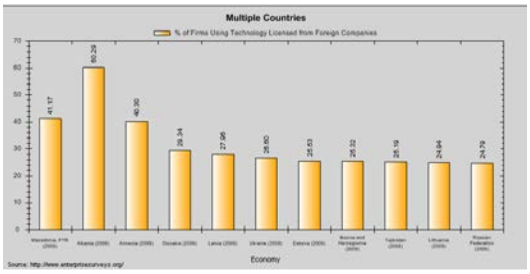


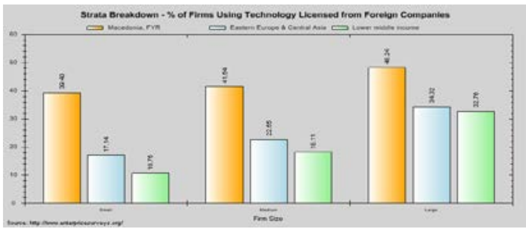
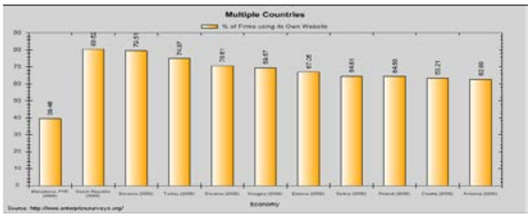
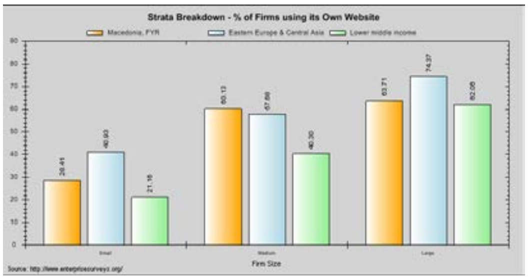


Exhibit 4





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THE IMPLICATIONS OF DIGITAL TECHNOLOGY ON THE LABOR MARKET – CASE STUDY FOR MACEDONIA[11]

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Abstract

The aim of this paper is to analyze the development of digital technology and its implications on the labor market. The consequences of digital technology can be detected such as changes in structural employment in the specific economic system. The development of new technologies generates new jobs, which are in continuity with progressive changes in the information society. On the other hand it causes unemployment in those industries which become less attractive or they are already adapted to these digital streams where information technologies have already been implemented. In this context, we will apply the Schumpeter's hypothesis of „creative destruction“as a theoretical concept that explains these patterns. Furthermore we will elaborate the impact of digital technology on the Macedonian economic system as well as the consequences that affect the labor market performance. For this purpose we will use scientific methods of comparative analyses, literature review, internet research, graphic analyses, etc. Finally we will present conclusions and purposes policy, recommendations that will promote more balanced economic development.

Key words: digital technology, creative destruction, labor market, unemployment

JEL Classification / E24, J21

[11] review scientific paper

INTRODUCTION

Dramatic change from an "industrial" to an "information" society over the last two decades had its impact on the entire society. Labor market is only one segment of the new digital age, and it has gone through many changes which have influenced its functioning. This shall be discussed in detail in this article.

Consequences from this state can generally be described as a transition from the change in structural (un)employment in a certain economic system. On the one hand, this generates new jobs, which are in line with developmental changes in an information society. On the other hand, it generates unemployment, particularly in industries which are slowly losing its activity or adjusting to modern digital trends in which ICT has already been implemented.

DYNAMICS OFDIGITAL TECHNOLOGY DEVELOPMENT INDUSTRIAL *VERSUS* DIGITAL PRODUCTION

Traditionally, an industrial society functions in actual economic space, in a certain time framework, according to principles and rules, with physical capital having the leading role. "Advanced information and communication technologies and services will be the foundations of modern social and economic advancements"[12]This new concept of function implies total reconceptualization of companies, mainly of their organizational structure, human resources management, and basically the entire market oriented strategy of business entities.

In the 1980s there was a new theory on economic growth, studied by P. Romer[13] and other economists, according to whom "technological advancement is the central indicator of economic development". This new theory defines technological processes as processes directly dependent on each company's work, whereas its work is stimulated by technological changes themselves.

Through the development of information and communication technology and implementation of advancements in this field business processes' structure has been transformed, as well as the structure of the labour market. Computers have led to great changes in the labour market segment. According to some authors "Computers (hardware, software,

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[12]Mobilization of information society, Robin Mensel,V.Edward Steinmiller, Tri:2000,p.80

[13]P. M. Romer, *Endogenous technological change,* Journal of Political Economy, 1990

networks) will become increasingly more powerful and sophisticated, thus having much greater influence on employment, skills and the entire economy. "[14]

What is happening on the labour market is a controversial situation, because on the one hand the demand for new skills is increasing, the kind of skills necessary to meet the needs for new jobs generated from digital economy, and on the other hand, there is less need for human skills for certain positions. Finally, some jobs have completely been eliminated. All this raises several questions, the most prominent ones being: "Can humans compete with machines?" and "Are humans irreplaceable?"

In this regard, according to Josh Hunt, technology has helped mankind achieve unbelievable success and provides amazing tools for the production of new items. Experts assume that in approximately ten years nearly every job, even as simple ones as mechanical activity, all the way to stock brokers, will be automatized with robots or advanced software technologies. Should this be the case unemployment rate in developed countries is likely to increase.[15]

Digital technology itself has opened up new jobs, but it has also created structural unemployment, especially in industries which are either no longer attractive or have already adapted to latest technological concepts. Hence structural unemployment occurs due to discrepancy between necessary and offered qualifications in a certain field. "If salaries were flexible and costs for geographic mobility or job mobility were low, market adjustments would soon eliminate this kind of unemployment. However, in reality these conditions may not be favorable, which may cause structural unemployment.[16] This specific state or this misbalance appearing on the labour market can be explained using the paradoxical concept of "creative destruction" the author of which is the famous economist Joseph Schumpeter.

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[14] Erik Brynjolfsson , Andrew McAfee, The Race Against The Machine, Lexington, Massachusetts, 2011

[15]http://thefuturist.co/technological-unemployment

[16]Ronald G.Ehrenberg, Robert S.Smith, Modern Labour Economics: Theory and public policy, Pearson Education Inc. 2009, page 511

CREATIVE DESTRUCTION OF J.SCHUMPETER

The paradoxcal term "**creative destruction**" was first used in economic science by Joseph Schumpeter, in his book "Capitalism, socialism and democracy", published in 1942. Nevertheless, this term, as a sublimate of a certain economic concept was recognized by J. Schumpeter in Marxist economic theory. It refers to a theory about capitalism destroying and configuring existing economic development with the sole purpose of: creating an entirely new world order.

Creative destruction also appeared as a philosophical concept in the philosophy of one of the most remarkable philosphers of the 18th century, and that is the philosophy of German classical idealism, represented by Georg Wilhelm Friedrich Hegel. He uses the German word "*Aufhebung*" as a contradictory concept which refers to showing tension which is likely to occur between a thesis and its antithesis. The implication here is the creation of synthesis, which is contradictory itself, but not necessary.

J. Schumpeter uses this term to explain the process of industrial mutation, which is constantly changing the economic structure from within by destroying old concepts and creating a completely new state of economic progress, and creating new profiles of industry, with old ones either being eliminated or stagnating for a while. In this way new jobs are generated, but on the other hand workers are left unemployed as they lack necessary qualifications. We now live in Schumpeter's economy, as foreseen by this Austrian economist seven decades ago.[17] What actually causes this is the dynamics of innovations in technology.

IMPACT OF DIGITAL TECHNOLOGY ON LABOUR MARKET IN REPUBLIC OF MACEDONIA

Republic of Macedonia follows global trends, particularly when it comes to digital technology. In fact, it is even in its development strategy that our country has included IT society development, which is based on know-how and application of Information computer technology in all areas of life in order to take the course of economic development of highly developed countries.

Structural unemployment, which is a result of technological development processes, appeared as early as the 1980', in particular when technology innovations became more pronounced, more intensive and more

[17]http://www.forbes.com/forbes/2011/1107/opinions-capital-flows-tech-titans-destruction-adam-thierer.html

sophisticated. Hence, due to automation of business processes in factories many workers were made redundant, mostly due to their inability to face new technology solutions. On the other hand, digitalization of factories and introduction of modern equipment/plants and management activities have opened numerous new jobs for those being able to both use a computer and operate existing machines.

The dilemma arises once again: does this complex state of generating new jobs, which increases unemployment, as a result of unqualified workers who have no potential to face new work challenges, actually arouse “creative destruction”? Competition is indeed the driving force of “creative destruction”. However, the term itself implies something potential and positive that arises from this state. People who have lost their job due to technology development are not able to change that in a short period. The process of adjusting to new skills and conditions is time consuming and takes a lot of effort and education.

EMPIRIC ANALYSIS OF CONDITIONS IN THE REPUBLIC OF MACEDONIA

In order to draw some conclusion relevant data from the State statistical office of the Republic of Macedonia will be analyzed. For analysis purpose data from 2005 to 2012 have been compared. Data refer to employee structure according to certain industries. As you can see in Chart 1, the number of employed people has risen from 545. 253,000 to 652.498,000, which means that the number of people employed rose by 19, 6 % in a period of eight years.

Chart 1

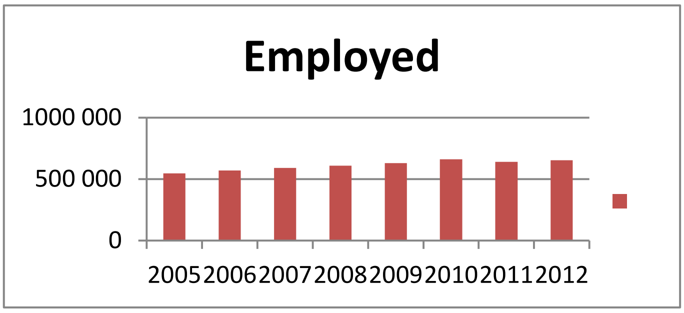
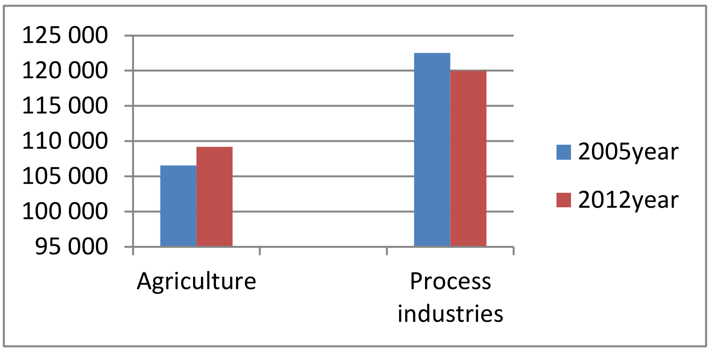


Chart 2 shows the number of employed people in two big sectors: agriculture and process industries. As the graph shows the number of

employees increased in the agriculture sector from 2005 to 2012, whereas in process industries this number has fallen. This is due to several factors: implementation of new technologies for more efficient use of arable land, passing several laws and state subventions for agriculture production. The agriculture sector has also been financed by a large number of projects from the international community, one of them being the IPARD programme that supports rural development of Macedonia, particularly in the area of organic production and its implementaion. There was a decrease in umeployment in process industries, and according to the State statistical office this is precisely the sector with most available jobs. The reason for the decrease in this sector is mostly due to slow implemnetation of European standards, which are a necessary precondition for export to European countries.

Chart 2



As Chart 3 shows the information and communication sector shows significant increase in employment. From 2005 to 2012 employment in this sector rose from 1520 to 8894 employed people, which undoubtedly demonstrates expansion in this sector. We can also see that during this period of several years employment in this sector has had its ups and downs, which indicate that employment in this sector is flexible and dependable on market demand for certain professions. Investments in this sector are constant and show permanent dynamics of opening new jobs.

Chart 3

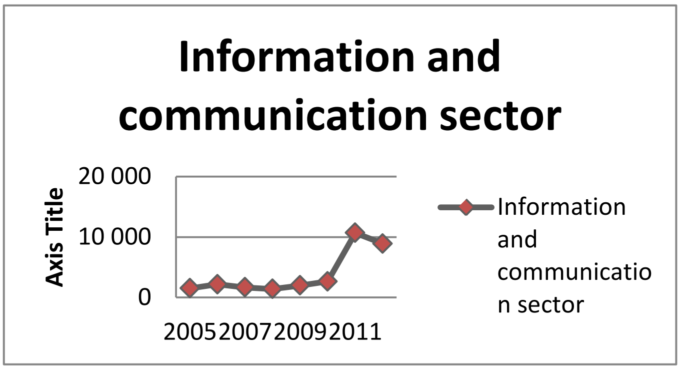
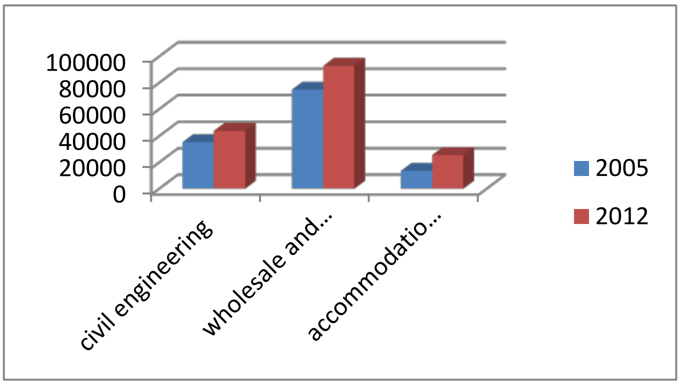


Chart 4 shows three industries: civil engineering, wholesale and retail trade, accommodation facilities and food service, form 2005 to 2012. In this regard one can conclude that employment in these sectors has increased by 100% over the last years. This proves that these sectors have constant employment increase. This is due to the fact that digital impact in these sectors is still limited.

Chart 4



CONCLUSION

According to the above mentioned analyses one can conclude that technology development has had huge impact on the labour market. As it has previously been mentioned technologies generate new jobs. However, some industries completely disappear or are automatized and there is a demand for the kind of skills workers do not have, which leaves them jobless.Structural unemployment resulting from technological development completely proves J. Schumpeter's theory on creative destruction, according to which "when some jobs disappear conditions for new ones, i.e. for new potentials ought to be created". Innovations are what drive economy and all of its segments. The world of tomorrow has to be globally connected with digital interoperability and high computer literacy. In order to fulfill this vision countries need to implement this in their economic and political strategies. The world as an entity ought to restructure its existing global economic institutions as support for innovations.[18] New technologies have created many jobs in the IT sector, as well changes in the demand for non-material goods/services and knowledge, which are key instigators of the new economy. Industries in Macedonia have adapted to new technologies reasonably well and there is constant automation of production processes and introduction of European standards. Macedonia has also made innovations top priority in its economic strategy, which is extremely important for developing countries, one of which is our country. Having a great budget for innovations is a priority for the economic growth and development of a country. For this year the government has planned one million euros for innovations and technological development through innovation and research projects. If we follow examples of investments in innovations and technological development of countries such as Sweden, Denmark, Finland, etc., the economic image of Macedonia is bound to change, thus reducing unemployment, which is the key to success for a small country.

[18] Robert D.Atkinson,Stephen J.Ezel, Innnovation Economics:The Race of Global Advantage,Yell University Press,2012

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THE NEW ROLE OF HUMAN RESOURCE MANAGEMENT[19]

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Abstract

Lately academic writers argue if Human Resource department would need to take on a central role in assisting a company fulfills its highest-level strategic objectives. Therefore, the overall aim of this research is to analyze whether Strategic Human Resource Management (SHRM) is a competitive advantage in retaining and motivating employees, having impact on the overall company's performance. The research objectives are to describe major themes that emerged from the research which are important items for consideration in the development of the new role of management. The research topic is presented as a structure, will compare two companies, with the literature on the subject of SHRM. The study approach adds depth to the paper introducing real life scenarios. The research executes a quantitative and qualitative evaluation. The analysis of major themes that emerge from the research, are the important items for consideration in the development of the new role of management.

Keywords: HR: Human Resource; HRM: Human Resource Management SHRMs: Strategic Human Resource Management.

INTRODUCTION

Many management teams have had trouble figuring out how to transform HR into a strategic function. As a result, the HR departments in most companies remain focused on administrative and operational tasks. This paper will discuss the new role of HR that requires vivid changes in how HR professionals perform HR activities. The researcher will present the critical business a challenge faced today and suggests how the role of HR should be

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[19] review scientific paper

transformed considering its new responsibilities. The topic is presented as a structure, which will compare IPKO Telecommunications with Primo Albanian Telecommunications, with the literature on the subject of Strategic Human Resource Management. The study approach adds depth to the paper, introducing real life scenarios and how companies embrace the change and react to them.

AIM AND OBJECTIVES

To conduct a research study into the area of Strategic Human Resource Management (SHRM) mainly, the changing nature for managing people. To study guidelines that could help the management of human resources provide successful strategic actions, so that business needs can be translated into coherent and practical policies. It also aims the understanding of implementation of Strategic Human Resource, which is in consistent with human resource practices that are adjusted, accepted and used by line managers and employees as part of their everyday work.
The main objective is to establish whether Strategic Human Resource Management is as a competitive advantage in retaining and motivating employees, and has positive impact on the overall companies improved performance. The following are the sub objectives for this study.

- To establish the importance of strategic use in human resource management as an crucial company advantage

- To assess potential areas for future development of the Kosovar and Albanian companies Strategic HR Management system

COMPANY PROFILES

Primo company began with the acquisition of Albania Online Service Provider in 2007, operates since 1998 in the telecommunications filed and that took the first step in a series of transactions and successive purchases.
IPKO is the first post war Internet Service Provider, IPKO quickly became a powerful local enterprise. In 2006 IPKOnet was bought by Telekom Slovenia and IPKO Institute sold its shares in IPKO net. (ipko.2012)

LITERATURE REVIEW

This paper builds primarily on the recently emerging literature linking the concept of New Role of HR Management. The initial position is that HRM has diverse connotations for different writers and does not yet comprise a unified theory. Much has been written on this matter over the past years.
Fombrun et al., (1984) defines strategic HRM as a set of techniques which enables necessary interventions within the business in order to improve performance. SHRM capabilities is an asset that is closely related to a company's ability to deliver its business model as people craft, implement and execute strategy (Schneier, et al., 1991; Lee & Miller 1999). Pfeffer (1998) agreed that a focus on intellectual capital, human capital, social capital, core competencies and capabilities is becoming increasingly recognized as a critical success factors for business.

Companies are advised to incorporate their human resource function into the strategy formulation process, to simplify consideration of human resource issues in making business decisions. As Ijose (2010), pointed out the key questions that include: is there a fit between the firm's human resource capability and its current strategy? Should the firm move to another industry segment and does it have the capabilities to be competitive? Is the current skill mix unit or firm or sector specific and how flexible is it? How will the technical and/or strategic human resource management capability of the company be leveraged to contribute to ramping up its competitiveness? Companies having in consideration those issues will have to understand the competitive trends in their supplier sector and the viability of their current strategy in leveraging their human resource competencies as a key factor in the race to sustained competitiveness. Strategic human resource management deals with the creation of a relation between the strategic aims of companies and the human resource strategy and implementation. Karami (2004) concluded that in high performance firms, HR is more involved in strategic activities such as long range planning, revising HR systems and developing new HR systems. Thus, it is recommended that practitioners and comapnies managers increase the core competencies of the firm and involve the HR specialists in the strategic management process of their firms in order to increase firm performance and to benefit from HR capabilities.

Traditionally, the HR function has been seen as a cost to organizations. Nowadays, the management of people is crucial as they are the ones that make difference (Colakoglu et al., 2006). Human capital is considered strategic asset for creating competitive advantage within the organizations. It is important to develop a complex human resource system, which is rare and difficult for competitors to imitate. Strategic human capital has impact on organizational success; thus, their valuable skills should be recognized through appraisal system in order to attain the best people (Carmeli, 2004).

In any organization, regardless of its size, HRM practices should be in line with business strategies in order to have organizational performance and successful strategy implementation. The ability of HRM to keep the talented employees contributes highly in organizations. There should be used innovative HRM practices, employee involvement in training programmes, incentive compensation and appraisal system, which will promote commitment and lead to improved organizational profitability (Hiltrop, 1996). The dimensions of HRM practices include staffing, training, performance appraisal and compensation. However, by linking HRM practices with strategy, some SHRM include career ladders, training, results-oriented appraisal, compensation, employment security and their voice, and defined jobs. SHRM practices can enhance knowledge sharing within departments and the whole organization.

RESEARCH METHODOLOGY AND STRUCTURE

Interpretivism is chosen to be the philosophical framework of the study, as the researcher believes that knowledge is a complex phenomenon, which cannot be generalized in a value-free and detached manner. The paper is divided into four specific parts. After the Introduction, the main body if this paper presents the literature review, including issues as strategy execution in general and the strategic human resources management (SHRM) specifically, as well as an explanation of today's critical business challenges and HR's new role as a strategic business partner. The third most important part of this paper is made up of a data presentation, where the author describes and analyses the practical application case, IPKO Telecommunications specifically, followed by a comparison of Primo Telecommunication. Furthermore the survey is analysed and recommendations for the future research are given. The very last part consists of a general conclusion, where the author summarizes and reflects upon the different parameters discussed in this paper and gives a personal opinion.

The author chose the IPKO Telecommunication, as it is said to realize the importance of the HR department and its implications with the strategy of the business. IPKO Telecommunication has been selected to focus on the particular issue of the strategic function of HR and because it meets the general parameter of the study's objective and shares the defined core characteristics. Furthermore, IPKO vision reflects the author's personal vision on the HR management, as she the HR Manager of this company and has therefore been chosen as the primary research instrument.

RESEARCH APPROACH AND STRATEGY

The paper uses the research strategy of grounded theory. The researcher primarily focuses on obtaining data's through research in the academic literature and other relevant HR literature. Although the present paper is essentially influenced by the research strategy of grounded theory, the researcher subsequently employs a primary research strategy via semi-structured interviews to collect data. Except interviews, questionnaires and observation were selected.

DATA COLLECTION METHOD

The present research process can be described as an exploratory one. It aims to expose latest approaching and evaluate the researched phenomena in a new system. The study is developed on a combination of secondary and primary data.
The present paper incorporates a multi-method research process, where the researcher combines secondary and primary data in the same study. This strategy is chosen, as the researcher believes that both methods are significantly dependable on each other in the present research context, and that secondary data provides solid theoretical foundation, whereas primary data contributes to the researcher's ability to address the most important issues in the present context.

The primary data is extracted through the conduction of in-depth interviews, as well as surveys supplied Primo and IPKO Telecommunication Company. The primarily sources is retrieved through interviews, internal documents and annual reports.

INTERVIEWING

Interviews, also acknowledged as unstructured interviews, are recognized as a suitable data collection method as the information they reveal relates to the researcher's aim of analyzing, interpreting and responding to new contextual insight. Every interview had a length of 20 – 30 minutes, as the time exactness was not taken as important because the interviewer was focused on extracting valuable manager and employee's impressions and ideas.

The interview had the format of a casual conversation where the interviewee was the one who guided the interviewer's questions, although the interviewer has a clear idea of the interview objectives.

The research interviews were designed to be opened to enable the researcher to respond to opportunities, unexpected outcomes so as to be able to add questions to the interviewees.

THE ROLE OF STRATEGIC BUSINESS PARTNER REPORTING OF DATA

The overall rating of IPKO Telecommunication, for namely HR policies and practices are aligned with strategic business objectives performance management to strategic goals (90%), and HR has the ability to influence corporate thinking with regard to strategic issues that may have a regional impact agreed (%) as well as the rating for HR change leadership by initiating transformation first within the HR function (80%), were below the acceptable level for this evaluation question. The level of competence of the HR professionals (75 %), however, can be viewed as a positive building block for future growth. The detailed questions under this evaluation question are now to be interpreted
The overall rating of Primo Telecommunication, the ratings for two of (the evaluation criteria, namely HR policies and practices are aligned with strategic business objectives performance management to strategic goal (55%) disagree, and HR has the ability to influence corporate thinking with regard to strategic issues that may have a regional impact disagreed (95%) disagree, as well as the rating for HR change leadership by initiating transformation first within the HR function (65%) disagree, were below the acceptable level for this evaluation question. The level of competence of the HR professionals (65%), however, can be viewed as a positive building block for future growth. The detailed questions under this evaluation question are now to be interpreted

Question: HR has the ability to influence corporate thinking with regard to strategic issues that may have a regional impact.

Answer: 65% of employees disagreed and only 5 % agreed at IPKO Telecommunication, whereas at IPKO Telecommunication 95% disagreed and none of the employees agreed. HR has the ability to influence corporate thinking with regard to strategic issues that may have a regional impact.

Due to a lack of credibility HR (local) cannot influence corporate HR on strategic issues. From the qualitative data it appears that credibility is associated with knowledge and skills, as well as a general lack of urgency and interest.

Question: HR policies and practices are aligned with strategic business objectives

Answer: The theme repeated that HR does not lead or follow when the organization direction changes. This renders HR products and services irrelevant at this point in time.

Question, “HR shows a positive and supportive attitude towards the executive team, when dealing with strategic issues”, received the highest rating (80%) under this evaluation question at IPKO Telecommunications. 10 % were indecisive and 10% percent of them disagreed. This is an indication of positive intent but is not supported by effective goals and effective delivery. IPKO Telecom HR shows change leadership by initiating transformation first within the HR function

The executive team recognized the HR function’s leadership role by initiating transformation within the HR function.

Other qualitative themes that emerged with regards to the role were:

- HR stays very close to employees to understand their needs.

- HR does play an active role in conflict management.

HR Primo function’s leadership the executive team did not recognize role internal to the function. They believe that the competencies are not consistent across all HR employees and that HR expects line managers to play the change facilitator role. Primo Telecom HR shows change leadership by initiating transformation first within the HR function. Only 10% of them agreed on the question where as 25% had no opinion regarding this issue, where as 60% of the disagreed

Question: The Level of competence of HR professionals resulted with high percentages in both of the companies:

Answer: IPKO Telecom received a very high result (75%). Through this answer employees and executive team shows a positive and supportive attitude towards the HR management. The same scenario was came out of the Workplace Employment Relations questionnaire performed within Primo

Telecom. Positive approach towards Management was given with the percentage of 65% positive, 10 were indecisive and 25% did not agree.

CONCLUSIONS

The research developed interviews with HR managers from these two companies, and conducted surveys among employees by implementing questionnaires. The main differences are summarized in several key points in the table 1.

In studying the outcome, the researcher observed that HRM is becoming more and more obligatory in a company's management. The investigated issues from the research of these two different companies show similarities and differences in their HRM practices, models, and policies. These companies have various understandings in operating their HRM practices. Although they face different issues HRM is a unique and essential managerial function to formulate and regulate relationships in the work.

Table 1: Differences between HRM in Albania and HR Kosovo Companies

HRM in the Albanian Context	**HRM in the Kosovar Context**
Working Environment: Less diversity	Working Environment: More diversity
Influences in HRM: • Transition from personnel management to HRM • Encouraging group work to achieve the same idea	Influences in HRM: • Transition to strategic HRM • Encouraging employee innovation in new and different ideas Direct communication style

The aim with the research was to evaluate the effectiveness of the HR function in IPKO Telecommunications in Kosovo and Primo Telecommunications in Albania. The first specific aim, which was to analyse the latest trends and developments in HR functions, highlighted the significant role that employees play in organizational performance. The second specific aim was to design and execute a quantitative and qualitative evaluation of the effectiveness of a HR functions in a within Ipko and Primo

Telecom. It is very important for IPKO and Primo Telecom for managing and developing their employees and creating a good employment relationship in order to encourage employees to achieve the expected performance. Understanding of the HRM concept is the initial step in the strategic management of employees to achieve their organization's goals. The effectiveness and efficiency of both companies on developing employee recruitment, training and development will benefits for employees' only bit it's for the well-being entire company.

RECOMMENDATIONS

Building on the conclusions, it can be recommended IPKO and Primo Telecommunications prepare their HR Organizational Structure mainly divided into three main functional areas:

- HR Front Office
- HR Back Office
- HR Centers of Excellence

HR Front Office function is accountable for being a single point of the contact for the entire company. The HR Front Office employees must be able to recognize the real needs of the internal clients and they have to be able to translate them into the requests for the HR Back Office and HR Centers of Excellence. HR Back Office is responsible for professional services being offered by HRM internal clients. HR Back Office also makes sure that the activities of HRM are fully compliant with the legal environment. HR Centers of Excellence are responsible for keeping processes, policies, products and initiatives updated, developed and fully competitive with the external world.

HR can improve effectiveness and efficiencies by identifying existing problems, creating detail solutions and reinventing HR structure. The recommendation of regular evaluation implies the obvious in that the HR function, in this evaluation, needs to work through the results of this evaluation and develop a plan of action to address the highlighted issues. Detail recommendations per HR role will now follow. The HR Roles could be developed into helping the line management to implement improvements, focused on operational and strategic management, at the same time, responsible for developing the Human Capital potential in the organization, and aligning HR procedures with business processes.

IPKO and Primo Telecom need to develop and implement the following strategic human resources management functions such as:

- Review and re-evaluate the human resource management role

- If the decision is made to reassign the human resource management role, determine whether it will be beneficial to train a current staff member, or recruit a new person who already has the skills and knowledge

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331.2:338.5):303.71(497.7)

CAUSAL RELATIONSHIP BETWEEN WAGES AND PRICES IN R. MACEDONIA: VECM ANALYSIS[20]

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ABSTRACT

This paper presents the testing of the issue of causality between wages and prices in R. Macedonia. OLS relationship between prices and wages is positive; productivity is not significant in determination of prices or wages as well. The standard procedure is used in this paper, such as first OLS estimates, co-integration test in order to determine whether there long run relationship existing between wages and prices and the Vector error correction model has been applied. There is only one co-integration relationship existing according to the co-integration tests. Causation runs from wages to prices, and wages significantly enter in the co-integration relation. As from the OLS estimation results the productivity does not enter statistically significant in the wage neither in the price equation. As a recommendation to the policy makers is to incorporate productivity (standard of living) in the legal acts for establishment of minimal wage. This may be accomplished by regulating the internal wage structures, mandated minimum wages, etc.

Keywords: Granger Causality, Wages, Prices, Co-integration, VECM
JEL classification: C50, E31

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[20] original scientific paper

INTRODUCTION

The aim of this paper is to investigate the issue of causality between wages and prices in Republic of Macedonia. For this purpose the standard causality tests along with Toda-Yamamoto test and Vector error correction model have been used. The issue of causality between wages and prices had been extensively discussed in the literature. However, the consensus about the question what is cause and what is effect has not been clearly reached. David Hume (1739) argued that, in seeking to explain any object or event, it is evident but not proven that it's alleged cause was produced and effected on it. Immanuel Kant, Hume's contemporary, also thought that the idea of causality is fundamental category of understanding, and a necessary condition for experience. In the field of economics Haavelmo (1944)[21], was one of the first to contribute to the advancing of the causality analysis. He formulated the economic relationships to be expressed in stochastic terms, but also stated that every theoretical relationship in economics can be tested empirically, and as an example he took stochastic price-quantity relation. In economics, there different approaches to causality exist, one approach may emphasize structure, and other may emphasize structure[22].

Table 1 a summary of some studies, on causality issue

	Structural	**Process**
A priori	Cowles commission, Koopmans (1953), Hood and Koopmans (1953)	Zellner (1979)
Inferential	Simon (1953), Favero and Hendry (1992), Angrist, Krueger (2001)	Granger (1969) Vector autoregressions , Sims (1980)

Herbert Simon (1953) showed that causality could be defined in a structural econometric model, not only between exogenous and endogenous variables,

[21] Haavlemo T. (1944) '*The probability Approach in Econometrics*', Econometrica, 12, Issue Supplement (July, iii-vi, 1-115.)
[22] Hoover, K.,(2008), Causality in economics and econometrics, From The New Palgrave Dictionary of Economics, Second Edition, 2008 Edited by Steven N. Durlauf and Lawrence E. Blume

but also among the endogenous variables themselves. The Cowles commission approach, related causality to the invariance properties of the structural model. This approach emphasized the distinction between endogenous and exogenous variables, and the identification and estimation of structural parameters. Zellner opposes Simon and sides with Granger: predictability is a central feature of causal attribution, which is why his option is a process account. On the other hand, he opposes Granger and sides with Simon: an underlying structure (a set of laws) is a crucial presupposition of causal analysis, which is why his is an a priori account.

THEORETICAL MODELS OF PRICES AND WAGES REVIEW

A standard model in this framework is New Keynesian Philips Curve (NKPC), which has the following presentation: $\pi = \beta E(\pi_{t+1}) + \alpha(y - \overline{y})$ here π is inflation rate, π_{t+1} is expected inflation, and $\overline{y}$ is the natural output. Actually natural output represents the fitted values, this model has log-log functional form, in order to represent the percentage values of the variables. From a welfare point of view previous model implies that is best for welfare, to stabilize output and stabilize inflation (Blanchard and Gali, 1988)[23]. The stabilizing inflation also stabilizes output gap. According to macroeconomic behavior $\overline{p}Y = M$, here $\overline{p}$ are average prices, M is money supply, and Y is output (Akerloff, Dickens and Perry, 2000)[24]. Because there exist n firms in the economy, that are monopolistically competitive, and they divide aggregate demand, $\frac{M}{\overline{p}}$ by $\frac{1}{n}$. So that aggregate demand for the output of a given firm is given as $\frac{1}{n}\frac{M}{\overline{p}}\left(\frac{p}{\overline{p}}\right)^{\alpha}$ here p is the price charged by the firm on its own product. Now the relation between productivity, wages and unemployment is given by the following equation, $\Pr oductivity = -a + b\left(\frac{w}{w^r}\right)^{\alpha} + cu$, here w^r are the reference wages of the workers, and u is the unemployment rate. And $0 < \alpha < 1$. Reference wage incorporates the following expression, $w^r = \overline{w}_{-1}(1 + \alpha\pi^e)$ so they do

[23]Blanchard, O.,Gali, J.(2005), Real wage rigidities and the New Keynesian model,NBER working paper

[24]. Akerlof,G, William T. Dickens & George L. Perry, (2000). "**Near-Rational Wage and Price Setting and the Long-Run Phillips Curve**,"Brookings Papers on Economic Activity, Economic Studies Program, The Brookings Institution, vol. 31(1), pages 1-60

incorporate average wages from previous period, and expected inflation. The profit maximization for the firms is given by the following expression, $p_i = m\frac{w_i}{p_i}$, here m is the mark-up over wages and prices, and markup factor is $\left(\frac{\beta}{\beta-1}\right)$. If we return to the expression, $\frac{1}{n}\frac{M}{\overline{p}}\left(\frac{p}{\overline{p}}\right)^{\alpha}$ here α is defined as $-\eta$, but so that $\eta > 1$. So that each firm has greater revenues as its price falls Akerloff, Yelen (1980)[25].

LITERATURE REVIEW

The debate on the direction of causality between wages and prices is one of the central issues surrounding the literature on the determinants of inflation. There are many studies done in order to test the price-wage relationship. In Table 2 the most relevant studies on this relationship are presented.

Table 2 Summary of some studies, on price, wage and productivity relationship presented in chronological order

Studies	Title	Method
Moschos (1983)	Aggregate price responses to wage and productivity changes: Evidence from the U.S.	Productivity Changes: Evidence from U.S.
Strauss, Wohar (1994)	The Linkage Between Prices, Wages, and Labor Productivity: A Panel Study of Manufacturing Industries	Panel cointegration relationship
Erica L. Groshen Mark E. Schweitzer (1997)	The Effects of Inflation on Wage Adjustments in Firm-Level Data: Grease or Sand?	40-year panel of wage changes
Shik Heo(2003)	The relationship between efficiency wages and price indexation in a nominal wage contracting model	simple nominal wage contracting model

[25] Akerlof, G. A. and J. L. Yellen (1985b). A near-rational model of the business cycle, with wage and price inertia, Quarterly Journal of Economics 100, 823—838 with wage and price inertia. Quarterly Journal of Economics 100, 823—838

Peter Flaschel, Gäoran Kauermann, Willi Semmler (2005)	Testing Wage and Price Phillips Curves for the United States	Parametric and non-parametric estimation.
Pu, Flaschel and Chihying (2006)	A Causal Analysis of the Wage-Price Spiral	Granger causality. VAR (Vector Autoregressive) Model.
Saten Kumar, Don J. Webber and Geoff Perry (2008)	Real wages, inflation and labour productivity in Australia	Cointegration; Granger causality
Dubravko Mihaljek and Sweta Saxena (2010)	Wages, productivity and "structural" inflation in emerging market economies	Empirical methods ,correlations

METHODOLOGY

The presence of bilateral causal relationship between the two variables mentioned above makes the model building more complex. In this context, the OLS regressions produce highly significant parameters, but the presence of autocorrelation raises the question of whether OLS estimates are robust[26]. Next, VECM (Vector error correction model) model is used, which is usually applied in the examining models with more than one endogenous variable. About the theoretical relationship between prices, wages and productivity, policy makers and financial analysts cite wages pressures and productivity as leading factors in explaining inflation. Although cost push inflation has been examined by Mehra (1991, 1993, 2000), indicates that prices cause wages, but such rise in wages does not seem to explain the inflation. Hu and Trehan (1995), also reject the cost push view of inflation. By using Granger-causality tests Ghali (1999) finds that wage growth does help to predict inflation which is supporting the cost-push view. The relationship between productivity and inflation, has been described in the theory but there are not many empirical studies to support this hypothesis, Straus (2004)[27]. Beside wages and productivity, other variables can be used on the models as well. But these big models that include greater number of variables have proven to be failure when trying to capture the dynamic relationship between the variables, due to loss of power. Lütkhepohl and

[26]Although in the presence of autocorrelation the OLS estimators remain unbiased, consistent, and asymptotically normaly distributed, they are no longer efficient (Gujaraty, 2003).

[27] Straus, J.Wohar,E.,M., (2004), **The Linkage Between Prices, Wages, and Labor Productivity: A Panel Study of Manufacturing Industries,** Southern Economic Journal.

Krätzig (2004) proved that the failure of these big models in explanation of the dynamic relationships, is their insufficient representation of the dynamic interactions in the systems of variables. For the analysis of the causal relationship in this paper, two models OLS regression model and VECM model have been used, in order to obtain statistically robust estimate. Prior to the estimation of these models the respective model selection criteria is examined, for determining the lag order/lagged differences so as the rank of co-integration. Also there Toda, Yamamoto test (1995) have been applied, as well as instantaneous causality test, in order to see the robustness of the causality results. VAR model was used to capture the short run relationship between the variables of interests.

DATA

For the empirical part of the price-wage causal relationship in Macedonia, quarterly data was used covering the period from **2004 Q1** to **2009 Q4**. The variables that we use are wages, which are represented by the wages (AVERAGE REAL WAGES), index number, quarterly data 2005=100.CPI (prices)consumer prices,index number, quarterly data 2005=100.Productivity is also represented by the quarterly index, (PROD).The sources of the data are IMF IFS and EconStats™[28].Additionally in this section the stationary properties of the time series data has been analyzed.The plots for both level series of all three variables suggest a trending movement and little evidence of returning to a fixed mean value. Furthermore the plots are inconsistent with the series containing stochastic trends. In contrast, the plots for the differenced series suggest evidence of mean reversion and some evidence that the series may be stationary. As the Table in the Appendix shows, the formal stationary tests, Augmented Dickey –Fuller test (ADF), and Phillips Perron test (PPERRON), in all cases for wages and prices the null hypothesis that the series in levels contains unit root, we cannot reject. But for the productivity variable it is accepted that it is stationary even in levels, and that does not contain unit root. In contrast all of the null hypotheses that the differenced series contain unit root is rejected in all cases for both series. Therefore level series for wages and prices contain unit root, and appears to be characterized by the presence of stochastic trend.

[28]The web site for this citation is : http://www.econstats.com/ifs/NorGSc_Mac2_Q.htm

RESULTS

In the first sub-section the results from OLS estimation, whereas in the second sub-section we will analyze the VECM model will be examined.

OLS ESTIMATES

In the Table 3 are presented the results of the OLS estimates. In the columns (2) and (3), prices are regressed on wages and productivity in a log-log functional form, and then first difference estimates are also provided. In the column (6) and (7) wages are regressed on productivity and also in the second part of the columns (denoted in the beginning with Δ**log** symbol)**,** are provided first differenced results. Also from each model autocorrelation tests results, and functional form test results are reported.

Table 3 OLS estimates

Variables	Prices=f(wages, productivity)			Wages=f(prices,productivity)			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
log	LRW	0.35***	0.96***	**log**	LCPI	2.31***	1.04***
	LPROD	0.015	-0.11***		LPROD	0.002	0.107**
	CONST	3.032***	n.a.		CONST	-6.038***	n.a.
	LM test	0.0024	0.0027		LM test	0.0018	0.0013
	Ramsey test	0.0000			Ramsey test	0.9804	
Δlog	ΔLRW	-0.034	0.091	**Δlog**	ΔLCPI	-0.19	0.75
	ΔLPROD	-0.0036	-0.002		ΔLPROD	-0.0037	0.021
	CONST	0.0076***	n.a.		CONST	0.025***	n.a.
	LM test	0.3792***	0.1021		LM test	0.3524***	0.0431
	Ramsey test	0.0750*			Ramsey test	0.2290***	

Note 1**:** *** - significant at 1% level of significance; ** - significant at 5% level of significance; * - significant at10% level of significance.The LM tests indicate the p-value of the Breusch-Godfrey LM test for autocorrelation with H_0: no serial correlation and H_a: H_0 is not true.

The OLS regression in column 2 can be represented in a form:

1. $\hat{lcpi} = \beta_1 lrw + \beta_2 lprod + \beta_0$, where β_0 is intercept, β_1 and β_2 are elasticities that measure elasticity of wages to prices and productivity to prices respectively.
2. Second model in this column is: $\Delta\hat{lcpi} = \beta_1 \Delta lrw + \beta_2 \Delta lprod + \beta_0$ this is the case of first differences of the variables. Autocorrelation in the log model from column I is a serious problem, OLS time series do suffer from serial correlation. While in the second model form this column, first difference model does not suffer from serial autocorrelation.
3.

Functional form in this column is better when first differenced model. That is the change of the variables model is better than their levels model. Models form column (6) can be presented as $\hat{lrw} = \beta_1 lcpi + \beta_2 lprod + \beta_0$, and the second model in this column is, $\Delta\hat{lrw} = \beta_1 \Delta lcpi + \beta_2 \Delta lprod + \beta_0$,first mode in this column do suffer from autocorrelation but the OLS estimates give the predicted *a priori* relationship between the variables of interest. Except that the productivity does not influence the level wages not even their changes (first differences). Models without constant in columns 3 and 7 are also tested. And in these models same as log-log OLS models autocorrelation is a problem, while in a first difference models autocorrelation seems not to be a problem. Further on some conclusion for the causality based on the OLS estimation will be made.

Table 4 The pattern of causality in Macedonia based on OLS estimates

Model	Log-log	First-differences
Intercept	$cpi \Leftrightarrow realwages$	$cpi - realwages$
No intercept	$cpi \Leftrightarrow realwages$	$cpi - realwages$

Note 2: $\Leftrightarrow$ indicates bilateral causality, while – indicates absence of causality.

This evidence suggests that there is bilateral causal relationship between prices and wages in the current models, but not in first differenced models. Additionally, in the log-log models serial correlation was considered as a serious problem, which harms the reliability of the OLS estimates.

Nonetheless, it is agreeable that OLS estimates are a good start, as they provide first insight when testing different relationships. On a basis of Ramsey's RESET test it appears that in the case when prices are function of wages, first differenced model suit better, while when wages are function of prices and productivity level model and first differenced model, according to Ramsey's RESET test appear to be well specified. Productivity seems to be significant only in level models, and not in first differenced models. According to the LM test, Breusch-Godfrey test, for autocorrelation, autocorrelation seems to be a problem in a level's models while not when first differenced models[29]. This raises the question whether OLS estimates are statistically robust.

TODA AND YAMAMOTO TEST

Toda and Yamamoto (1995) developed a test, alternative to Granger causality test, irrespective of whether Y_t and X_t are are I(0), I(1), I(2), co-integrated or not co-integrated of an arbitrary order. This is widely known as Toda and Yamamoto (1995) augmented Granger causality. Toda and Yamamoto test is based on the following two equations:

$$LCPI_t = \alpha + \sum_{i=1}^{h+d} \beta_i LCPI_{t-i} + \sum_{j=1}^{k+d} \gamma_j LRW_{t-j} + u_{yt} \qquad \textbf{(I)}$$

$$LRW_t = \alpha + \sum_{i=1}^{h+d} \theta_i LRW_{t-i} + \sum_{j=1}^{k+d} \delta_j LCPI_{t-j} + u_{xt}$$

(II)

For the first equation;

Null hypothesis is $H_0 : \sum_{j=1}^{k} \gamma_j = 0$ or X_t does not cause Y_t, alternative hypothesis is, $H_1 : \sum_{j=1}^{k} \gamma_j \neq 0$,or X_t does cause Y_t. For the second equation null hypothesis is; $H_0 : \sum_{j=1}^{k} \delta_j = 0$ or Y_t does not cause X_t, alternative hypothesis is, $H_1 : \sum_{j=1}^{k} \delta_j \neq 0$, or Y_t does cause X_t. Here d is the maximal order of integration, h and k are optimal lag length from the information criteria. AS for this case optimal lag length is 4. From the estimated VAR

[29]Null hypothesis in this test is H_0:no serial correlation and H_a: there exists serial correlation in the residuals

model.In a small and finite samples like the one presented and like other researchers by whom it is used as well, the F-test is the most appropriate statistics, when doing a Wald tests. The unrestricted models are as follows:

$$LCPI_t = \alpha + \sum_{i=1}^{h} \beta_i LCPI_{t-i} + u_{yt} \qquad \textbf{(III)}$$

$$LRW_t = \alpha + \sum_{i=1}^{h} LRW_i X_{t-i} + u_{xt} \qquad \textbf{(IV)}$$

Now we calculate the F-statistics for the models. The results are presented in the following sections

F-statistics for the equations (I) and (III) [30]

$$F = \frac{\left(R^2_{UR} - R^2_R\right)/k}{R^2_{UR}/(n-k)} m = \frac{(0.015 - 0.011)/2}{0.015/(20-2)} = \frac{0.001}{0.000083} = 12.04$$

Here R^2_{UR} are the residual sum of squares of the unrestricted model (I), and R^2_R are the residual sum of squares of the restricted model (III). The F-stats for 2 and 18 degrees of freedom is 6.013 .so the null hypothesis that LRW_t does not influence $LCPI_{t,}$ is rejected and the alternative that LRW_t does influence $LCPI_t$ is accepted.

F-statistics for the equations (II) and (IV)

$$F = \frac{\left(R^2_{UR} - R^2_R\right)/m}{R^2_{UR}/(n-k)} = \frac{(0.022 - 0.013)/2}{0.022/(19-2)} = \frac{0.009}{0.0013} = 6.92$$

The F-stats for 2 and 17 degrees of freedom is 6.12, so 6.93>6.12, the null hypothesis that $LCPI_t$ does not cause LRW_t is rejected, and $LCPI_t$ does weakly cause LRW_t. Next the estimated VAR model is being introduced. A *p*th-order VAR is also called a **VAR with *p* lags**.Following Gordon

[30] In the F-stat formula, *m* is the number of imposed restrictions

(1988)[31], the following wage and price equations that constitute the VAR model is specified:

$$\Delta LCPI = \alpha_0 + \sum_{s=1}^{k} \alpha_{1s} \Delta LCPI_{t-s} + \sum_{s=1}^{k} \alpha_{2s} \Delta LRW_{t-s} + \sum_{s=1}^{k} \alpha_{3s} \Delta X_t + \sum_{s=1}^{k} \alpha_{4s} \Delta Z_t + \varepsilon_t^{CPI}$$

(V)

$$\Delta LRW = \beta_0 + \sum_{s=1}^{k} \beta_{1s} \Delta LCPI_{t-s} + \sum_{s=1}^{k} \beta_{2s} \Delta LRW_{t-s} + \sum_{s=1}^{k} \beta_{3s} \Delta X_t + \sum_{s=1}^{k} \beta_{4s} \Delta Z_t + \varepsilon_t^{RW}$$

(VI)

This equations constitute two equation non-structural vector autoregressive system, (VAR) that can be used to study the short run dynamics of the relationship between prices and wages inflation. But since the series appear to be co-integrated which is late shown in the following tests co-integration tests the long run information in the model that was removed by first differencing the variables will be incorporated. The result is Vector Error correction (VEC) model. This is a common approach to include the lost information, by including the levels of the variables LCP_{t-1} and LRW_{t-1}, by which on would obtain VEC unrestricted model Nourzad,.(2008)[32].

Table 5 var model: lcpi lrw, lags (4)

LCPI	Coefficient	z	P>|z|
L4.LCPI	-0.46	-1.38	0.17
L4.LRW	0.79	4.48	0.00
CONSTANT	3.08	3.96	0.00
LRW	**Coefficient**	**z**	**P>|z|**
L4.CPI	1.69	3.67	0.00
L4.LRW	0.75	3.06	0.00

[31] Gordon, Robert J. (1998) "The Role of Wages in the Inflation process," *American Economic Review*, 78, 276-283

[32] Nourzad,F.(2008), Assessing the Predictive Power of Labor-Market Indicators of Inflation, Applied economic Letters

CONSTANT	-6.58	-6.13	0.00

Next, the Wald tests of the hypothesis that the endogenous variables at the given lag are jointly zero for each equation and for all equations jointly are reported.

Equation: LCPI

lag	χ^2	df	p > χ^2
4	142.4237	2	0.000

Equation: LRW

lag	χ^2	df	p > χ^2
4	629.6134	2	0.000

Equation: All

lag	χ^2	df	p > χ^2
4	766.7447	4	0.000

So the null hypothesis that all endogenous variables at the given lag are zero is reported, because the probability of making Type I error is zero. In the standard VAR process framework the instantaneous causality is being tested by using Wald test for zero restrictions. Granger defines instantaneous causality where current as well past values of x are used to predict y_t[33]. It was proven by the JMULTI test there is instantaneous causality, where

[33] Schwert, W.G.(1977), Tests of causality the message of innovations, Rochester University

pvalue is 0.0760. The granger causality testing otherwise where not in favor of the causal relationship.

VECM ESTIMATES

By analyzing the results from the optimal lag length criteria, according to all of the info criteria, Akaike information criteria (AIC), Hannan-Quinn (HQ) criteria, and optimal lag length is 4 lags.

THE JOHANSEN TEST FOR COINTEGRATION OF THE RANK AND SAIKKONEN AND LÜTKHEPOHL TEST

The co-integration tests were performed between $LCPI$ and LRW. On the basis of the Johansen trace test analysis with one co-integrating relationship will be continued. This applies only when constant is included in the cointegration test, whilst the test statistic is significant at 1%. , clearly indicating that there is sufficient evidence that the rank of cointegration is zero i.e. $rc(\Pi)=0$, and accept the alternative hypothesis that $rc(\Pi)=1$. While in contrast when there is trend and orthogonal trend in the cointegration test, there is insufficient evidence to reject the null hypothesis of $rc(\Pi)=0$, against the alternative $rc(\Pi)=1$ .Same results applies when using Saikkonen and Lütkhepohl (1999) test[34]**,** and this test suggests that rank of one is appropriate.

Table 8 Johansen test for co-integration of the rank and Saikkonen and Lütkhepohl test

Variables	Deterministic term	**Johansen Trace test**			**Saikkonen and Lütkhepohl**		
		Lag Order	LR-stat	Pvalue	Lag Order	LR-stat	Pvalue
LCPI	Constant	1	13.89	0.0051	1	3.44	0.0758
LRW	Constant and trend	1	4.91	0.6152	1	1.14	0.7554

[34] Saikkonen, P. and Lütkhepohl, H. (1999), 'Local power of likelihood ratio tests for the cointegrating rank of a VAR process', Econometric Theory 15:50-78.

	Orthogonal trend	1	10.10	0.2784	1	8.98	0.0720

Hence there is sufficient evidence to continue the analysis with one co-integrating relationship $r=1$. The VECM model was estimated using the *Two Stage procedure (S2S),* with *Johansen Procedure* being used in the first stage and Feasible Generalized Least Squares (*FGLS) procedure* being used in the second stage. From the model coefficients with $t<2$, t and statistics lower than two have been eliminated. This is in accordance with the recommendations by Lütkhepohl and Krätzig, 2004[35]; Lütkhepohl and Krätzig, 2005[36].About the ***Loading coefficients,*** their t ratios can be interpreted in the usual way, as being conditional on the estimated co-integration coefficients, (Lütkhepohl and Krätzig, 2004; Lütkhepohl and Krätzig, 2005,).In this case the loading coefficient of the first equation and in the second equation are significant. Their t ratios are respectively 3.973 for the first equation, and 2.398 for the second equation. Thus, based on the presented results, it is debatable that co-integration relation resulting from normalization of co-integrating vector enters significantly in both equations. About the ***Co-integrating vectors***, by selecting $LCPI_t$ as the first variable in the model, it means that the coefficient of this variable in the cointegration relation will be normalized to 1 in the maximum likelihood estimation procedure. Nevertheless, by looking at p-value of the coefficient seems that there is sufficient evidence to suggest that $LCPI_t$ and $\mathrm{LRW_t}$ are cointegrated. The model takes this form:

$$ec_t^{EGLS}=LCPI_t-\underset{(0.000)}{1.012}\ \mathrm{LRW_t} \qquad \textbf{(VII)}$$

The number in parentheses is pvalue, when previous equation has been rearranged, the new expression takes this form:

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[35] Lütkhepohl, H. and Krätzig, M. (2004), '*Applied Time Series Econometrics'*, Cambridge University Press, October 2004, ISBN 0521 54787 3.

[36] Lütkhepohl, H. and Krätzig, M. (2005), '*VECM Analysis in JMulTi'*, 2005, www.jmulti.de

$$LCPI_t = \underset{(0.000)}{1.012}\ \mathrm{LRW_t} + ec_t^{EGLS} \qquad \textbf{(IX)}$$

Considering that the logs of variables have been used, the relation in previous expression expresses the elasticity of prices on wages, hence the coefficient of 1.012 is the estimated price elasticity. If the log wages increases by 1%, it is expected that the log of prices would increase by 1.012 percent. In other words, a 1 percent increase in the log wages would induce a 1.012 percent increase in the log of prices. In addition to this the value of standard deviation is very low, indicating a high efficiency for the estimated parameter. Now, the ***Short-run parameters*** can also be interpreted in the usual way. The estimators of parameters associated with lagged differences of variables may be interpreted in the usual way. Here *t* ratios are asymptotically under this conditions. The coefficient of productivity does not have a statistically significant impact on wages, neither on prices. About the ***Deterministic Terms***, seasonal dummies do not appear to have significant impact neither on first, nor on second equation. In the next table the results for the diagnostic test performed on the VECM model are presented. Testing the model robustness - most of tests rely on the residuals of final VECM, with some applying to the residuals of individual equations and others are based on the full residual vectors, the VECM model statistic indicates that one may not reject the null hypothesis that restricted model has a better representation of Data generating process, compared to unrestricted model. The value is 0.8356 which provides sufficient evidence that no information is lost if restrictions are in some of the short run parameters. ARCH-LM test prove that there is no problem with serial autocorrelation. Non-normality test gives ambiguous results, Lütkepohl (1993) test[37] proves normality in the residuals, whilst Dornik and Hansen (1994) test proves opposite[38].

Table 9 VECM Diagnostic Tests

Type of test	p-value	VECM
VECM model statistics	0.8356	√
LM Autocorrelation Test	0.5611	√

[37] Lütkepohl (1993), Introduction to Multiple Time Series Analysis, 2ed
[38] Doornik, J.K. and, Hansen, H., 1994, A practical Test for Univariate and Multivariate Normality, Discussion Paper, Nuffield College.

Non normality test		
Dornik and Hansen (1994)	0.0000	x
Lütkepohl (1993)	0.5506	√
ARCH-LM		
u1	0.9505	√
u2	0.6531	√

Note: √ - test indicates no problems with diagnostic criteria; x – indicates that there is some problems with the diagnostic criteria.

Finally, based on the evidence, one can argue that they are not so strongly co-integrated, and that, there is sufficient evidence in support of a unilateral causal relationship between prices and wages, running from wages to prices only.

CONCLUSION

AS of this literature there are two groups of economists, one that argue that causality runs from wages to prices, and the second group of economists that argue that causality runs in opposite direction. This paper presents a clear evidence that causality runs from wages to prices. The co-integration test proved that some linear combination of the wage and price variable from the Vector Error correction model if the log wages increases by 1%, it is expected that the log of prices would increase by 1.012 percent. From the OLS estimation results productivity does not enter statistically significant in the wage neither in the price equation. So, there is no economic interpretation of the significance of the productivity variable in relation to wages or prices. For the policy matters this may mean that policy maker do not take productivity into account when they set wages and prices. This may cause bias in the sense that wages and prices are not set on their equilibrium levels, i.e. there is a distortion on the markets. As a recommendation to policy makers would be that they may need to incorporate productivity (standard of living) in the legal acts for establishment of minimal wage. This may be accomplished by regulating the internal wage structures, mandated minimum wages etc.

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658.86/.87:637.5(496.5)

IDENTIFICATION OF FACTORS THAT AFFECT THE MEAT FILIÈRE IN ALBANIA[39]

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ABSTRACT

Background: The livestock products sector is considered a priority in Albania, since Albania has quite optimal conditions for livestock breeding. Nevertheless, production and productivity in this sector are quite low. This situation is determined by the fact that livestock production farms have as main objective milk production. Whereas, meat production represents a secondary objective. In this context, the support of the meat production industry and the good management of value chain are two fundamental problems.

The paper is focused on a particular value chain (meat filière). International experiences have often demonstrated that chain analysis can be important tools in efforts towards the enhancement of performance of agricultural, food and fiber systems (Da Silva, et al. 2007).

Purpose: To identify the factors that affects the production and productivity in meat filière in Albania.

Findings: Value chain analysis highlights significant opportunities to improve the production and productivity of actors in meat filière.

JEL classification: Q13

Keywords: *filière*, value chain, production, productivity.

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[39] professional paper

INTRODUCTION

The paper is focused on a particular value chain (meat *filière* [40]). A value chain analysis is a method of studying and analysing how value is added in different activities, normally within an organisational setting, through examining the costs of these activities, and how they are coordinated (Porter, 1985; Azqueta and Sotelsek, 2007). Value chain analysis are commonly used to understand socioeconomic and power relationships in the production chain from the initial starting material to a final (generally high value) product (Booker *et al*. 2012, p. 624).

This paper will make an analysis to identify the factors that affect the production and productivity in meat *filière* in Albania, based on data received from the Ministry of Agriculture, Food and Consumer Protection (MoAFCP). This assessment, among others accomplishes these objectives: (1) to identify factors that affect the efficiency and the competitiveness of the chain; (2) to contribute to the improving of the economic and financial performance of the parties involved in the chain; (3) to contribute towards a permanent dialogue between stakeholders in the chain and public policy makers, in order to remove the obstacles that affect the performance of the chain; (4) to propose a series of recommendations for public and private sector.

The applied methodology and approach included: intensive expert talks with MoAFCP staff; individual meeting with leading representatives of the meat processing industry (including visits of slaughterhouses); representatives of associations, traders and importers; farm visits; focus group meetings in all major geographical areas. In order to make this study transparent the authors are focused on cattle, sheep, goats, pigs and chicken only; other animal origin sectors (horse, goat, buffalo, ostrich etc) have not been included.

THE CONCEPT OF *FILIÈRE*

[40] The French word *filière* has a large number of different English translations, dependent on context. Similar terms are used in anglophone studies that describe all the activities involved in commodity systems (and sub-systems), complexes, chains, and sectors (or sub-sectors). In this article, the terms 'chains' and '*filière*' will be used interchangeably (Raikes, Friis-Jensen & Ponte, 2000, p. 411).

International experiences have often demonstrated that chain analysis can be important tools in efforts towards the enhancement of performance of agricultural, food and fiber systems (Da Silva, *et al*. 2007, p. 10). The value chain describes the full range of activities which are required to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use (Kaplinsky, 2000, p. 121).

The concept of the value chain was adopted recent in French planning literature in the form of the *filière*[41]. *Filière* analysts have borrowed from different theories and methodologies, including systems analysis, industrial organization, institutional economics (old and new), management science, and Marxist economics, as well as various accounting techniques with their roots in neoclassical welfare analysis (Kydd *et al*. 1996, p. 23).

The French *filière* approach was influenced by studies of US agriculture of the 1950s and 1960s. These studies sought to go beyond the analysis of farm-level production in the recognition that increasing shares of value-added were created by processors and distributors (Kydd *et al*. 1996). *Filière* studies dealt initially with local production systems and consumption, while areas such as international trade and processing were largely overlooked until the 1980s (Raikes *et al*. 2000, p. 404).

During 1990s, value chain analysis has became widely used, particularly as a consequence of the writings of Michael Porter (Porter, 1985, 1990) and in an influential book by Womack and Jones (who refer to it as the 'value stream') (Kaplinsky, 2002). Kaplinsky and Morris (2000) state that, although there is no conceptual reason for this, *filière* analysis has generally been applied to domestic value chains, which means that *filière* analysis generally stops at national boundaries.

MEAT PRODUCTION AND PRODUCERS' PROBLEMS IN ALBANIA

Actually, farming is one of the most important branches of agricultural sector in Albania, and under this context its contribution to GDP is very evident. Despite all problematic events that have associated the long transition of Albania, it should be noticed that during this period, farming production has

[41] Literally, the word *filière* means 'thread', and was first used in 1960s in the analysis of agriculture policy in the French colonies and than in late 1970s and early 1980s to describe the perceived need for French industrial capability to span the complete thread of a value (Kydd, Pearse and Stockbridge, 1996, *cited in* Raikes, Friis-Jensen, and Ponte, 2000).

continuously expanded as to the number of animal heads and increase of products. Hence, according to the official statistical data, farming occupies the first place in the overall agriculture production.

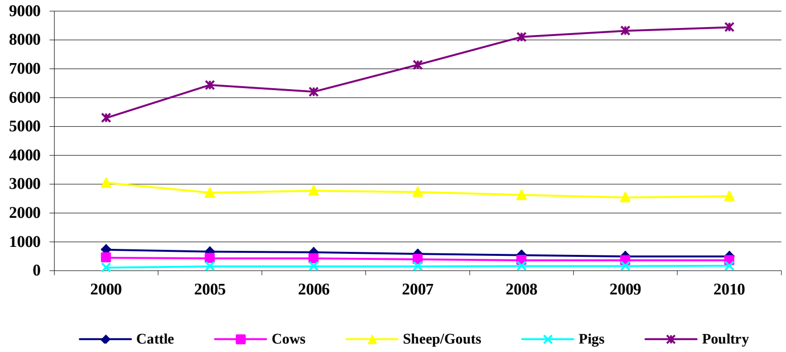
Table No. 1. The estimated production of agriculture in % (with the prices of 2006)

o	ription	)00	)05	)07	)08	)09	)10
	;tock	54	56	57	52	55	52
	plants	36	32	29	32	30	31
	riculture	10	12	14	16	15	17
	AL	00	00	00	00	00	00

Source: MoAFCP, (2010)

LIVESTOCK NUMERIC DEVELOPMENT

Livestock is a priority sector. In fact, it is the sector that has experienced the fastest development during transition. Livestock products are very fragile and sensible in terms of food safety; therefore, policies dealing with management and animal health improvement are necessary. However, the dynamics of number of heads increase for about a decade does not show that livestock is considered as one of prior branches, because there has been a reduction of heads in almost all species of livestock, with the exception of pigs, as is shown in the following graph:



Graph No. 1. Number of livestock (in 1000 head)

It is difficult to explain all factors that have or are still having an impact on this process and here under are highlighted some of them:

- The long transition period of Albanian economy should be considered as an important factor;

- The tendency for husbandry improvement: is it better to have a cow of high yield instead of two cows of low yield;
- Lack of involvement of young people in agricultural operations, particularly in livestock ones.

ORGANIZATION OF LIVESTOCK FARMS

Referring to the data of MoAFCP, (2009) about the issues related to livestock farm organization, we can draw the following conclusions:
- It is worth mentioning the fact that number of livestock farms is somewhat big, about 83% of farms;
- Under this context, we should say that they are not pure livestock farms, but farms that exercise livestock activity and it is worth mentioning that their productivity is very low;
- This situation might seem to be a very paradoxal situation, since the number of specialized farms is very limited.

However, it should be highlighted that during the last years, the number of livestock oriented or pure livestock farms is increased.

MEAT PRODUCTION IN ALBANIA

Statistics show that cattle meat production represents about 1/2 of live weight meat production, approximately 46% of the total quantity. Meanwhile, sheep and goat meat production represents approximately 31%, pig meat production 11% and poultry 12%.

Table No. 3. Meat Production (000 ton)

	ription	**)00**	**)05**	**)06**	**)07**	**)08**	**)09**	**)10**
	Veight	12	33	37	58	41	43	45
	e	53	58	59	33	56	56	58
	o&goat	35	41	44	46	43	44	44
		10	15	15	16	16	16	16
	ry	4	9	10	13	16	17	17

Source: MoAFCP, (2010)

CATTLE HUSBANDRY FARMERS AND MEAT PRODUCTION

As it is shown in this paper, about 76% of farms on national level, are cattle husbandry farms. Most of them are milk oriented while meat production is their secondary objective, with the exception of certain farms oriented towards meat calf husbandry. In addition, it is worth mentioning that meat calf producers are not oriented towards meat processing industry, but towards fresh meat consumption. Official statistical data confirm the fact that within a period of ten years, there has been no increase in cattle meat production. Amongst the various problems related to this issue, we should highlight the fact that relations and interdependency among businesses regarding cattle meat production are inexistent. This conclusion is based on the fact that these businesses in no case have generated supporting businesses. A number of various causes have conditioned this situation, and hereunder we are analyzing some of them:

- Animal race structure; referring to the information collected and used in this study, over 90% are milk producing races, while there are no pure meat producing races;
- Farmers’ family priorities;
- Animal feeding and husbandry systems; the production system using a low level of inputs, or differently called the extensive system of production, is dominant.
- Stimulation of farmers that operate in milk cow husbandry; the stimulation of farmers that operate only in milk cow husbandry has left aside the stimulation of meat production businesses. Making cattle meat production a real objective requires the establishment of proper ratios as to supporting both meat and milk production husbandry farmers
- Calf slaughtering at very low live weight and age; the average live weight of slaughtered calves is about 150-170 kg, a very low indicator. In addition, it should be stressed that slaughtering, in most cases, is privately done and not at slaughtering houses, which makes us believe that weight indicator of slaughtered calf live weight is much smaller.

SHEEP/GOAT FARMS AND MEAT PRODUCTION

As to Albanian tradition, small ruminant husbandry aims mainly at milk production. This fact dictates the following situation, and for the period under study, small ruminant meat production increased by only 23%.

A number of reasons have conditioned this situation and hereunder we’ll take into consideration some of them:

- Slaughtering weight of lambs and kids; average live weight of slaughtered lambs is about 20 kg, and of kids about 18 kg, a very low indicator.
- Clandestine lamb and kid exporting;
- Farmers’ family priorities; sheep and goat husbandry is mainly dedicated to milk production.

PIG FARMS AND MEAT PRODUCTION

Actually, pig farms even though smaller in number, pork meat production increased by 60% during the period under study. On national level there has been a sensible increase of the number of farms with more than 10 pigs. There are about 198 businesses of this nature. However, it should be highlighted that development of this sector is relatively slow. Recently, the demand for meat is increasing and the farmers are becoming more convinced about the economical benefits of pork meat production, and there's an increased interest for pig husbandry.

Pig husbandry is both a profitable and fragile undertaking. The increase of profit on one side and the risk of invested capital on the other side, require being in compliace with market competition. Also, a lot of farmers have failed in this activity due to lack of sufficient knowledge or missuse of husbandry techniques. The following are some of the reasons that have hindered the development of this sector:

- Extensive husbandry on many farms;
- Import of great quantities of frozen, low quality meat at a lower price compared to the local production;
- Failure in meeting market demand;
- Lack of knowledge about low-fat meat production which is best preferred. Hence, 20-30% of carcass weight loss because of fat, affects heavily profit reduction;
- Animal feed high prices and lack of financial resources are the main cause for early slaughtering of under weight pigs.

POULTRY FARMS AND MEAT PRODUCTION

There are 17 different capacity broiler intensive production centers – from 1000 to 5 000 heads: 14 of them have a greater number of broilers, such as: "Driza Ltd", Fier with an annual capacity of about 1 million heads, "Uina Ltd", Librazhd with an annual capacity of 600 thousand heads, "Agrozo Ltd", Lushnje, with an annual capacity of about 800 thousand heads, "Chicken Farm" Kavaje, with an annual capacity of about 1.5 million heads, "Shehu" Korce, with an annual capacity of about 600 thousand heads. Due to the expansion of these centers, broiler production is increased from 4000 tons in 2000 to 17000 tons in 2010. Actually, broiler production represents only 12% of the total meat production, compared to 11% of a year ago. Regardless the very slight increase, this level is considered to be still low.

CONCLUSIONS AND RECOMANDATIONS

DOMESTIC SUPPLY OF CATTLE MEAT

Production of cattle meat is not still a primary objective of cattle husbandry farms, while domestic needs for fresh meat and processing are great. As it is highlighted in the paper, the following are some of the factors that condition such a situation:

- Cattle meat production has not yet become an evident objective.
- Very few businesses are engaged in meat calf husbandry.
- Supporting businesses (calves, feed etc.) are almost inexistent.
- Control on calf slaughtering and their live weight are very weak.

Considering what is mentioned above, the following would be some of the solutions:

- Provide direct financial support;
- Direct investments made by meat industry;
- Using funds to benefit regionalization and specialization;
- Support to organize a credit cooperatives for meat farmers;
- Develop strict regulations for slaughtering houses;
- Supporting and participating policy for cooperation in livestock.

DOMESTIC SUPPLY OF SMALL RUMINANTS (LAMB & KID)

Of all meat sector activities, lamb and kid exporting is an important export activity. It appears to be the most fragmented and poorly organized of all meat activities in Albania. The sector faces many weaknesses and problems.

- Seasonal trade. Traditionally, lamb and kid trade continues to be seasonal. The almost standard period of keeping them on farm brings about their sale at the same period of time.
- Lack of cooperation among players in the chain. The most dominant weakness appears to be the lack of trust and co-operation between the players in the chain. Taking into account this fact related not exclusively to lamb and kid production businesses, but the lack of trust between actors, is a present-day phenomena with very harmful effects on the chain actors. Considering what is mentioned above, the following would be some of the solutions:
- Provide direct financial support;
- Encourage cooperation among farmers;

- Provide assistance for groups of farmers;
- Encourage developments in the processing operations;
- Provide clear guidelines on financial support for production regionalization and specialization;
- Improve veterinary services and controls;
- Encourage cooperation efforts between farmers and other members of the value chain;
- Investment in the slaughterhouses;
- Follow horizontal and vertical integration strategies;

DOMESTIC SUPPLY OF PORK MEAT

Domestic pork meat production is facing a lot of weaknesses. Biggest weak points of domestic pork meat production relate to the fact that piglets, feed etc, are provided by import, which means higher cost, despite of their better standards of production.

Another important point is the ability of pig husbandry sector to produce qualitative final products, which meet the requirements of pork meat processors. The latter, are creating powerful businesses based 100% on imported raw materials which meet international quality and price standards. Therefore, the objective should be that domestic pork meat producers should be able to use the same level of price/quality standards as their foreign competitors.

On ground survey shows that in general, inefficiency of pig husbandry businesses is mainly caused by the problematic related to pig feeding and stable conditions. As it is known, the highest cost in pig husbandry is feed cost which amounts up to 60-65% of total production cost. Therefore, most of actors operating in this area, suggested that improvement of feed and stable conditions, would reduce production cost per pig to at least 5-6%. Considering what is mentioned above, the following would be some of the solutions:

- Provide direct financial support;
- Provide investments from meat industry;
- Supporting and participating policy for cooperation between pig farms;
- Develop a supporting legal system;
- Encourage sows husbandry for piglet production;
- Provide support for food production industry;
- Promotion of pig husbandry businesses;
- Vertical Integration and Horizontal Cooperation;

DOMESTIC SUPPLY OF MEAT BROILERS

Domestic supply of poultry meat is considerably increased during the last years. It is increased four times during the last decade. Broiler business continues to import broiler from Greece and Italy, and this is a weakness of strategic supply. Some enterprises are making efforts to enter this business but without any concrete result. The concretization of such an idea will enable the provision of broiler supply in the country, and it will be beneficial to all actors.
Since there are only two or three main actors in broiler production market, it is important the establishment of broiler producers' association, and their further membership on European level, which will provide better benefits to broiler business. Considering what is mentioned above, the following would be some of the solutions:

- Encourage the development of this business;
- Integration with the poultry industry;
- Consider this kind of business as a primary activity and provide financial support;
- Horizontal cooperation and vertical integration
- Producers' training;
- Encourage integration and clustering in this industry.

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338.24.021.8 (497.7)

THE BUSINESS CLIMATE IN WESTERN BALKAN ECONOMIES: THE CASE OF MACEDONIA[42]

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Abstract

All countries of the Western Balkan aspire to be an integral part of the European Union, among which is Macedonia. In order to fulfill the membership's conditions, the government of Macedonia has made a series of changes in its legislation and institutional system. That is, in last ten years, a variety of measures was implemented so as to improve the country's political, social and economic status. The changes in the economic sector mostly refer to the creation of a free and competitive market, the support of the entrepreneurship, and the development of the private sector with an emphasis on Small and Medium Enterprises (SMEs). A crucial aspect with respect to the size of the SME's sector in Macedonia is the positive business environment. In fact, a friendly business climate and better competitiveness will motivate enterprises to meet the new market challenges, develop and expand their production, create jobs or, ultimately, to survive different situations.

In this paper, the main research goal is related to the analysis of the effectiveness of the policies implemented in order to create an entrepreneurial environment in Macedonia. Therefore, the following research question is posed: whether the main regulatory reforms have made a better investment environment in Macedonia. The data for the research is taken from official web sites and the Doing Business Report. The results obtained show an improvement in regulatory environment. Finally, conclusions and some recommendations for policymakers are made.

Keywords: Macedonia, SME’s, reforms
JEL Classification: L26,O10

[42] professional paper

INTRODUCTION

The main aspiration of Macedonia, as in all Western Balkan countries, is the integration into the European Union. This has influenced Macedonian governments to work permanently on achieving greater development and assessing a convergence of policies towards EU practices. As a result policymakers have tried to make improvements of the institutional system, on the regulatory environment and on the competitiveness of the economy.

The economy in Macedonia mainly relies on SME's sector. The size of this sector, its contribution in Gross Domestic Product (GDP) and in employment, only shows that achieving greater development can be done by supporting businesses, improving the business climate and becoming more attractive to foreign and domestic investors,

The government, aware that creating a positive business environment is of a crucial importance for the country, in recent years was working on establishing an attractive ground for running business. The policymakers implemented various strategies and instruments such as: working on institutional reforms, building social infrastructure, supporting security policies, strengthening the financial sector, promoting privatization and entrepreneurship and encouraging the establishment of small and medium enterprises (SMEs).The aim of this research is to present the reforms undertaken to improve the business climate in Macedonia, focusing on the main factors that affect SMEs. The basic issues refer to the main research questions:

- RQ1: How the reforms of legislation affect the starting business in Macedonia?
- RQ2: How the reforms in taxation system affect the business climate?
- RQ3: How the reforms in the financial system affect the business climate in Republic of Macedonia?
- RQ4: Where further improvements are needed and what will be their potential results?

For the purpose of answering the above questions, I use data collected from *"Doing business"* reports, and by repeatedly measuring the changes in the business environment through the years, note the improvement in their rank, as well as using simulations for providing recommendations for further policies.

KEY REFORMS FOR IMPROVING THE BUSSINES CLIMATE

Macedonia is a transition country and is making progress towards establishing a market economy. Despite the global economic crisis the economy is stable. However, there are structural weaknesses as a result of the inadequate policies and instruments used in the in the last twenty years during the transition process.

The transition process was characterized with huge changes on the political and economic system as well. In the time of the socialist regime, the economy consisted of large public companies. The privatization process was supposed to lead to an open and market oriented economy. Instead of that it led to criminal behavior and most of the big firms went bankrupt. The ones that managed to exist were fragmented into new small and medium enterprises.

Today, small and medium enterprises sector in Macedonia is the most important sector in the economy. Their number is 61.794 or 99,8% of all enterprises in the country. Most of them are micro enterprises (57.775), after them small enterprises (3.361) and the rest (658) are medium enterprises. (SBA Fact sheet Macedonia, 2012).

Given the size of the SME's sector in Macedonia, their contribution in Gross Domestic Product (GDP) and in employment, only shows that creating a positive business environment is of a crucial importance for the country.

The Macedonian pro-European orientation played one of the most important roles in creating such an environment. The crucial point was the European Summit in Thessaloniki in 2003, where the Western Balkan countries endorsed the European Charter for Small Enterprises at the European Union (EC, OECD, ETF, EBRD, 2009).

Later, The Small Business Act for Europe (SBA) replaced the European Charter for Small Enterprises. Both have the main objective to focus on modernizing the business environment and overcoming the obstacles for business such as: complex, time consuming and expensive procedures needed for registration and getting a license, absence of possibilities for funding, restrictive access to foreign loans, poor financial discipline and insolvency of debtors, frequent changes of the legislation, lack of market information, inadequate promotion of goods and services at the foreign markets.

The barriers for the functioning and development of enterprises were noticed by policymakers who have undertaken many projects to remove them. The project included reforms in legislation, institutional system, financial system and taxes.

- Reforms in the legislation - Macedonia had inherited legislation from the previous communist system that was not suitable for building a market oriented economy. In order to reduce the bureaucratic and administrative procedures for enterprises and to promote growth, governments intervened with various reforms, especially in the field of business registration, property registration and permits and licenses obtaining. Macedonia started the legislative rebuilding process through launching of the *Regulatory guillotine program* which supposed reviewing the laws, simplifying them and removing the redundant ones. The renewed legislation made it easier to launch an enterprise and cut the time for registering it, first by implementing *one stop shop* in 2006and then by introducing on-line registration. Today, the Central Register Office can process a company registration application in less than a day, unlike before when the same procedure took a couple of days. Another issue is the recognition of the principle "silence is consent" which decreased the degree of no or delayed response from public administration. Land and real estate property registration was eased too. For instance, the property registration system, cadastre and movable register is fully functional and can be accessed on-line.
- Reforms in the finance sector: The access to finance is one of the basic conditions for a successful business. It depends on the credit information system, the level of transparency, the legal rights of lenders and borrowers, the use of small loans, venture capital and financial instruments (EC. OECD. ETF.EBRD, 2009). The credit system in Macedonia is transparent. There are 18 banks, three of them Komercijalna banka, Stopanska banka and NLB Tutunska banka are larger and provide most of the services for the companies. The Macedonian Bank for Development Support is a state owned bank which has a intermediation role between SMEs and commercial banks in order to ease the process of getting loans. However, procedures for getting most of these credits are lengthy. Leasing agreements are there in Macedonia, but companies use them mostly for purchasing vehicles and less for equipment. The Macedonian stock exchange is operative and transactions are growing, but the equity market is still not developed. Credit information services function properly, the public credit bureau has improved the database and a private bureau was established. Also, guarantee schemes are privately managed. In order to strengthen the rights of borrowers, the law for personal data allows them to check their information at the credit registry OECD. (2010).

- Reforms in the taxation system - To attract investments and to foster small and medium enterprises growth is a strategic goal of policymakers. It can be achieved only with proper taxation policy, taxation rates and taxation base rules. Regarding the taxation system in Macedonia the tax treatment of small and medium enterprises is beneficial in a number of aspects. First there is an attractive package of taxes for investors such as flat corporate income tax and personal income tax of 10%. VAT is 18% and 5%. Second, reinvested profits are fully exempt from taxation. Third, the social security contribution rates are reduced. Moreover, the tax policy has been used by the government as an advantage in order to promote the country as an attractive investment destination. Therefore, the taxes remained unchanged even when all other Western Balkan countries increased them during the recent economic crisis.

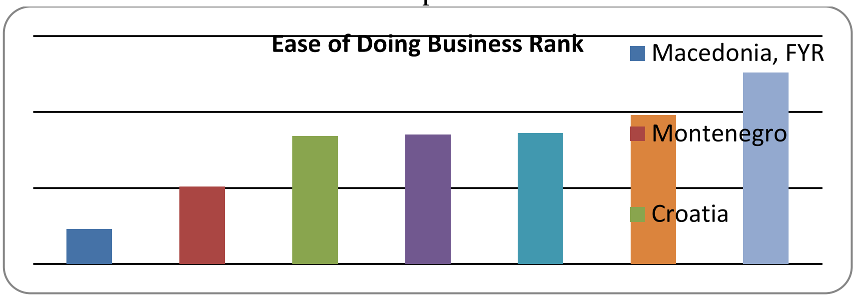
DATA AND ANALYSIS

The data used in the research is a secondary data was taken from the *Doing Business Report*. The report offer quantitative indicators on business regulations. Indicators are used to calculate countries' ranks in 10 areas such as: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts resolving insolvency. In the research were used 3 of the indicators:

- Starting a business- This indicator is measuring the time, cost, minimum capital requirement and all the procedures needed to start and operate a business in a country. The procedures include obtaining licenses and permits. The ranking on the ease of starting a business is the simple average of the percentile rankings on its component indicators.
- Getting credit- This indicator measures the strength of legal rights presented trough the protection of borrowers and lenders expressed with the collateral and bankruptcy laws, then the scope and accessibility of credit information, and the coverage of public and private credit registry.
- Paying taxes - The ranking on the ease of paying taxes is the simple average of the percentile rankings on the following indicators: time needed to prepare documents and pay taxes, the total tax rate and the number of tax payments per year.

The analysis is consisted of two parts. The first part is a comparative analysis of the ease of doing business in Macedonia with other Western Balkan economies. As it can be seen on Graph 1 Macedonia's rank is 23 which is the best rank among all Western Balkans. Montenegro is placed after Macedonia, on the 51 position. Then follow Croatia, Albania, Serbia, Kosovo and Bosnia and Herzegovina.

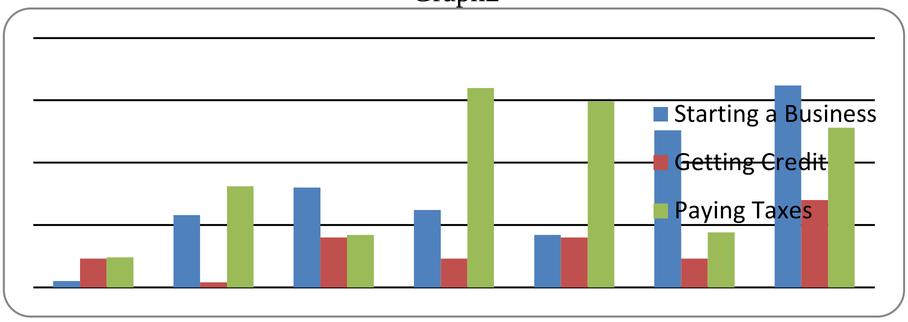
Graph 1.



Data source: Doing Business Report

On the other hand if we don't take into consideration the overall positions of the countries, and look only at the indicators that are subject of this research we may notice that Macedonia has the best rank among Western Balkans in Starting a business and Paying Taxes, but is behind Montenegro in Getting credit. This is visible on Graph 2.

Graph2

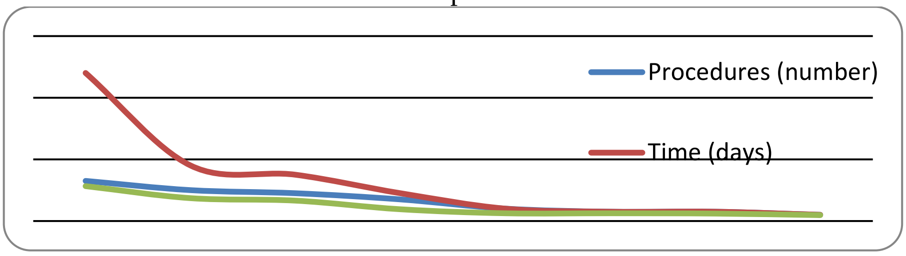


Data source: Doing Business Report

The second part of the analysis is making a comparison of the movement in the rank for each of the three indicators (Starting a business, Getting Credit and Paying Taxes) through the last eight years. Since 2006, till today all the indicators considered in the research show improvement.

The most notably is the progress in the legislative, regulation and institutional support for Starting a business. As it can be noticed on the Graph 3 the components of the indicator have advanced over the years. For instance, the cost, number of procedures and especially time needed for Starting a business has been reduced.

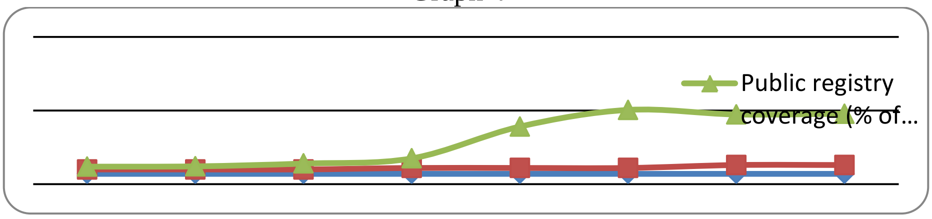
Graph 3



Data source: Doing Business Report

Getting credit is the area which has the least correction and betterment from the indicators discussed. The index that shows the strength of legal rights shows no improvement, the index that shows the depth of the credit information system has slightly increased. The biggest changes in this area have been done in the coverage of the registers coverage.

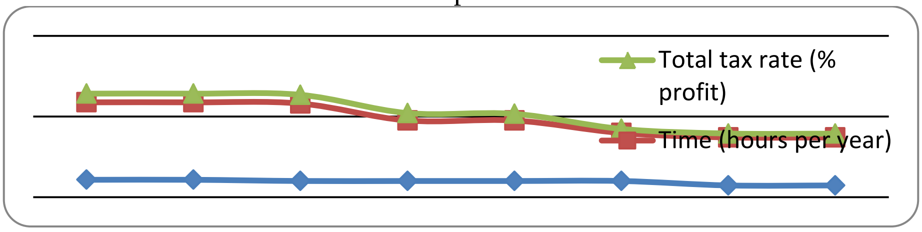
Graph 4



Data source: Doing Business Report

Unlike the availability of credit, paying taxes has been through a lot of changes that affect positive the business climate. For example, the time needed to pay taxes has been shortened, and the tax rate decreased. The number of payments has been stable with slight decrease in the last two years.

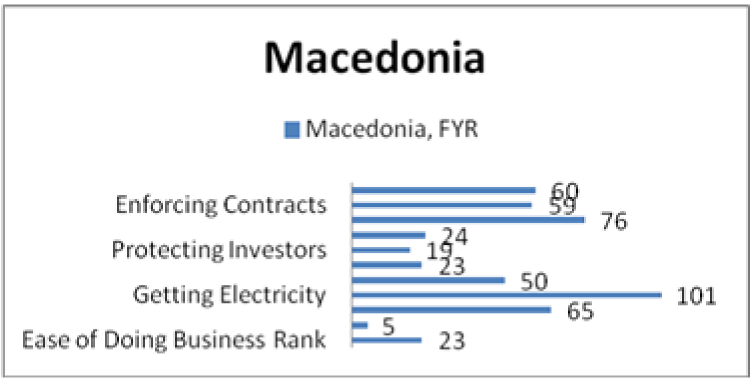
Graph 5



Data source: Doing Business Report

From the graphs can be noted that most of the reforms undertaken had effect over the business climate and have improved it. The last research question is related with the further measures that should offer solution to the problems that remain. Therefore, I illustrate in graph, the rank of each of the components of the Doing Business index. The highest value, showing the most vulnerable point, is getting electricity.

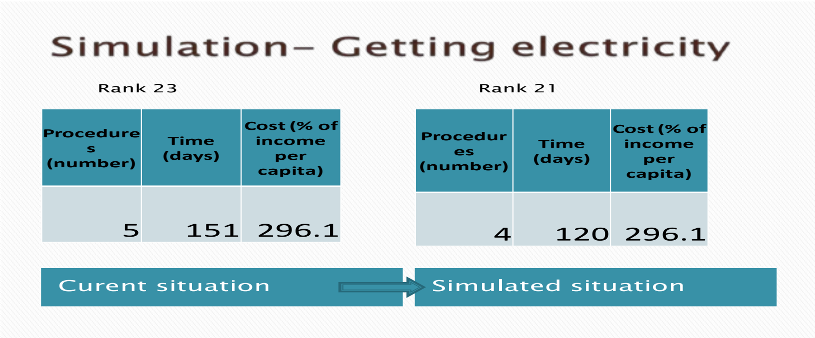
Graph 6



Data source: Doing Business Report

By using the Doing Business simulator I examined the potential implications of the potential policy reforms in the area of getting electricity. This is done by using simulated changes which may improve the rank of the country:

Graph 7



Source: Doing Business Simulator/ authors simulations

If the number of procedures for getting electricity is lowered from 5 at 4 and the time needed from 151 at 120 days, then the overall rank will move from 23-th at 21-st place.

CONCLUSIONS AND RECOMMENDATIONS

This paper has examined the business climate in Macedonia and the suitability of various government measures for its improvement. According to the results from the analysis, Macedonia is good in starting a business, protecting investors, getting credit and paying taxes, but its weak points is getting electricity.

The current circumstances provide a room for further reforms. This has been recognized by the policymakers, who repeatedly have undertaken measures for improving the business climate. Scenarios and simulations used above intend to help policy creators to introduce the right measures, as essential tools for advancing the business climate.

Finally, I would like to stress that there exists possibilities for researchers to further investigate the most appropriate combination of reforms, which will result with enrichment of state economic structure with SMEs, increasing productivity and employment.

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IMPLEMENTATION OF BRAND-PORTFOLIO STRATEGIES AS A CONDITION FOR COMPETITIVE ADVANTAGE (THE CASE OF MACEDONIAN COMPANIES) [43]

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Abstract

The paper elaborate distinctive area of the brand-management that is concerned with designing brand-portfolio strategies for optimizing the companies' brand-portfolio. A special attention is given to Macedonian companies that can achieve their competitiveness in the long-term, only through updating positive experiences and practice in this branch.

The main objective of the research is to analyze the current state of the brand-portfolio strategies, i.e. their contribution in the creation of the companies' maintaining competitive advantage. The paper objectives are mainly concerned with the implications of the effective brand-portfolio strategies on the costumers and the company, along with the role of the brand-strategies in creating value for the customer and profit for the company.

The research was conducted with various research methods for data collection such as the methods of analysis, synthesis, comparison and case study, as well as other methods that are applicable in this branch.

Key words: brand, strategy, synergy, brand-portfolio.
JEL classification: G31, L15.

[43] review scientific paper

INTRODUCTION

Today, all companies produce and market more than one product, but not all of them produce and market brands. The attention in this paper is at companies which produce and market brands. The first question is: What is the difference between generic products and brands? Brands are collection of experiences and associations connected with the service, person or any entity.[44] Brands are products with a unique set of visible and invisible additional values that are perceived and valued by the consumer.[45] Usually, brands are more expensive than the generic products. First issue for the company's managers is to define which of the products are brands and which one are only generic products. Only brands can be part of the brand portfolio. So, what is a brand portfolio? A ***Brand Portfolio*** is a group of all the different brands under a larger umbrella brand owned by a particular business or organization.[46] Therefore, ***Brand Portfolio Strategy***[47] is the result of specifying the roles and relationships of a company's brands to one another to ensure they are clearly positioned and clearly marketed to the company's target audiences. Brand portfolio includes all the brands that are managed by the organization. Each brand of the company has different role and therefore different name. For example: the master brand is the leading brand of the company. Corporate brand is a brand that represents the corporation or even more generally organization and reflects its values, culture, people and strategy. Brand portfolio strategy is crucial for managing with the roles and relationship between all these brands. ***Brand Portfolio*** is a group of all the different brands under a larger umbrella brand owned by a particular business or organization. Brand portfolio allows all brands of the company to be collected together in one whole. So, only the brands of the company can be part of the brand portfolio. The brands in the portfolio have different characteristics and differ from one another. When managers create the brand portfolio of the company, first thing that they must do is to define which products are brands and which are only generic products. This is first

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[44]James R. Gregory; The best of branding; USA; 1999

[45]Kevin Lane Keller; Strategic brand management; USA 2008

[46] J.N. Kapferer; The new strategic brand management; London; 2008

[47] J.N. Kapferer; The new strategic brand management; London; 2008

step for creating brand portfolio, because the fact that only brands can be part of it. Additionally what is disputable is the question - which brands should be added? The main aims of all companies are to create sustainability, growth and competitive advantages. With the growth of the company, there is also growth of its brands and its brand portfolio grows its brands and its brand portfolio. So, the brands that are part of the brand portfolio of the company can be further supplemented with some new brands. The decision for including new brands in the portfolio is based on results that are shown by the given brands. If the number of brands in the brand portfolio is excessive and there isn't sufficiently adequate resources to support all these brands or some of brand fall into a phase of extinction of life cycle stages, than it must be deleted. This situation alarmed that this brand is no longer necessary to be part of the company's brand portfolio and should be removed from it.

DIMENSIONS OF BRAND PORTFOLIO STRATEGY

There are three dimensions[48] of the brand portfolio:

- Scope – which refers to the numbers of brands the firms owned and markets
- Competition – which refers to the extent to which brands within the firm's portfolio compete with one another
- Positioning – which refers to the quality and price perceptions of the company's brands among consumers

Brand scope reflects the extent to which the brand is associated with product and market. The main role of course have a master brands. They must be linked up with other products and have the largest market share, because they are leading brands in the portfolio. One of the objectives of the brand portfolio strategy is to expand these brands by building effective and efficient brand program. But we must be careful, because managers have to line up to where these brands can go. In this context, the relationship that exists between all brands in the portfolio should be determined by the brand portfolio strategy. Managers should clarify every role of each brand. The main aim in this context is to avoid competition between brands. Brands should complement each other rather than compete. Also, it is necessary to determine the impact they have on each other. About the position, as a dimension of the brand portfolio there are two aspects: *Perceived quality* pertains to associations for the brands in the minds of consumers. *Perceived*

[48] David A. Aaker; Building Strong Brands; USA,1995

price pertains to consumer perceptions of the price of the brands. Consumers want more for less always, that means they want to buy more quality products for less money. But, when we talk about brands, we talk about products with high quality, which means we talk about more expensive products then the generic products. So, managers must find some balance between the need of the consumer and company's objective.

PORTFOLIO ROLES

All previous aspects of the brand portfolio review features, roles, scope and the impact of each of the brands in the portfolio, separately. Now, the research will continue with elaboration of some aspects for managing the portfolio of brands, that is considered portfolio as a whole. The role of the portfolio is mostly used to perform optimal resource allocation. Brand portfolio can have different roles. These roles represent the strategy of the brand portfolio. Therefore, we can identify five types of brands[49]: a strategic brand, a branded energizer, a silver bullet brand, a flanker brand and a cash cow brand.

After determining all those issues, managers have to define priority strategy. It means to determine in which of these types of brands they should invest the most. The fact is that every company has limited resources. Managers should make optimal allocation of resources. In the past almost every company attempted to increase the number of brands in the brand portfolio, but now the concentration is reduced because it is easier to manage less. Every company has to take care its corporate strategy to suits with the brand portfolio. Managers must make a connection to the brand portfolio with corporate strategy. These two need to correspond with each other and complement each other; otherwise it may cause a confusing situation for consumers and for the company. The corporate brand has a major impact on the company's reputation, and thus the image of the brand portfolio of the company.

BRAND PORTFOLIO STRATEGY
– THE CASE OF MACEDONIAN COMPANIES -

After analyzing the theoretical aspect for this issue, the elaboration in the paper will continue with analyzing the real situation, in which Macedonian

[49] David A. Aaker; Brand portfolio strategy: Creating Relevance,Diferentation, Energy, Leverage and Clarity, USA 2004

companies are now. Through analysis of available secondary data that are connected with this issue we can conclude that Macedonia is a country with a few real brands. Only, big companies in Macedonia produce and market brands. Also, the research was conducted in 15 Macedonian companies, to obtain relevant information. Companies were selected through few criteria, such as: size, number of employee, number of products or brands that are market, perception of the consumer for the company, received awards for super brands in Macedonia etc. The research was conduct through interview with the marketing and brand managers of the companies. Managers answered questions from a structured questionnaire.

Because the size of the paper is imitated will be present only the the significant results of the survey. The results from the conducted research (secondary and primary date), showed that only few companies in Macedonia produce and market brands. Some of the companies have only one, or they don't have a brand at all. Therefore, there are few company that have designed brand portfolio and implement appropriate brand portfolio strategy. Below are presented the most important results of the research. For ex. Alkaloid Skopje, which is company from the pharmacy industry has three brand portfolios: Brand portfolio for Becutan, Brand portfolio for Caffetin and Brand portfolio for Good nature. Every of those brand portfolios, inside obtains few brands.

Also, I must stress that except these brands, Alkaloid produce and market other products, but they are not still brands, they are only generic products. Because of this fact they can not be part of some brand portfolio. For example: Asso, King Code, Queen Code, Sattwa, Young derm etc. For those products marketing managers have different strategy. Another company that have implement brand portfolio strategy is Vitaminka Prilep. Vitaminka is company from the food industry. Another company which has brand portfolio is Mak progres Vinica. This company produce and market different products, but have only one brand until now. That is brand Vincini. Mak progres produce also line of products Sunny Valley, but those products are not still brands, so we can not talk about brand portfolio in this case.
Other companies from the conducted research produce and market only one or two brands, so in these case we can not talk about brand portfolio or brand portfolio strategy.

Other results from the research are shown below:

1. Do you know the difference between generic product and brand? –

Most of the managers (80% of respondent) know the difference between the generic product and brand. This is positive situation for the managers. Macedonian managers know that they must create their strategies in order to make the generic products, brands.

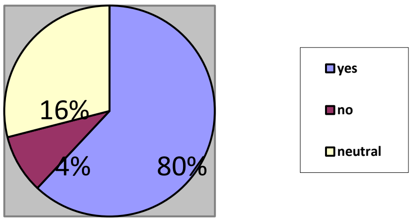

Chart 1.

2. Do you think that your company produce and market brands? – 62% of respondent think that their company produce and market brands. But if we compare this results with the secondary date we will see that the percent of Macedonian companies which produce and market brands are smaller. So from this question we can conclude that Macedonian managers think that their products are brands, but in fact they still are not.

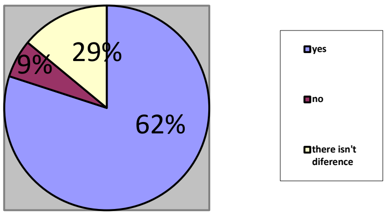

Chart 2.

3. Do you have designed brand portfolio in your company? – Only 36% of the respondent answered that have designed brand portfolio. Other 64% of the respondent still haven't brand portfolio. This results show that most of Macedonian companies have only one or neither one brand, so they can't designed brand portfolio. They, first must work on creating brands and then on designing brand portfolio.

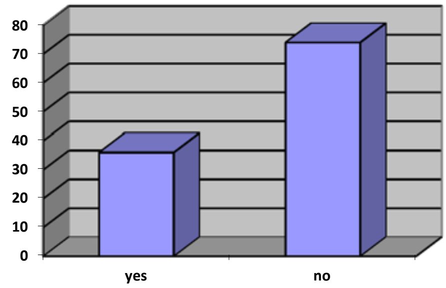

Chart 3.

4. Do you think that your company is able to implement brand portfolio strategies? – We have positive result here, because 56% of the managers think that their company is able to implement brand portfolio strategies. There is a positive business climate in Macedonia and Macedonian managers and companies know about the benefits of brands.

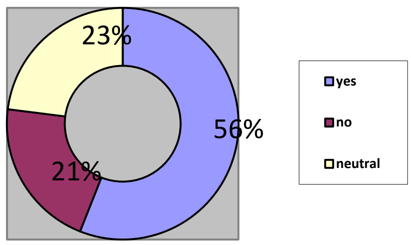

Chart 4.

5. Do you have some strategic approach which can help to build company's products into company's brands? – Here we have again positive responses. Macedonian managers work on creating brands. They know that for that it is necessary to have a strategic approach. Building brands is a process. Companies can't create brand for one day, or even for 5 years.

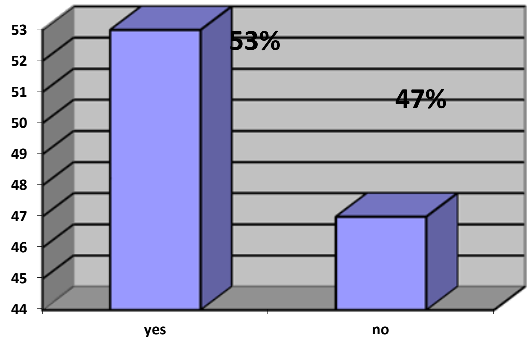

Chart 5

CONCLUSION

From the theoretical review and analyze of the practice experience we can conclude that the implementation of brand-portfolio strategies leads to enhanced efficacy and efficiency of the company, likewise synergy. Almost, every company in the world which produces and market brands integrates brand portfolio strategies as part of the strategy of the company. There are many positive practices in the world about this issue. The situation at the Macedonian companies is different. They must build brands first, because at the moment most of them produce and market only generic products. Further, they must learn form the positive experience of the world famous companies. Efficacy and efficiency of the company can be achieved by implementing brand portfolio strategies. Implementation of the brand-management strategies can help in the creation of the companies' maintaining competitive advantage. We must mention that business environment in Macedonian companies is positive. Most of the managers know about the benefits of creating brands at first and then designing brand portfolio and implementing brand portfolio strategies. There are initiatives to start with a strategic approach to this issue. Positive experience from the world famous companies is the major motivator for our companies. Every company which wants to create a competitive advantage must create brands. The findings from this research again confirm the necessity of implementing brand portfolio strategies and creating brands. This research can be useful for future elaboration for this issue. Macedonian companies must create brands and brand portfolio strategies, because that is one of the conditions for achieving competitive advantage. I have to mention and the brand equity that comes from the brands, which is important for company's profits and capital. Also, the corporate brand that must be in correspondence with the brand portfolio strategies. At this moment Macedonian companies must have strategic approach for this issue and to start to build generic products into brands and build their corporate brand.

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TRIGGERS OF THE SUBPRIME MORTGAGE CRISIS, STILL NOT DEFEATED BY THE WORLD[50]

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The subprime mortgage crisis in the USA cascaded through the world an ambience of helplessness, dependence, inability, collateral damage and "what-went-wrong" notion in almost every citizen and entity in the world, one way or another. The principles of Trust, System, belief in the Guidance and the Rules were shattered, the existing Paradigm regardless of its name and economic theory affiliation became too metaphysical to be carried on in the future. My point are the general triggers of the crisis, compared with the conservative (from this point in time: vigilant) approach in: Banking, Economy, Accounting and Auditing, Government, Monetary Authority and Stock Market Instruments. When we, as "advanced" citizens of the world, are erudite of the "snowballs" and "bubbles", their true nature, benefits and dangers, we will be more prudent in every relation and action we take, on behalf of ourselves, our businesses and institutions, and the states we live in.

Keywords: Subprime mortgage crisis, Triggers, Bubbles

INTRODUCTION

The latest global economic crisis that has been initiated by a financial crisis in the USA in 2007-2008 has posed a challenge to recognize the triggers, to find the causalities and the discrepancies that had been in place and to come to conclusions or at least learn what should not be practiced or should be modified in order not to have more crisis with enormous side-effects, as a complete opposite to the standpoint that the world will be facing more, mild and slow crisis in the future.

The current state of the analyzed recession that has been accompanied by a financial crisis, and is synchronized i.e. global, fulfills the two postulates

[50] review scientific paper

that: “the recessions accompanied by financial crisis are unusually sharp, and the recovery is typically slow, the synchronized i.e. global crisis are long and deep, and the recovery is generally weak.”[1] However, the conclusion that the scientific public, the businessmen, even politicians can draw from the crisis, is that there should be many very well constructed principles and intuition in the actions taken, as well as constant re-examination of every move and action, because there will always be information asynchrony, the capital will always have a tendency for migrating to where it multiplies most, without much consciousness about collateral damage. There will always be time gap between actions and effects, regardless whether they are undertaken by individuals, institutions, states, or international economy.

In this paper, I am performing analysis of the components that were the triggers and foundation of the financial system of subprime loans as well as the mechanism of functioning of the financial process, the participants in the system, the consequences of their actions, as well as comparison and discrepancies between the subprime and the traditional lending mechanism. Also, I am extracting segments from historical timeline in order to expand the timeframe of events and actions of institutions, governments, entities and individuals that led towards a critical environment for such a crisis and collapse. As support of the analysis in this paper there will be correlating relation given with the modern economic theories and paradigm.

The economic crises are inevitable, elaborated by the economic theory and constantly confirmed in reality. However, they are all characterized by universal common features, but also many specifics that have never occurred up to the moment of the crisis nor will be repeated afterwards, especially because of the fact that people, institutions and states do learn and analyze events in order not to repeat the mistakes. For instance, the central banks implement regulations to prevent the disorders coming from familiar risk-factors, the Governments implement programs to influence the resistance of the economy to great shocks, and the companies undertake (as much as possible) different steps to create a sort of a “buffer” that would protect them at least to certain extent, from global and local shakes. The US Subprime crisis of 2007-2008 that is still shaking the world economies, has many specifics, most of which questioning the theory and practice in force, and placing a ground for new paradigm. In this context stands the quotation: “… Law abiding, respected, proud and successful citizens comprised the majority of which suffered greatest financial losses ever recorded in history …”[12] After the *dot-com bubble*, there happened the *housing bubble*, great appreciation of the house prices caused by several factors, in the direction of creation of investment climate, demand for those homes, expansion of loans, and their investment in real estate. That bubble, followed by long lasting Federal Reserve rate in the USA has created the basis for all extra-liquidity of the banks and caused the lenders to turn to a wider and numerous population of loan clients that have bad credit history, or have irregular or no regular incomes, nor equity as a guarantee for credit exposure. Such condition of "welfare" of the economy with liquidity, state support and the policy of "home for any American" supported by the best-seller at that moment "*Rich dad, poor dad*" by Robert T. Kiyosaki[6] as well as many other factors that will be elaborated, have created a false impression that the margins of indebtedness can be expanded that subprime clients can be financed and refinanced with the same principles as prime clients, with the explanation that their bad credit history or inability to service a debt is a momentary condition, not permanent one. This presented maybe one of the biggest traps for the lenders, since all trends in the economy faced upwards. As visible from the statements of the bank representatives in 2005, today's subprime client has monthly income above the national median and long lasting perspective in his job and profession. "His home is with three bedrooms, two bathrooms, typical American home, estimated around the national average. The past loan history problems are the main reason why the subprime client can't be categorized as standard." Complementary to this, the creditors believed that if some crisis occurred, "today's lenders/credit clients of subprime loans are in much better shape in terms of financial power, and if, in any case, the market would be intersected by a turbulence, today's credit clients are in better position to swim out of the bad market conditions"[6] In the summer of 2003, the national pastime is no longer baseball or walk at the beach – it is going to the bank to refinance the mortgage loan"[14] Namely, the credit clients have no motivation to continue the payment of installments for a loan that has been imposed to them by the bonus-driven agents for selling such loans, that they can and should get indebted and that with some, unfamiliar combinations, they can get a possibility to have a home to be paid for all lifetime but that can present a collateral for further indebtedness (including consumer spending or luxury). When there is no such incentive, anyone who would put a thought in this, would realize that defaulting on mortgage loan is always an open option. Why would you repay a loan of 200.000 USD and end up with a house worth 150.000 USD? In that case the client loses 50.000 USD, aside from interest. If one can exit such a credit relation with no further consequences, one might do that. The clients ceased paying the mortgage loans and the steep fall of the house prices had started, since many houses that were collateral for loans, have been foreclosed. When the value of the estate falls lower than the obtained loan plus interest, the credit client has negative equity, and that presents a bad situation both for the client and for the lender. The basic characteristics of the standard clients are good credit history, regular income and possession of equity. On the other hand, traditionally less targeted, more risky and served (if at all) with more expensive loan products, are the subprime types of clients which have one or more of the following: irregular income, bad credit history, no equity, … The major point of discussion has always been: are these loans recognized as high-risk ones appropriately compensated with the higher price or there is no price that can cover those risks, and the banks should not emphasize such a portfolio?

The constellation of components that contributed to the inception, the size and the impact of the financial crisis in the USA and that has cascaded through the globe, can be systematized in 4 categories: Market, Government, Society and Wrong or wrongfully implemented economic theory.[4] These components, in direct or implicit form, have influenced the inception, and the development of the subprime crisis, that has started as financial, and then escalated on a global level in a highly synchronized[1] recession.

HISTORICAL ELEMENTS THAT CONTRIBUTED TO THE LIBERAL ENVIRONMENT IN THE FINANCIAL MARKETS

- The **Fannie Mae (The Federal National Mortgage Association)** establishment in 1938 and **Freddie Mac (Federal Home Loan Mortgage Corporation)** establishment in 1970, both with "implicit" guarantee of the Government that if crisis occurs, the Government will rescue the agencies, recorded as off-balance account. **The support for crediting of all citizens/companies** in 1977 was given with the Community Reinvestment Act that deals with the "redlining" of the clients as historical discrimination of low-income citizens from all areas of the country. "Baloon Payments", the reprograms, refinancing, second, third mortgages and negative amortization have opened the Pandora's box of interpretation and misuse. There is leveling of the state agencies (Freddie и Fannie) with newly opened private ones (Salomon Brothers). The **first subprime mortgage-backed security** has been issued in 1988. In 1990s there is the **first re-packaging of bad portfolio** through complicated financial products, in relatively good ranging products attractive for the investors. The **first subprime bubble** occurs. In 1993, there is a "Guide to equal opportunity lending"[7] issued by the Fed, to bridge the gap between prime and subprime clients, with recommendations such as lowering the thresholds of requested income for a loan, … The first **Credit Default Swap sold to EBRD** (European Bank for Reconstruction and Development) in 1994 by J.P. Morgan & Blythe Masters, which denotes the initiation of the cascade of such investments by European institutions and companies. The **introduction of brokerage commission fee** as incentive for acquisition and selling takes place in 1995, with one immensely significant moment – the separation of responsibilities in the banking cycle, the acquisition from customer care from repayment and follow up. **Special Investment Vehicle (SIV)** also occurs at this point. The **Dot-com bubble** happens in 2001. **The clients are encouraged to invest in second home and real estate.** In a highly unregulated and non-transparent market, up to 2008, there is an explosion of **CDS (Credit Default Swap) transactions.** The Federal Reserve of the USA in 2000-2001 loose up further more the lending environment that fuels subprime investments to **1% (lowest in 45 years) in 2003.** In the period of 2002-2006 Fannie Mae and Freddie Mac have invested enormous and growing amounts in **rated AAA subprime mortgage backed securities** which initiated lender investments into high risk credit clients and the market speculations on the real estate market also were emphasized. **"Blueprint for the American Dream**"[13] supports the goal to increase the minority homeownership share to at least 2,5 million till the end of 2010. In 2005 the **Fed Reserves should play their role of supervision and regulation** on the financial institutions that abandoned the lending standards (employment history, income, down-payment, credit rating, property, leverage, ability to repay, equity, …) which repacked and securitized the subprime loans – one of the biggest triggers of the financial crisis. The 2004 denotes the start of **automatic loan approvals.** The **first warnings for the upcoming crisis and the real estate bubble** have been given by respectful individuals such as Robert Shiller in 2005, then Edward Gremlich, Mike Gelband, Madlin Antoncic, Raghuram Rian. Commerzbank in 2006 stops the investments in subprime securities.

ANALYSIS OF THE TRIGGERS OF THE SUBPRIME CRISIS IN USA

1. **Subprime mortgage loans -** The biggest part of the subprime loans that have proven to be bad placements, had the following features: teaser rate, that is minimal or 0% in the first two-three years, and are the biggest attractor for these loans, which is combined with flexible interest rate afterwards, and presents a check with reality once it comes in force (*Adjustable Rate Mortgage - ARM*). The clients are attracted by the teaser rate as well as by the preliminary calculations on the amount of the installment, usually calculated with low interest rate, not considering the fact that in only two years the installments would be much higher and that their incomes (if any) do not correspond much with such credit exposure. "Another surprising feature is that the monthly installments that have usually

been calculated on interest rate with fixed part (usually 6%) and variable part (usually LIBOR) have been substantially corrected and the clients agreed to that correction even though there have been no changes in the LIBOR."[16] This increase resulted from the "*teaser rate*" that has been used by most of the subprime lenders. It means that the first 2/28 or 3/27 years the installments were minimal, so that the client would agree to enter into the whole process, and then the installments turn irrationally and unbearably high. Another feature of these loans were the so called "*balloon payments*" meaning the bulk of the payment of principal to take place at the end of the period. Sometimes, there has been even negative amortization, and in many cases the first installments were consisted only of interest, which with the balloon payments continued for a long period, which presents the most expensive type of amortization plan, for any client, and especially for people with low and/or irregular incomes. The three most popular mortgage products were: 1) Mortgage loans with fixed interest rate during the whole period, 2) Hybrid loans (more than 50% of the subprime loans) – fixed interest rate in the first years and flexible in the rest and 3) 2/28 or 3/28 – Credit product in which the interest rate is fixed the first two/three years and minimal, followed by a variable interest rate (usually 6% margin + 6-month LIBOR)

The influence of the type of credit product (fixed or hybrid interest rate) to the delinquency rate is significantly high[5]. Namely, the loans with adjustable rate, in the years prior to the crisis, and especially in the years of the crisis go to non-functional much faster, in the first months of the servicing of the loan, the clients fail to repay the installments and give up on servicing the loan. This is most visible in 2007, where in the loans with hybrid interest rate, 8% turn to default already in the 8th month of the servicing of the loan, which does not happen even in the 22nd month with the fixed interest rate mortgage loans, even in the worst year 2007. In a situation in which in 2005-2006 more than 21% of the active mortgage loans are subprime (which is double than the participation of the subprime loans in the past years). This percentage of loans in default is too high and forms an epicenter of the huge turbulences that will be caused by the subprime crisis worldwide.

2. **Credit Score system** - The Credit scores have been used for assessment of the potential client and should have contained the entire credit history of a client, in order to be able to calculate the risk, price and other aspects of the loan properly, by the lenders. However, there have been gaps in the content and uncovered areas such as when clients refinanced their debts. The score was named FICO score (Fair, Isaac & Co.)

3. **Score card lending technology** - The lending technology used to enable and propel the interesting subprime disbursements has been shifted on the other end of the regular credit risk analysis, and went deeper into lenient and adjustable to the outcome – approving loan for any client. For example, in order to simplify the procedure and get faster approval and disbursement of the loans, the score card lending technology acted in a way that there has been a client profile with substantial but equally graded trivial questions such as: are you an alcoholic or convicted criminal, that undoubtedly would have been answered or stated with negation.

4. **Loan Documentation** - The clients during the lending process submitted a folder to their mortgage brokers with statement about their income, assets, other debt and collateral value. These were later familiar under the name "*low doc*" or "*no doc*" loans, because they almost did not contain relevant data regarding the loan, or appropriate validation with documentation or on the field. "All the rage during the peak of the housing boom, these mortgages went by names like "no-doc" (meaning no documentation of income required), "low-doc" or "stated-income" mortgages. In all cases, banks set aside their underwriting standards based on what borrowers could prove they were earning with pay stubs, tax returns and the like."[17] This approach complemented with the real estate estimators, which valued the collateral adjusted to the need of approving the loan, not independently. They have been motivated with bonuses too. In some reports, such loans reached up to 35% of the total loan substandard portfolio.

5. **The American Dream pursuit -** Additional layer of triggers that fueled the subprime crisis was the emphasis placed on the wish and institutional support for immigrants, poor citizens, different race and color citizens to have their home, financial stability and educational infrastructure. Even though there has been no significant change in their incomes, educational background, employment or equity, the idea of owning home, credit cards and material assets was challenging in the least.

6. **Leverage -** In terms of leverage, and in combination with the specific functioning of the economy, the companies chose aggressive growth with investments in risky placements instead of the usual moderate (but relatively sustainable) growth that would have been traditionally selected. And so it happened that this unsustainable growth, at a certain moment in time, resulted with expectations of the rescuer of last resort – the Government. The subprime investments were with high risk and generated high yields. "Now, there are too many boats in the harbor, you can't sail slow without disturbing the neighboring ones. In the middle of the ocean, this would not be

important, but in a crowded harbor, a quick exit would be impossible without making a lot of waves."[18] The *Combined Loan-To-Value ratio* (CLTV) was getting higher and higher, meaning that there have been loans approved to leverage the clients in a much higher portion compared to the traditional practice. At the same time, with the lack of unified and complete national system for evidencing mortgages (first, second, …) the clients are left to their consciousness and judgment to get more and more indebted, even immediately after being granted the initial loan, which increases the CLTV ratio even more.

7. **Rating Agencies -** These Agencies have the obligation to anticipate the most pessimistic scenarios and to rate the products and other categories appropriately. But, since they are in most of the cases financed by the institutions for whom they are performing rating, which clearly presents conflict of interest, their independent rating is questionable and we can discuss about systemic error in this sense. In 2007 the Rating Agencies did not correct any of their grades until big banks started falling down. In my opinion, this was the key element that or a flaw in a extensively liberal economic system that initiated the catastrophe – the badly played role of the rating institutions such as: Moody's, Standard & Poor's and Fitch. They rated AAA (which is a very high rate) the Pools with subprime loans, which led the investors to believe they are safe investment. Even state entities, associations and worldwide investors with special investment rules and procedures had no problem investing in such securities because they were mislead by the high ratings. At the beginning, probably very few investors asked themselves, how can it be that something that brings high yields can be so safe? On long run, that never happened, because the risk and returns are always in same line – the higher the return – higher the risk and vice versa.

8. **"Toxic" securities -** Even though the investors were aware that the products were mortgaged with subprime mortgages, that there is not enough historical data for this new expanding market, and that such credit placements have been disbursed by brokers whose sole motivation were the bonuses, and not quality credit risk process and client retention during and after repayment of the loan, still, all of them chose to receive relatively high yields and invest in so called "toxic" securities. All of them lost during the process, including the ones working on their own behalf, and those who managed other people's funds[12]. As Cordray, the Director of the United States Consumer Financial Protection Bureau stated: "It's important not to forget where we came from," says Richard Cordray, director of the consumer watchdog agency that issued the new rules. "We have a financial

crisis and a lot of pain and misery in this country that was caused by reckless lending and toxic products that should never have been offered and that this rule will see are never offered again." Cordray says these products are now things of the past.

9. **House Price Appreciation -** The House Price Appreciation started in spring of 2006 and with its constantly upward trend, created the impression that the house prices will remain on a high level (or at least that the house prices will not collapse) or that the non-functional subprime loans will not have such a close sensitivity to a price depreciation. The prediction of the *housing bubble* was quite possible. One of the informative ratios was the *price-earnings ratio for equity* which shows that in 2006 the price of the houses was 14,5 times the annual rent. The normal range of this ratio is 9 to 11 times. In addition to this, after the opening of the “Pandora’s box”, with the collapse of the housing bubble[3], and complemented with the awareness that in the process of securitization of subprime loans the yield is high but the risk too, and the quality is very poor. This triggers the avalanche of banks who are selling foreclosed property, which increases the supply to a level that there are no buyers, people lose their homes, while whole neighborhoods stand empty with foreclosed property for sale. In parallel to this, due to the easily available loans, the blurry obligations of the borrowers and their relative relaxation when entering these undertakings, following the dream for their own home, the number of home-”owners” increases dramatically[11]. The data mentioned previously show obvious development of house price bubble and its (in combination with other factors) effect on the overall economy and citizenship in the USA in the period up to 2008. In 2009 only “there were 342,038 foreclosure filings on US properties in April 2009, a 32% increase compared with foreclosures in April 2008. 6 million jobs have been lost since the recession began. Unemployment reached 9.4% in May 2009 – that is 14.5 million unemployed Americans, among which 27% have been unable to find a job even after 27 weeks of searching.“ [20].

10. **Information Asymmetry -** The information asymmetry is one more crucial component that triggered the subprime crisis. It is existing category, but in this case it is being enhanced multiple times. “ Information about the market must be freely and equally available to all actual and potential market participants. That is, everything one needs to know about prices, quantities, and qualities of goods and services for sale must be public, or readily accessible, knowledge. ”[9]. In the case of the subprime crisis, the market participants were not just uninformed completely about the depth and the quality of the securities, the details of the banking contracts and many other

aspects, but were also mislead by the rating agencies, that those securities are a top-quality product.

11. **The money supply -** The Federal Reserve as a central authority in the US monetary system have the role of supporting economic growth rate that is not too fast, nor too slow. The Central banks don't know the exact speed of the economy. At the same time, neither the breaks nor the acceleration undertaken by the Central bank are effective immediately, but with a certain postponed reaction, within weeks, months or even years. "The Fed must fuel the economy in such an extent to create employments and prosperity, but not too much, to overheat it. ". William McChesney Martin, Jr. President of the Federal Reserve in 1950-1960, stated at one occasion that the task of the Fed is to take away the punch bowl when the party gets going."[8] In the case of the subprime mortgage crisis in the USA, the Fed left big quantities of money at easy disposal of the banks and lending institutions, with the instruments of interest rate, open market operations and minimum reserve.

12. **Bonus driven brokers and bankers -** The Brokers in this story of the subprime credit cycle have special spot, motivated by fees and profits, and bonus driven. Especially with regard to short-term maximization, they seem to have separated completely from the real essence of the products they are selling (actually intermediating) and with rare controls and check points from the state and the Federal monetary authorities. They managed to function in this unacceptable way long enough to cause extensive damages to the real quality of the credit products or securities they were selling. For the fruitfulness and the challenge of the brokerage business, the numbers witness steep growth in the period prior to the crisis in the USA - 53,000 (compared to 7,000 20 years ago)[2].

13. **The Process of subprime finance vs. the Traditional (conservative) finance -** Starting from 2001, the opening of the door in the US banking system towards to insufficiently covered nor explored target group of subprime clients (no regular income, no equity, very high leverage, little or no loan experience and/or bad credit history), until it has caused growth in the participation of subprime credit placements from not so significant 7,8% in 2001 to 20,1% in 2006[15] which according to the experienced analysts' common sense meant steep, non-sustainable, and not stable expansion of a delicate loan portfolio. Additionally, aside from the initial credit placements with high risk by definition (one of the reasons for charging high interest rates), the same subprime clients, supported by the aggressive broker-motivated-by-bonuses offers got indebted with second, third mortgages, on top of the first one, they were hardly eligible for to start

with. The reasoning was that the banks have collateral some kind of financial analysis and that should work. What has not been taken into account, and has proven to be of imperative importance that should have represented logical assumption for financial placement – the separation of the responsibility for acquisition of credit clients and their future servicing and follow-up until completion of the obligation and renewal of the cooperation with a new financial service. The acquisition has been delegated in the hands of external brokers that should have collected (and promoted) the credit products, and who were motivated by bonuses and fees, with no responsibility for the conclusion of the lending process, proper servicing of the loan by the client, or taking care of non-functional loans, foreclosures, … Additionally to this, the completion of the documentation of the client, out of which conclusions about drawn about his/her incomes, validity of the stated figures, property and other aspects. This step has been perceived (wrongfully) as formal especially by the brokers, and from the side of the commercial banks, which resulted with more and more documentation, statements and validity to be omitted or even "modeled" and "adjusted" for the purpose of successful disbursement of the loan (hence the expression "low doc" or "no doc"[12]. The independent real estate estimators compromised their dependency for the same purpose – disbursement of the loan that brought them bonuses and fees. The commercial banks, should really care about the quality of the risk assessment and collateral estimation, they are the ones to contact the client, take care of the amortization plan, adapt according to client income and ability to pay fluctuations, make cross-selling and close the relationship with new product in the future. If any of these steps is not done properly, the banks would have to make reservations with the central monetary authorities for portfolio in arrears, which takes free funds away from them, hence, big bad loan portfolio is not good in any case. In this occasion, the question: Is any (not just higher) price for subprime loans sufficient compensation for the possible future problems with the maintenance of that portfolio. Closing the eyes before incomplete or modified documentation, bad risk assessment, no equity, all because there is a mortgage collateral, has proven to be the biggest mistake the commercial banks made on their part. Because, that collateral and flawed risk analysis was the basis for other consumer loans, credit cards and products sold to prime clients when with good risk assessment and collateral, neglecting the difference – the fundamental subprime/prime client difference. Since this market was so attractive, the banks tried to sell as much as possible – with teaser interest rates, ARM - Adjustable Rate Mortgage, "balloon payments". This resulted with reprograms, restructurings, non-functional loans because the subprime clients defaulted much faster than prime clients.

On the other side, the traditional conservative approach to finance, requires unique responsibility of the lender to maintain the portfolio from the acquisition till the end and up-selling. The bank is interested in knowing the client and making close contact, cooperation, adjustments, cross-selling, good credit risk analysis, the measure of foreclosure is much less frequently used, the bank has high expenses for non-functional loans, and overall, the bank internally tries to improve the processes, but the responsibility and consequences are all in the same place within the institution. This successful approach through history has proven to be standing still, because the market is a given parameter, and the short term maximization of profit can be sustainable only on short term. “We are in the business of lending money to people who will pay us back,” explains Mr Sherringham. The concept of subprime is lending to those people that, by definition, have a lousy credit history and cannot pay you back. The fact the larger banks rushed in and lent hundreds of billions of dollars to a class of borrowers they knew upfront could not pay it back remains a great shame on [those banks].”[23]

CONCLUSION AND RECOMMENDATIONS

The close history shows that the global crisis brought down two wrong beliefs - “that US house prices would not fall and that packaging loans into securities would make them less risky”[10] and through that, the global banking sector suffered losses of more than 1,000 billion dollars, according to IMF, only in 2009. The conclusions to be drawn can be structured in several directions:

1) “Big picture” overview is not just a prerequisite, but a “must” in any state and even globally. The mechanisms, the measures and the reporting should be subtle and well formulated, but in some essential areas, should be even strict and on high level of coordination and control; 2) Support of the conservative approach in the banking sector and the role of the Monetary Authorities as facilitator, controller and conductor of many aspects of the financial and economic climate in any country; 3) Minimal reserve requirements on appropriate level, as a safety buffer in order to protect the country, the population and the businesses in general; 4) Creation and integration of overall systems for recording of credit history, indebtedness, payment capacity and other registers for financial activities of citizens and legal entities; 5) Definition of procedures and ratios for allowed leverage, equity, mortgages and other important elements in a lending process; 6) Stressing the possession of equity for the borrowers; 7) Stressing the financial discipline of the borrowers, measures to enhance and support it, collaboration bank-client in order to fulfill the repayment; 8) Capital

requirements and Capital Adequacy Ratios; 9) Clarification of derivatives and securities; 10) Revision of bonuses and remuneration for bank's executive management; 11) Closer supervision of the financial industry; 12) Bigger transparency; 13) Breaking-apart of the Too-Big-To-Fail Banks

In other words, the point is to attempt and increase the awareness of all participants in an economy, i.e. all the stakeholders that the measures and steps taken by any authority have delayed and complex effects, sometimes adding up or annulling one another, and on top of everything, each economy is not immune to the international environment, and sensitive to those shakes in any given direction. The financial crisis that initiated the highly-synchronized recession in 2007-2008 had all the elements in an economy to develop in a devastating direction – the motivation of the market participants, the psychology, the banking regulations, the tendencies for innovative financial products, the state support for homeownership, the state support for expansion to subprime clients, the separation of responsibilities in the financing cycle and the maximization of profits with very few control points, institutions or processes.

The other question imposed in this research is whether there should be regulation of the financial sector with some sort of intervention or the intervention should be to the market participants in direction of moral renaissance, Corporate governance/self-regulation, better financial mathematics, demanding lending criteria (including propositions for refinancing and reprogramming, indebtedness, loan-to-equity ratio, ..)

The third question opened at this point, are the pillars of the existing paradigm of economic theory: "While the theoretical ideas can help us understand the historical events, the same goes that the outcome of the historical events initiates the theoreticians and overturns theories, leading to evolution of new theories."[22] The new paradigm of today will certainly not prevail to any extreme theory for liberation or strict regulation, because the complexity and the internationalization of processes and entities requires special overview of global functioning of economies that still have internal functioning, which poses a unique and hard to solve challenge to the economic theory for the next century, or more.

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THE IMPACT OF INNOVATION IN SMES PERFORMANCE[51]

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Abstract

This paper explores the impact of innovation in the performance of Small and Medium Enterprises to be competitive in this dynamic world. A thorough research of secondary data has been undertaken for the SMEs in Kosovo. The main contributor is the Business Support Centre Kosovo, who developed a survey for 500 SMEs in Kosovo carried out in December 2011 with the aim to analyze the profile of entrepreneurship and SMEs. The results show that SMEs are focused in the improvement of the existing products. Only 19.6% of SMEs in 2010 conducted entrepreneurial activities during the past three years, while in 2011, it increased to 22.1%. During the past three years, 15.9% of new products and services were introduced in SMEs in 2010, while in 2011 it decreased to 8.5%. This study provides findings valid for SMEs in Kosovo, and should not be generalized to SMEs in the region or beyond.

Keywords - SMEs, innovation, business performance, economic growth

INTRODUCTION

In this modern world, there is a need for rapid change, which is affecting all organizations and managers. Organizations are trying to be more decentralized by strategically differentiating themselves in order to survive in the market and achieve growth. More specifically, many Small and Medium Enterprises (SMEs) are embracing innovation development in order to improve their position.

[51] original scientific paper

SMEs play a significant role in any country, which contribute to economic growth, employment and reduction of poverty (Ayyagari *et al.*, 2007). These are some reasons why SMEs are considered as engine of growth, especially in the developing countries. One of the reasons includes the promotion of entrepreneurship and innovation activities which enhance competition and productivity growth. SMEs are more productive because they are more flexible and can adapt to the changes in the market. Furthermore, they contribute mostly to employment growth, even though both, the rate of establishment and bankruptcy of SMEs are high (Tambunan, 2007). Innovation activities are about introducing new ways for products, services, production, marketing and administration, which are difficult to imitate (Konsti-Laakso *et al.*, 2012).

Despite the growing awareness of the need of innovation activities within SMEs, few studies have examined its effectiveness to strengthen their financial position and achieve growth. To fill this gap, this research study aims to explore and understand the impact of innovation activities in SMEs growth. In this context, the researcher will contribute to the importance of SMEs growth, and its relation to promoting and deploying entrepreneurial and innovation activities. The results show the empirical data from 500 SMEs through a survey developed and conducted by the Business Support Center Kosovo (BSCK) in 2011. The relevance of this research is related to the growing importance of SMEs in the past few years.

LITERATURE REVIEW

Growth is associated with the firm survival and achievement of organizational goals. It is measured in terms of employment, revenue, market share and product development (Pasanen, 2007). Organizational growth has gained interest among different academics mainly because it contributes to economy through new job creation. Growth is considered an indicator of organizational performance and it is associated with the achievement of financial goals. The turnover of the firm is the most frequent measure of growth, which addresses taxation concerns, whereas the number of employees is another measure of growth, which addresses the job concerns. There is interconnection between these two growth indicators within the context of SMEs, and they are used due to their visibility and simplicity to obtain within organizations (Fadahunsi, 2012). There are many

definitions of SMEs from different authors; however, the common criteria include the number of employees, sales and investment level. Most sources categorize SMEs based on the number of employees, which comprise of those that have no more than 250 employees (Ayyagari *et al.*, 2007).
According to Storey (1994), the main influences of growth rate in SMEs are the background and access to resources of the entrepreneur(s), the firm itself, and the strategic decisions taken by the firm once it is trading (Pasanen, 2007).

The first influential factor is entrepreneurs' characteristics, which has to do with the attributes of the person who establishes the firm and the key resources provided for firm creation. Personal characteristics of the business owners may contribute to the growth of the firm, such as motivation, education, ownership/management experience, number of founders, ethnicity/race, age and gender. For example, motivation can influence on the strategic choices made by the business owners. Educated and experienced business owners usually establish a firm in the discipline they have been educated and are likely to observe better growth-related opportunities. Also, when there is more than one business owner, it leads to a diversity of experience, skills and resources which complement each other (Fadahunsi, 2012).

The second influential factor to growth in SMEs is firms' characteristics, which is related to the decisions made when starting a business. Some of the factors include age, sector, location, size and ownership form. For instance, the finding that younger small firms grow faster than old ones is not conclusive due to the fact that in a population analysis of US firms, there was a similar proportion of an increase in employment rate when comparing new and established firms. Firms operating in one sector may grow faster than in other sectors. There are benefits and restrictions for businesses located in urban and rural areas (Fadahunsi, 2012).

The third influential factor that contributed to firm growth is business management practices/strategies, which is linked to the managerial actions within organization. Key factors involve workforce training, management training, marketing strategy, internationalization, technical resources, planning, external advice and support, as well as financial resources. Analysis should be done to compare how much training the firm can afford to provide to its employees in relation to the firms' propensity to grow. SMEs also make choices to internationalize their operations through exporting, despite the constraints they encounter. To overcome obstacles of size and lack of experience, the possession of technical resources is a valuable tool to achieve the growth objectives of a firm. Formal planning in SMEs can increase propensity of growth behavior (Fadahunsi, 2012).

In the literature, different authors have defined entrepreneurship in various ways, but all of them have similar meaning. According to Kirzner (1973), elaborated by Hashi and Krasniqi (2010), an entrepreneur is the person who creates a business, while Schumpeter's (1934) elaborated by Hashi and Krasniqi (2010) defined entrepreneur as a person who initiates innovation, new products, new processes, and identifies new market. Entrepreneurship is described in terms of innovation, creativity, flexibility, risk-taking and growth.

According to Hashi and Krasniqi (2010), Schumpeter (1934) in the seminal work of entrepreneurship defined five types of innovation, such as making organizational changes by bringing new products, or changes in the existing one; using new methods to decrease costs; developing organizational innovations; recognizing a role for market; and increasing productivity. North and Smallbone (2000) highlight that innovation means new developments that are done within an industry, or new changes within a firm, regardless whether they exist within other firms of the same industry. Porter (1990, p. 45) defined innovation as an attempt "to create competitive advantage by perceiving or discovering new and better ways of competing in an industry, and bringing them to market" (North & Smallbone, 2000).

There was a belief that the main source of innovation is large enterprises during the early post-war period. According to Schumpeter (1942) and Galbraith (1956), the increase of organizational size leads to higher innovation capabilities. Nevertheless, since 1980, many studies have shown that SMEs are the main contributors in innovation activities (Kalantaridis & Pheby, 1999). Previous studies did not analyze the degree of innovation performed within a product. As long as a new product was introduced, it was considered an innovation. Nevertheless, the latest research differentiates product innovation by adopting incremental or radical changes (Salavou & Lioukas, 2003).

Many studies have concluded that internal characteristics are crucial on achieving high organizational performance through innovation. It depends whether the organization develops a radical or incremental innovation, for which different strategies and structures are needed. According to Pullen *et al.,* (2009), the internal characteristics, which involve strategy, process and organization, play a significant role to make decision on the development of innovation types. Traditional strategy is focused more on incremental innovation through improvement or enhancement of existing products and services, while technology strategy promotes radical innovation by focusing on emerging trends. Another internal characteristic of SMEs include process made up of formalization and marketing-R&D integration. A formal process is needed when developing incremental innovation, while less formalized process is used for radical product development. The third internal characteristic is organization, which comprises of climate, culture and team structure. The organizational climate is linked to organizational policies, practices and procedures, as well as to the employees' attitudes, such as trust, conflict, rewards equity and resistance to change. Organizational culture has to do with the beliefs and values embedded in the organization, by inheriting innovation within employees. Also, team structure means the cross-functional product development teams, composed of individuals with various skills and capabilities. It can be concluded that incremental innovation requires an entrepreneurial climate, hierarchical culture, and a lightweight team structure, while radical innovation is achieved when there is entrepreneurial climate with adhocracy culture and autonomous team structure (Pullen *et al.*, 2009). Furthermore, the firms can either generate or adopt innovations based on the internal capabilities and strategic orientation (Mahemba & Bruijn, 2003).

RESEARCH METHODOLOGY

This study uses empirical data gathered from 500 Small and Medium Enterprises through a Survey conducted by the Business Support Centre Kosovo (BSCK) in December 2011, which provides information on the entrepreneurship and SMEs in Kosovo. This research was supported by the Netherland's Ministry of Foreign Affairs through SPARK (BSCK, 2012).

Various experts have contributed to design the survey questionnaire and sample selection. BSCK, through college students, conducted face to face interviews mainly with owner/managers or in some cases with financial managers. Furthermore, the sample of SMEs was selected randomly from the business register of Ministry of Trade and Industry by Agency for Business Registration through Excel and SPSS. The sample includes SMEs within all the regions of Kosovo, stratified to the three main sectors, such as trade, production and services (BSCK, 2012).

FINDINGS AND DISCUSSION

The findings from empirical data gathered from BSCK SME Survey in 2011 are covered in this section including a background of SMEs in Kosovo. As BSCK conducted a similar survey in 2010, the data gathered for that year are also included in the research report for comparison purposes.
The Republic of Kosovo is one of the smallest countries in Europe with a population of about 2 million, and GDP per capita of €1,760 (World Bank, 2012). The fast-growing firms play significant role in the economy of Kosovo; still, there is a lack of innovation development (Ahmeti *et al.*, 2012). GDP can be used to measure the contribution of SMEs to the economy, and shows that micro and small enterprises have the highest contribution. SMEs account for 56.81% of GDP with a total turnover of €2,222,485,094.15, as shown in Table 1 (Government of Republic of Kosovo, 2011).

Table 1 Contribution of enterprise in GDP

Size enterprise	Number of enterprise	Currency (€)	GDP(%)
Micro	14,968	656,885,164.33	16.79
Small	1,210	667,585,914.82	17.07
Medium	185	369,455,655.16	9.44
Large	58	528,558,359.84	13.51
Total	**16,421**	**2,222,485,094.15**	**56.81**

Source: Government of Republic of Kosovo, 2011

BSCK (2012) points out that the existence of the entrepreneurship and SMEs in Kosovo can be found before the World War II. SMEs were mostly comprised with family businesses, specialized in agriculture, cattle-raising and handicrafts. Kosovo encountered challenges during 1990s when Serbian military and police forces occupied the country, which caused unemployment of 150,000 from social and state sectors. Therefore, entrepreneurship activity started to emerge due to loss of jobs. Moreover, the war in 1999 caused many damages and problems, which enforced citizens to start everything from the beginning (BSCK, 2012). This shows that countries in transition economies developed SMEs mainly because of necessity for employment opportunity, rather than catching an opportunity.

Nevertheless, in the recent years, there is an improvement. Table 2 shows that based on the SME survey in 2010 by BSCK, about 29.9% of entrepreneurs started a business because they spotted a business opportunity, while in 2011 the main motive is the need to work independently from the boss with 42.9% (BSCK, 2012).

Table 2 Reasons for starting up business

Start – up motivations	% (2010)	% (2011)
I spotted a business opportunity and decided to act upon it and establish my own company	29.9	12.5
I have been unemployed and had to do something to earn a living	26.6	11.5
I always wanted my dream of having my own company to come true	20.7	8.9
To work independently from my boss	12.3	42.9
Dispute with my previous employer - partner	1.4	1.1
I inherited from my family	7.6	10.0
Other	1.6	0.4

Source: BSCK Survey 2010 and 2011

Table 3 shows the results show that 56% of entrepreneurs have extensive experience when starting a business in 2011 which is higher than in 2010.

Table 3 Experience of SME owners in business prior to start-up

Did you have any experience in the field where you started your own company?	% (2010)	% (2011)
I had extensive experience	42.8	56.0
I had limited experience	30.0	23.7
I did not have experience	27.2	20.3
Total	100	100

Source: BSCK Survey 2010 and 2011

Table 4 shows that there is lower business performance of SMEs. 47% of the respondents claimed a decrease on sale in 2011, while in 2010 there was a sale decrease of 49%. On the other hand, the profit decrease is 48% in 2011, with a similar decrease in 2010. The reason is related to the unfavorable business environment, such as low purchasing power, decrease on demand, corruption and others. Nevertheless, there is an enlargement of the overall SME sector with a turnover rate of about 43%.

Table 4 SME performance

Compared to past 12 months your sales/profit has:	Sales		Profit	
	% (2010)	% (2011)	% (2010)	% (2011)
Decreased	49.2	47.37	46.0	47.88
No change	23.1	22.11	22.6	21.82
Increased	27.7	30.53	31.4	30.29
Total	100.0	100.0	100.0	100.0

Source: BSCK Survey 2010 and 2011

According to Smith (2006), elaborated by BSCK (2012), there are two innovation aspects, such as newness to market and newness to company, which are shown in Figure 1.

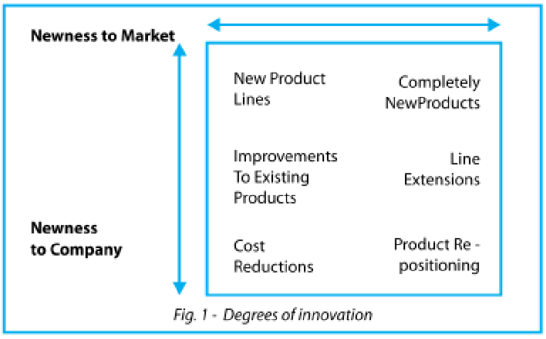

Figure 1 Innovation Matrix
Source: Smith (2006), cited in BSCK (2012)

The results show that based on the degree of innovation development, SMEs in Kosovo are focused mainly in the improvement of the existing products, or incremental innovation. Also, the number of innovation is low, associated with poor quality. In 2011, the findings show that the number of innovations new to the market were 36.3%, while 56.7% of innovations were new to the firm. Similar results were achieved in 2010. Beside this, only 19.6% of SMEs in 2010 conducted some entrepreneurial activities during the past three years, such as creation or modification of the current products, services and processes, while in 2011, it increased to 22.1%. On the other hand, during the past three years, 15.9% of new products and services were introduced in SMEs in 2010, while in 2011 there is a decrease to only 8.5%.

Another finding includes the lack of satisfactory cooperation of the SMEs when conducting innovation activities, which is shown in Table 5. This means that the main source of innovation is from the company with 60.2% in 2010, while in 2011, it increased to 77.7%.

Table 5 Source of innovation and cooperation of firms

Source of innovation	% in 2010	% in 2011
Mainly from company	60.2	77.7
Company in cooperation with other companies	27.1	13.9
Company in cooperation with other academic and research institutions	0.0	1.3
Mainly from company and institutions outside company	12.8	7.1
Total	100.0	100.0

Source: BSCK Survey 2010 and 2011

Regarding the type of innovation, organizational and marketing innovations were considered. Results show that about 14% of SMEs performed organizational innovation in 2011, which is less than 4% compared to 2010. On the other hand, approximately 21% of enterprises introduced marketing method for their products in 2011, which reveals a slight progress compared to 2010 as shown in Table 6.

Table 6 Types of innovation (organizational and marketing innovation)

Type of innovation	Percentage of "Yes" responses in 2010	Percentage of "Yes" responses in 2011
Over the past three years has your company substantially modified or fully changed its organizational structure?	17.1	13.8
Over the past three years has your company introduced any new method of marketing for its products that was not used by other companies in the market	19.7	20.8

Source: BSCK Survey 2010 and 2011

Table 7 shows another finding that the main focus of business strategy of SMEs in Kosovo is improving the quality of products and services offered to the customers.

Table 7 SME business strategy

Most important business strategy	% (2010)	% (2011)
The improvement product and services quality	37.8	47.7
Marketing and promotion quality	14.2	14.8
The advancement of technology and equipment	9.0	10.9
The enhancement of employee's skills for better performance	8.2	7.0
The cost reduction	30.8	19.5
Total	100.0	100.0

Source: BSCK Survey 2010 and 2011

The results from data analysis for SMEs and innovation in Kosovo are similar as the literature suggested. SMEs play significant role in economic growth. Kosovo's SMEs follow traditional strategy with incremental innovation. Nevertheless, still the number of innovation is low.

CONCLUSIONS

The objective of this study is to explore the impact of innovation activities in the SMEs growth. Literature has been reviewed to understand the SMEs growth, and its relation to promoting entrepreneurial and innovation activities.
The results show that SMEs are a major engine of transformation, employment and income generation. SMEs in Kosovo have been developed based on necessity because of the loss of jobs, rather than catching market opportunities. The results of 2011 shows that there are different entrepreneurial motives to start a business, but the main one is to work independently from the boss. Even though there is lower business performance in terms of sale and profit in 2011 compared to 2010, the results show an enlargement of the overall SME sector in 2011. Most of the owner/managers when starting a business have extensive experience. SMEs in Kosovo are focused on the improvement of the existing products. Even though SMEs have developed innovation new to the market, or new to the firm, it can be concluded that the number of innovation development is still low. Furthermore, the main source of innovation is from the company, which shows lack of cooperation. There is low number of organizational and marketing innovations within SMEs in Kosovo. The business strategy is designed with the focus to improve the quality of products and services.

Indeed, based on the review of the literature, and results from the BSCK SME survey in 2011, there is a need for innovation development, which will help SMEs to achieve growth. In the near future, each SME should develop different types of innovations to create customer value and be competitive in the market.

Some of the limitations identified during this research study include: there is a lack of academic studies for the relationship between SMEs growth and innovation activities; research approach was conducted through secondary data because of the time limitation; the results show SMEs performance and the type of innovations performed; however, it is not shown whether innovation developments have contributed to the organizational performance; and the findings are valid only for three sectors of SMEs in Kosovo, and should not be generalized to the whole SMEs. These limitations create opportunities for future research. One research area could be conducting a comparative study of SMEs in developed countries to understand transferability in SMEs in developing ones.

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SUPPLY CHAIN MANAGEMENT - A COMPETITIVE ADVANTAGE FOR MICRO AND SMALL ENTERPRISES (MSE’s)[52]

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Abstract

The purpose of this study is to present the development and applicability of supply chain management practices in Micro and Small Enterprises (MSE’s). Effective supply chain management (SCM) has become a potentially valuable way of securing competitive advantage and improving organizational performance since competition is no longer between organizations, but among supply chains. Literature has been reviewed to identify some of the critical success factors and challenges that SME’s faced by adopting SCM strategic advantages. The results of this study illustrate that SCM strategies are tremendously important for the MSE’s in order to remain competitive and profitable. In this paper, we will first analyse the concept of SCM in general and then explain its application in the case of MSE’s.
Keywords: Supply Chain Management, Small and medium enterprises (SME’s), competitive advantage.

JEL classification: L81,M20

INTRODUCTION

For the last decade many large enterprises (LEs), and to a lesser extent small to medium sized enterprises (SMEs), have placed increasing emphasis on the implementation of supply chain management (Chopra &Meindle, 2001; Mentzer, 2000). Supply chain management (SCM) is a philosophy and a set of business practices that allow firms to more closely coordinate their activities with suppliers, distributors, retailers and consumers (Laudon &Laudon, 2001; Simchi-Levi, Kaminsky &Simchi-Levi, 2003).

[52] review scientific paper

Micro enterprises, the focus of this study, are a subset of SMEs, with micro entities defined as those having nine or fewer employees (European Commission, 1996; Fulantelli, Allegra &Vitrano, A.Z.P., 2002). The growth of micro and small business and its impact on the economy and employment has been recognized by both the public and private sectors as well as by academics (Chapman, Ettkin &Helms, 2000; Committee on Supply Chain Integration, 2000; Curran &Blackburn, 2001; Park &Krishnan, 2001; Schwenk &Shrader, 1993; Watkins, 1993). Furthermore MSMEs not only comprise the majority of the United States manufacturing facilities and employees, but account for much of the innovation (Committee on Supply Chain Integration, 2000). SCM has taken on critical importance within the context of small business due to its impact on long-term performance, competitive advantage, strategic competence and competitiveness (Cavinato, 1992; Park &Krishnan, 2001). Small businesses are already involved in SCM, whether the owner-managers of those small businesses recognize it or not (Chapman et al. 2000). Successful implementation of SCM can reduce costs, increase revenues, enhance productivity and quality, advance technological innovation and in general allow an organization to be more competitive (Chase, Aquilano &Jacobs, 2000; Christopher, 2000; Fisher, 1997; Gryna, 2001; Huit, Thomas, Nichols &Giunipero 2000; Mainardi, Salva &Sanderson, 1999; Spekman, Kamauff, &Salmond, 1994). The study employs a self-reporting survey that addresses the following five issues: the extent to which micro enterprises have implemented SCM, the determinants that encourage SCM implementation among micro firms, the factors that discourage SCM implementation, the impact of SCM on micro firm performance, and the methods of SCM that micro organizations would like to receive additional training.

LITERATURE REVIEW

Supply chain management has evolved from two main perspectives, the upstream-focused procurement orientation of the manufacturer and supplier and the downstream-focused transportation and logistics orientation of the distributor and retailer (Mentzer et al., 2001; Tan, 2001). In contrast, the Supply Chain Operations Reference Model (SCOR) takes a more extensive approach which spans the entire supply chain from the supplier's supplier to the customer's customer, but does omit certain activities such as product design, quality, information technology and elements of service after the sale (Schultz, 2003; Supply Chain Council, 2005) Furthermore, SCM is being encouraged by such issues as global competition, outsourcing, cost reduction requirements, e-commerce, and decreased product life cycles (Ericksen, Suri, El-Jawhari &Armstrong, 2005). These factors maturate to extended supply lines, new members in the supply chain and longer as well as more complex distribution channels that must be coordinated The knowledge of the abilities of each partner in the chain joined with an increased comprehension of the end users' needs allows businesses to add services and features which create value beyond the cost to the chain members (Brewer &Speh, 2000). The chain's sharing of both demand and supply related information enables more effective planning which results in better utilization of assets, lower inventory, reduced costs and improved customer service. In theory, smaller firms may have some characteristics that prove advantageous when implementing supply chain management. MSMEs tend to be less bureaucratic, more agile and more entrepreneurially oriented.

A study conducted by Arend and Wisner (2005) was particularly discouraging. Arend and Wisner (2205) demonstrated that successful SMEs were more likely to employ SCM methods than less successful organizations but that, surprisingly, supply chain utilization tended to harm these more successful firms. SMEs could have been bullied into SCM by a larger and more powerful supply chain partner (Maloni &Benton, 2000), with this tendency toward bullying increasing as competitive pressures on LE's intensify (Maloni &Benton, 2000). Quayle's (2002) research discovered that SMEs resisted SCM for numerous reasons: the inability to overcome traditional practices, a lack of knowledge concerning SCM, insufficient management time, inadequate capital, deficient resources and the incapacity to proceed without external support. Additionally, small firms tend to be more risk-averse and more concerned with survival (Pollard &Hayne, 1998) Typically managers in smaller organization and have less time to develop the strategy necessary to guide supply chain implementation. Smaller companies with limited resources and skills may simply elect not to implement closer ties with suppliers and customers for numerous reasons, including a loss of freedom and sense of individuality, the required cooperation with other supply chain members, and difficulty integrating information technology (Gales &Blackburn, 1990; Fulantelli et al., 2002; Hvolby et al., 2001; Lyons &Bailey, 1993; Spekman, 1988).

The conclusion proposed after evaluating the literature is the growing need for supply chain management practices among SMEs in this customer-driven marketplace. Failure to implement SCM could ultimately result in the loss of customers, something that should be of great concern to SMEs

METHODOLOGY

The intent of this study is to answer five major research questions. Which supply chain activities, if any, have been implemented by micro firms? What benefits, if any, have micro firms gained from their supply chain activities? What factors have encouraged micro firms to implement supply chain activities? What factors have discouraged greater implementation of supply chain activities? About which supply chain methods would micro enterprises most like to learn more?

A survey questionnaire was designed to capture the data necessary to answer these five questions. The survey includes questions as well as a series of statements to which respondents can reply with "Agree Strongly," "Agree," "Neutral," "Disagree" and "Disagree Strongly." These questions and statements were carefully developed based on a rigorous review of both the entrepreneurial and supply chain management literature.

The fourteen statements in this questioner are organized into three categories - the firm's readiness or preparation for SCM (three statements), the enterprise's implementation of various supplier-oriented supply chain activities (seven statements) and the entity's execution of diverse customer-oriented supply chain activities (four statements).

The fourteen questions in this survey attempt to discover the extent to which the firm: Has a well-defined strategy and knows what its suppliers must do to support that strategy Possesses the necessary information and telecommunication technology Has rationalized its internal processes Works regularly with key suppliers to jointly solve problems Works with key suppliers to jointly plan future activities Shares demand-related information with suppliers Reduces its supply base, retaining the best suppliers Places serious effort into building trust and commitment with key suppliers Utilizes the internet to place most supplier orders Has improved its processes and technology to enhance coordination Works regularly with key customers to jointly solve problems Works regularly with key customers to jointly plan future activities Has customers willing to share demand-related information with the firm Has customers that utilize the internet to place orders with the firm. This questioner asks opinions concerning the degree to which supply chain activities have allowed the firm to achieve each of the five benefits of reduced costs, improved service, impressive growth, increased profits and enhanced trust and collaboration with suppliers and/or customers.

THE SAMPLE

The data for this study was collected utilizing a survey conducted in the Progress Commerce a wholesaling company from Prilep Macedonia. Although the study concentrates its primary attention on micro enterprise supply chain practices it was decided to include small firms (10-49 employees) in the sample in order to enable comparisons between the two sizes of organizations. The survey mailing list was developed systematically of over 150 small and micro firms in the region, a region that is largely rural and has approximately 100,000 people. A mailing list of 70 firms was selected, with micro firms making up approximately two thirds of the list. In an attempt to increase the response rate, the selling agent from the company contacted many of the selected firms prior to the mailing in order to determine the appropriate employees at each business to whom the survey should be forwarded. Generally an employee was selected based on involvement with functions such as procurement, inventory management or distribution. A total of 50 responses were received. After removing the surveys with excessive missing data, the usable sample contained 55 micro and small firms, an overall response rate of approximately 70%. Roughly 75% of the micro firms in the sample classified themselves as either service firms or retailers.

RESULTS

The primary goal of this study is to determine the extent to which micro enterprises are utilizing supply chain methods. The statements concerning micro firm utilization of supply chain activities, allowed respondents to select from "Agree Strongly," "Agree," "Neutral," "Disagree" and "Disagree Strongly." These five possible responses were coded using the values one through five, with one being assigned to "Agree Strongly." Therefore, values of one or two signify a respondent's agreement with a statement that a firm is employing a particular supply chain method while values of three or larger signify a lack of agreement.

The hypothesis test to evaluate if micro enterprises are performing a particular supply chain activity takes the form of:

Ho: $\mu > 3$ versus Ha: $\mu < 3$, with a lower tail test being appropriate because of the coding scheme using smaller values to signify agreement.

A series of fourteen identical hypothesis tests were performed. All three of the supply chain readiness statements achieved significance, as did three of the supplier-related statements and one of the customer-related statements. Two more of the supplier related statements and one of the customer-related statements achieved sample means of less than 3.0, but not sufficiently less to achieve statistical significance. Only four statements resulted in sample means of 3.0 or larger. These results provide convincing evidence that supply chain methods are widely employed among even the smallest firms. The activity of building relationships with suppliers received the strongest support, with a sample mean of less than 2.0.

DISCUSSION

The results, however, suggest that many micro businesses are fully aware of the potential benefits of supply chain activities and will implement these activities as soon as the necessary technology becomes cost-effective and the required skills are available. Rather than having to be pressured into adopting these new methods, firms are voluntarily moving forward with supply chain projects to enable themselves to be more competitive in the marketplace. Another factor that should greatly encourage increased use of supply chain management are the benefits that micro organizations report achieving as a result of SCM. The findings demonstrate the importance of providing the foundation for successful SCM by developing a formal business strategy to guide supply chain decision-making, installing the necessary information and telecommunication technology, and rationalizing internal processes. It was encouraging to discover the extent to which micro organizations have already achieved this supply chain foundation.

IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The research findings provide evidence that micro firms employ SCM practices and methods quite extensively, although possibly not at the same level as that demonstrated by larger firms. Micro organizations are enjoying the benefits of SCM through increased profits, improved customer service and enhanced collaboration and trust with suppliers and customers. Additionally, micro enterprises appear to have recognized and developed an understanding of these methods and the benefits that they can provide. However some SCM adoption is driven simply by pressure from suppliers and customers, much of it appears to be a result of factors suggesting foresight and awareness on the part of micro enterprises.

This research contains some limitations. First, the survey requested respondent opinions rather than objective measures of supply chain implementation or performance improvements. Moreover, many of the firms in the sample may have quantitative evidence on which to base their opinions, however, some of the input may have been subjective. It would be helpful in future inquiries to obtain data that is more objective. A second weakness is the small size of the sample. Although there were a number of hypotheses for which statistical significance was achieved, there were a few for which the data supported the alternative hypothesis but too weakly to allow a legitimate rejection of the null. It is recommended that this study be replicated in other geographical areas to determine if the findings are consistent.

CONCLUSION

Micro enterprises perform supply chain management practices and methods, although to a smaller extent than larger organizations. Moreover, micro organizations understand the value of supply chain management and its benefits, however, micro firms tend to accept that their size allows them to operate very effectively and the need for formalization is minimal which may impact the implementation of supply chain management negatively. Micros are still concerned about the time and capital required to implement supply chain management as well as providing sensitive information to supply chain members. The more technologically proficient a leader of a micro organization appears, the more a leader is favourably proposed to supply chain management activities. In summation, micro enterprises have employed supply chain management practices and methods despite the paucity of evidence in the literature.

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339.1:004.738.5(497.7)

PRECONDITIOTNS THAT ENABLE SECURITY ENVIRONMENT IN ELECTRONIC COMMERCE[53]

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Abstract

Electronic commerce now and in the future will be an attractive topic, as shown by the fact that more and more companies have their own sites through which they advertise, receive orders and charge and so on. The biggest dilemma for buyers is how safe online shopping is? And the biggest challenge for the vendors is to provide security for the buyers when they are buying online. This paper handles exactly the preconditions that enable security in electronic commerce. The aim of this research is to show which are the preconditions for security e-commerce and how much they are implemented in our country. This descriptive research paper will help both buyers and sellers for constructive security environment in electronic commerce.

Key words: electronic commerce, preconditions, security

INTRODUCTION

Electronic commerce has grown in communications between participants who are included in but still, they yet have not confidence between each oders.. Managing security of electronic commerce and multi-challenge requires coordination of business policy and appropriate technology. To gain the trust of consumers, the owner of the e-business should allow protection of personal data of his customers as number one on the list of his priorities. But the success of electronic commerce also depends from protection of the servers of the owner from various attacks of criminals such as hackers, internal attacks and various unwanted programs and malicious codes, like

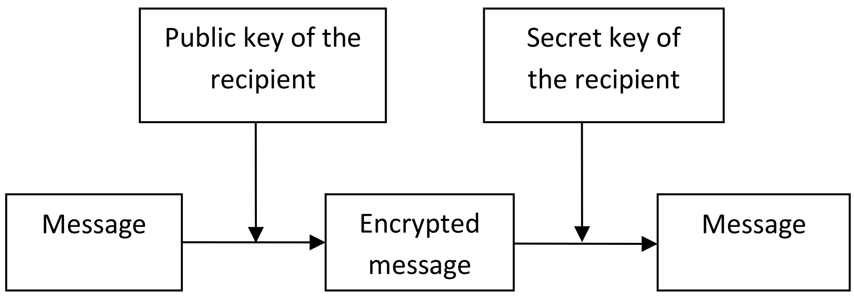
[53] original scientific paper

worms, viruses and Trojans. Electronic commerce is surrounded by different types of threats that are doing damage and slow down or disable its operation. Also e-commerce becomes a field of computer crime, which carries out various frauds in the course of payment transactions. Therefore the objectives of this research are security solutions that can partially, but not fully protect electronic commerce. Considering these facts, it is necessary to understand the need to protect buyers and sellers who buy and pay online in order to increase the confidence in them. Technological solutions, security policies of the companies and the legislation of a country all together well coordinated provide the highest level of security in electronic commerce. In this paper will be developed technological solutions as assets for greater safety and security policies as assets to improve e-safety.

TECHNOLOGICAL SOLUTIONS FOR GREATER SECURITY

Technological solutions, security polices of the companies and the legislation of a country, all together well coordinated, provide the highest level of security in electronic commerce. In this paper will be developed technological solutions as assets for greater security and security policies as assets to improve e-safety. Cryptographic techniques are part of the technological solutions enabling greater security and are used to protect Internet communications. Encryption is a process of transforming or encrypting data in a way that is difficult, expensive or time-consuming for an unauthorized person to decrypt. (Electronic commerce, 2006 p.475) Encryption is composed of unencrypted message, encryption algorithm, key and encrypted message. For eg. 5342 8765 3652 9982 is a credit card number and it is unencrypted message. The credit card number is encrypted algorithm that requires encryption which is a mathematical formula or process, and it could be in the following form: add number (key) to every number of the credit card. In our example it could be " add number 4, so number 1 will be 5 and number 9 will be 3 on the principle of modular arithmetic. The key in our example is a number that is being added to the original number, and that number is 4. Finally the unencrypted message using the encryption algorithm and key, becomes encrypted message understandable for the computer, and the credit card number encrypted becomes 9786 2109 7096 3326. The encryption might go on in two basic ways: encryption with secret key and public key encryption (Colin Combe,2006, p.171). In a secret key encryption, the same key is used for encryption and decryption of a message, and for public key encryption are used two keys, where one is used for encryption and another for decryption of the message. In encryption with public key, the public key is available to everyone and the private key is known only by the owner. If the message is encrypted with the public key, the decryption of the message is executed with the private key.

Figure 1. Encryption and decryption with public and secret key

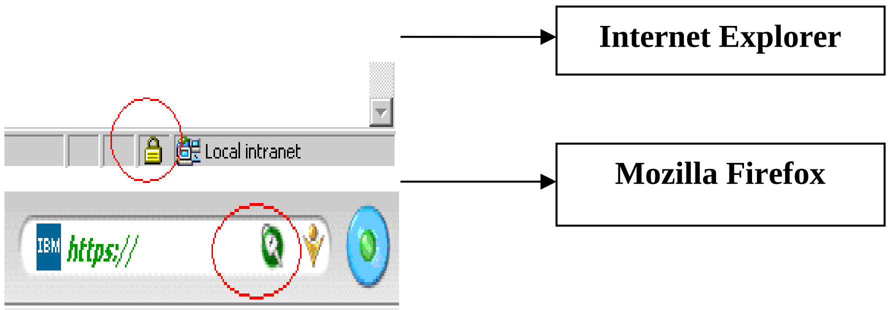


While for protecting Internet communications are used cryptographic techniques, to protect communication channels are used several protocols. The most commonly used protocol to protect communication channels is Secure Socket Layer (SSL). Secure Socket Layer (SSL) protocol allows encryption data, message integrity, authentication server and optional client authentication for a TCP / IP connection. The SSL protocol is positioned between the TCP / IP protocol and application layer. TCP / IP protocol sends only error-free flow of information, and SSL protocol increases the number of features (Carfinkel and Spaford, 2010, p.234):

- Authentication and non-repudiation of server with digital signatures
- Authentication and non-repudiation of the client with digital signatures
- Confidentiality of data through the use of encryption
- Data integrity through the use of codes for authenticating messages

SSL protocol execute data encryption between the client’s computer and the server. When protected page by the SSL protocol is invoked, the browser identifies the server as a trusted entity and initiate treatment to pass the encrypted key information in both directions. When requests to the server are made, the encrypted information is moving in both directions and it is difficult for hackers who make sniffing to read the content

Figure 2. Protective icons in Mozilla Firefox and Internet Explorer



Secure Socket Layer (SSL) protocol is built on most web servers and browsers and it is easy for clients to identify if the page that invoke is certified, because the standard URL instead of http: is transformed to https:.

Secure Electronic Transaction (SET) – is an open standard that was developed and offered by Visa and MasterCard, and it uses cryptography to prove trust in information, but also ensures that the integrity and the payment is going to be confirmed with authentication of the buyer and the seller. This protocol is designed to allow customers to shop conveniently and securely by incorporating digital signatures, certificates and encryption. Credit card details are stored in digital wallet with digital certificate and they can be decrypted only by the company that issued the card. Because the details of credit cards could be decrypted only by the company that issued the card, purchase is protected on the way that execution of the transaction directly refers to its publisher and running without paying the same to be observed by seller.

Secure Hypertext Trasnfer Protocol (S-HTTP) - S-HTTP is a security protocol for communication with messages and it is designed to be used in conjunction with HTTP. Clients and servers communicate on World Wide Web trough HTTP protocol which does not prove authenticity but even though, it does not have encryption features, therefor S-HTTP is designed to be used in conjunction with HTTP. With that S-HTTP protocol allows the clients and the servers to communicate securely with encrypted information.

Firewall and Proxy technological solutions for protecting networks- Firewall is a system that tries to protect a private network from hackers, virus software, performing data corruption or unauthorized access (Paul

Beynon-Davis,2004,p.221). The firewall can be a hardware or a software solution or both of them at the same time. A software firewall is an integral part of the latest windows operating system, but can also be a software firewall that is supported by external vendors, and software firewall that is part of their commercial security. To achieve the desired effectiveness, software firewall must be properly configured. The hardware firewall is the one that has a firewall router and it is located between the computer and the modem. The router is an obstacle for hackers or apllies difficulty for hacking computers or network which are protected by hardware firewall. Same as the software firewall, hardware firewall also should be properly configured in therms that the default password on the router would be changed with a password that is difficult to break. Proxy server is a server that allows indirect connection to another server or the internet, with additional level of protection and ability to cache data and files for faster retrieval. Instead of directly connecting to the internet or the server where the data is stored, proxy server first takes requests. If the search contains data or website, proxy server first checks if it is already cached or they are searched for the first time, then it connects to the user and caches them in the memory. It should be noted that the usage of proxy server has some risks with the fact that when using a proxy server, the sending data passing through it is usually in the unencrypted form. When sending data, there is a risk that it may be intercepted by a malicious proxy server who captures everything that is sent. So when is unavoidable to use unknown proxy server is best not to send private information. Antivirus software is designed to recognize viruses, worms and other malicious codes and to remove them. There are two types of antivirus software, which work the same way and constantly search for viruses in the computer but use different methods. The first kind of antivirus software maintains a list of known viruses called "list of definitions for viruses" or "virus library."Any document or file that entrance in the computer, antivirus software compares it with the virus library, to check whether the data contain some of the virus definitions from the virus library. However, a great disadvantage of this type of antivirus software is that if the data contains a virus which is not defined in the virus library, it would not be recognized and will be allowed to enter the user's computer. The second type of antivirus software also called heuristic program that has the ability to recognize new viruses that are not yet known, works by the principle of learning by exploring and errors. This type of antivirus software detects new viruses, and with this feature it is a safer program. Examples of antivirus programs that can be used to protect the computer are: Norton Antivirus, Kaspersky Anti-Virus, ZoneAlarm Antivirus, AVG antivirus, Avira Anti virus etc.

SECURITY POLICIES AS AN ASSET TO ENHANCE E-SECURITY

Organizations need to improve e-safety in a way that they will prepare security plan which includes the following sections (Kenet Laudon and Gersio Traver, 2010, p.299):

- Risk assessment
- Establish a central management
- Implement appropriate policies
- Creating a security organization
- Monitoring and evaluation of policies and control

The risk assessment is the first step for making a security plan that includes identification of information resources as an essential asset that must be protected. In this part developing practical procedures are made for risk assessment that connects security of the network with the business needs. Also at risk assessment a program is developed and managers are named responsible for that program, because the organizations believe that business managers should be responsible for menaging the security of information related to their work, equally as considered responsible for other business risks. In addition, managers are most appropriate for assessment of that, which of their information resources are most sensitive and to assess the impact of security problems. But risk management should be continuously and permanent. Organizations need to recognize that network security is a continuous process, and continuous work with the risk management helps to ensure that controls are appropriate and effective, and those who use and maintain information systems, comply to the organization's policies.

For establishing a central management, a central group is indicated to carry out key activities. The central group for network security serves like catalyst for providing that the information risk is taken into account in current and planned operations. They develop organizational polices and guidance, educate customers about the security of information risk, research potential threats, weakness and control techniques, assessed risks and needs identified policies. The central group for performing key actions needs to improve professionalism and technical skills, which require special training courses for system administrators to defend security intrusions.

The implementation of appropriate policies requires linking policy with the business risks. A comprehensive set of policies is a key element in effective security program. These policies need to be adjustable on continuous bases to respond to newly identified risks. It is necessary to differentiate the policy from the instructions, because policies are concerning to the basic requirements that managers think are mandatory, while instructions are directions or more detailed rules for the implementation of policies. When creating a security organization a continuous education of the users is needed about the risks and other policies. Central security management is working to prove the understanding of the risks and other policies. They promote awareness among employees about the risks that exist, connected with the disclosure of confidential information and passwords. The Security Organization manages access controls, procedures for proving the authenticity and authorization policies. Authenticity is proved through digital certificates and digital signatures using public keys. In combination with digital signatures and biometric devices used for checking the persons footprint through the finger, voice recognition, scanning the iris of the eye, etc.. Access control is performed through the use of firewalls and proxy servers to control outsiders, while the internal person control is runned with a user name and password. Also different level of users have different levels of access, which is controlled by authorization policies. Authorization policies have aim to restrict access for private information. Monitoring and evaluation of policies and controls are performed by monitoring the factors that influence the risk and assigning security effectiveness. Organizations need to directly test the effectiveness of their control. Central security management takes care of audit findings and progress of organizations in implementing corrective measures . Some organizations conduct tests to assess its safety and appoint individuals to penetrate the system. These tests enable organizations to identify their weaknesses and eliminate it. The results obtained from the control, have to be used to direct future efforts of the organization. The organization needs to constantly inform about new tools and technologies for monitoring, also participate in professional organizations and monitoring the latest literature useful in learning about latest tools for monitoring and research efforts.

PRACTICAL RESEARCH

How much the companies in Republic of Macedonia, use antivirus programs and security polices for greater security for their computer systems?

From conducted research of 31 business entity in Republic of Macedonia, how much of them use antivirus programs and have established safety procedures, and how much of them have been threatened the security of their computer systems, the research showed that:

Table 1. Implemented research in Republic of Macedonia

have established security procedures	26
have not established security procedures	5
use antivirus software	30
do not use antivirus software	1
threatened the security of computer systems	11
not been threatened the security of computer systems	20

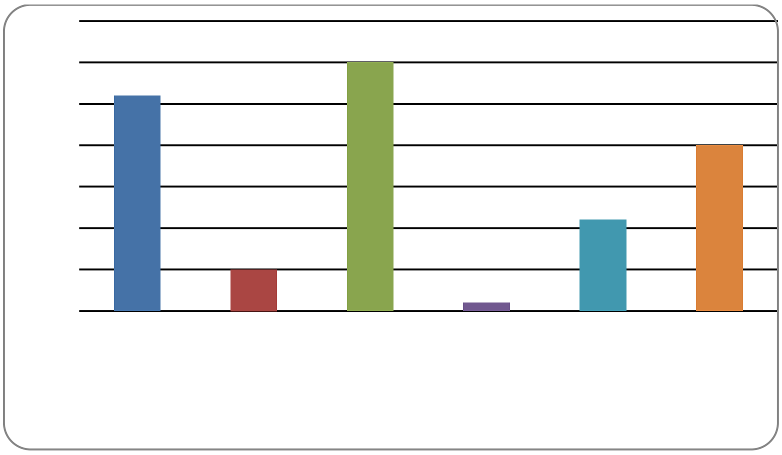


Figure.3. Implemented research in Republic of Macedonia

From the given answers were made correlation analysis of the answers concerning of usage antivirus programs, established security procedures by businesses and threats to their security or computer systems.

Table 2. Correlation between usage of antivirus programs and threats to computer systems security.

Correlations

		Koristenot_na_antivirusniprogrami	Zagrozenost_na_bezbednosta_na_kom
Koristenot_na_antivirusniprogrami	Pearson Correlation	1	.135
	Sig. (2-tailed)		.468
	N	31	31
Zagrozenost_na_bezbednosta_na_kom	Pearson Correlation	.135	1
	Sig. (2-tailed)	.468	
	N	31	31

Table 3. Correlation between established security policies and threats of computer systems security

Correlations

		Postavenost_na_proceduri_za_zastita	Zagrozenost_na_bezbednosta_na_kom
Postavenost_na_proceduri_za_zastita	Pearson Correlation	1	.142
	Sig. (2-tailed)		.446
	N	31	31
Zagrozenost_na_bezbednosta_na_kom	Pearson Correlation	.142	1
	Sig. (2-tailed)	.446	
	N	31	31

In both tables it can be seen that there is no correlation between variables. In the first table showing the correlation between usage of antivirus programs and threats to the security of computer systems, because probability p = 0,468 which is higher than the test of statistical significance t = 0,05. Having

Correlation or relationship between researched variables, p (probability) should be less than t (test of statistical significance) or $p < t$. Also in the second table that is shown correlation between the position of the security procedures for the protection and threats of computer systems, it can be seen that there is no correlation or relationship between these two variables, because the probability (p) = 0,446 which is higher than the test statistical significance (t) = 0,05. From the correlation analysis can be noted that neither the use of antivirus programs, or setting security procedures do not ensure security of computer systems, or the use of antivirus software itself does not ensure security of computer systems as a whole, as well as the installation of security procedures.

CONCLUSION

From this study it can be concluded that maximum security in electronic commerce have been achieved with well coordinated technological solutions, security policies and legislation. Technologies and security policies are precondition that enable security environment in electronic commerce. The technologies include cryptographic techniques that enable online protection communications, SSL, SET and S-HTTP protocols to protect communication channels, Firewall and Proxy to protect networks, and antivirus software protection from malicious codes. Despite of technological solutions, security policies are established by organizations who have made a security plan that is composed of several parts, including: risk assessment, establishment of central management, implementation of appropriate policies, creating an organization for security and monitoring and evaluation of policies and control. The research in the Republic of Macedonia showed that despite of the use of antivirus programs and setting security procedures, the security of computer systems has been undermined, from which we can conclude that they are not sufficient protection for computer systems, contrary to that, there are needs to implement all technological solutions in coordination with security policies, as well as the existence of legislation to achieve the maximum level of protection.

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005.21:(334.722.012.63/.64:005.332.4(497.7)

THE BLUE OCEAN STRATEGY CONCEPT APPLICATION IN MACEDONIAN SMEs[54]

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Abstract

The paper aims to explore the awareness of Macedonian companies about the relatively new marketing concept "Blue Ocean Strategy". It tries to depict the level of overall knowledge of the meaning of this strategy by the companies, the level of its application, the advantages they could gain and the readiness to accept and apply this new marketing concept. In order to accomplish the goal of this research, primary and secondary data are used. A sample of randomly selected companies was created and survey was done. For this purpose, questionnaires were sent to 152 business subjects (Macedonian SMEs) by e-mail of which 95 responded and represented the base for our analyses. The questionnaire was designed for respondents who indirectly could indicate possibility of the existence of "blue-ocean" in their organizational structure, in their daily operations and market in which they act. We also did an extensive survey of secondary data, the extant literature and online databases on the topic of applying of this new marketing concept. The goal was to provide a preliminary theoretical framework about its application in SME segment. The paper will try to reach the conclusion regarding the need of a systematic approach in terms of The Blue Ocean Strategy to be applied in order to define the potential, first of the national economy, and then of the interested companies, to increase their competitiveness outside the Republic of Macedonia and stimulate the creation of blue oceans in those segments of the economy and those businesses that have a major objective chances for success of regional and global markets.

Key words: blue ocean strategy, competitiveness, Macedonian SMEs

JEL Classification: M13, O31, M30

[54] professional paper

INTRODUCTION

Over the past twenty years, the Macedonian crisis transition or transitional crisis has eroded the already fragile Macedonian economy. The combination of the current political and economic developments in regional and global frameworks, has very negatively affected the competitiveness of Macedonian companies. Considering the Macedonian market, with just over 2 million and 9.118 USD GDP per capita in 2010 (State Statistical Office R. Macedonia, 2011) and all the other (unfavorable) macroeconomic indicators that characterize it, it is reasonable to conclude that Macedonian companies must seek their opportunities for development in the export of their goods and services in the global market. Unfortunately, most Macedonian companies that operate successfully in the international market do not have enough resources to provide them with adequate instruments in such a highly competitive milieu. Success in the global market is also closely related with the choice of appropriate marketing strategies. The modern conditions that govern the markets, in regards to the capabilities of the companies, ease or restrict the application of various marketing strategies. The optimal marketing strategy would be one that would ensure maximum profits in the most efficient way.

In general, two strategies are applied by companies to enter in new markets: differentiation or low price strategy. These are important ones to distinguish them from the competitors, and thus to maximize profits. The influence of the limitations of the current markets on the effectiveness and efficiency in their own performance, enables some market participants to achieve better results with fewer losses than others or vice versa. The company's market profits are mainly due to another company’s loss. In addition, competition today is more complex and the limited resources available to the competitors are increasingly more present also because of the fact that current circumstances target winning both - the market share and the customer as well as the client, the bank loans and the investors.

Achieving the intended objectives in an efficient manner, avoiding direct market struggle with competitors is a possible and a very favorable option that should be taken into account by managers in Macedonia. Creating a new market that would offer the consumer a new use value is among the possible ways of making a decision in the choice of marketing strategy. The best option, however, is to manage tools for a systematic approach to create such a new market space, employing The Blue Ocean Strategy.

The Blue Ocean Strategy - empiricism and science

Scientific research related to business strategies is mainly related to the competition, the prediction of its future moves, the preparation of plans in order to win a larger market share and to achieve greater profits.

Because of the fact that generic strategies are based on certain rules and procedures, they may be predictable for the other entities in the market that can take measures to intercept and "neutralize" their mutual targets - increasing profits, making their market share superior to their competitors'. This strategy enables companies to direct all their efforts towards the realization of their goals. In doing so, they easily become captive to their competitors, turning the market into a synonym of a red ocean, filled with predators hostile to each other. The total profit at the industry level is determined by structural factors, and firms generally try to capture the greater part of it or to redistribute wealth rather than to create new, additional wealth. They focus on dividing "the red ocean", where growth becomes more and more limited.

One way to escape the competition is to think unconventionally, beyond the framework in which the rest of the entities in the market act, think and create their plans. In the last decade, a few names in economic circles have appeared with new views of what the marketing strategy of companies should look like, i.e. how to achieve the more unique and, as for most competitors, unreachable strategy. Started with Michael Porter views (1996, p.64), a new perception on competitive strategy had began to develop. From "Choosing a different set of pre-planned activities to deliver a unique mix of values" (Porter, 1996) to "Purple Cow" (Godin, 2002) (and his views on the impact of exclusion on the marketing performance) to "Competing for the Future" (Hamel and Prahalad, 1994) and ending with "Funky Business" (Nordstrom and Ridderstrale, 2000) - all of them propagate thinking and acting in a new and unconventional way that would provide the companies with the ability to create their own future..

The creators of The Blue Ocean Strategy, W. Chan Kim (2005) and Renée Mauborgne (2005), however, argue that the best way to avoid relentless competitive struggle is the creation of a product or service or a mix of both, so unique that there would be no competition at all (at least not immediately after their introduction to the market), which makes the competition irrelevant in the implementation of the strategy. Reducing the impact of market limitations as a factor for severe competitive struggle is only possible through the introduction of innovative solutions, innovative use values that would expand the boundaries of market areas where there are no products that will compete with those solutions. The new parts of the global common market, the new markets where there is no competition, is what Chan Kim and Mauborgne symbolically call "blue oceans", where the existence of innovative products creates huge profits for companies. The Blue Ocean Strategy, on the other hand, is based on the view that market boundaries and their structure are not given once and for all and can be changed under the influence of the activities of market entities. This is called a "re-constructional view" of the functioning of markets. The whole strategy refers to the markets which should be created in the future.

According to Chan Kim and Mauborgne "the best way to beat competition is to stop competing with them"(2007, p. 15). This can be achieved through simultaneous differentiation and achieved low cost, i.e. by creating a product or service that will offer a new use value to consumers (while increasing the use value that the product will have for consumers and in the same time by lowering the costs), will attract customers from other industries and markets, and create new market.

"The blue ocean" is an analogy that seeks to describe wider and deeper potential of the market that has not yet been explored or conquered. When creating the "blue ocean", creativity is further fueled by the fact that the demand for the product or service should also be created in the future. Through The Blue Ocean Strategy, Kim and Mauborgne propose to the firms to make extra profit based on market changes initiated by them, and these changes need to occur in one of the basic economic theory phenomena the relationship between supply and demand. Profiteering while taking steps to expand the market and making capital from investments to expand the demand side is extremely unlikely, especially if all activities are planned and systematically analyzed. "The blue ocean" is characterized by an "unmarked space market, creating demand and opportunities for highly profitable growth" (Kim and Mauborgne, 2007, p.7).

Methodology for examination of The Blue Ocean Strategy in Macedonian companies

The purpose of this research paper is to investigate the existing problems in Macedonian companies in regards to the relatively new concept of ‘blue oceans’. It aims to discover if they even know what The Blue Ocean Strategy–actually means, if they apply it and how much, if they know the advantages and if there is readiness of Macedonian managers to accept and apply this new marketing concept. The research by its nature is exploratory. It is based on positivistic research philosophy. The research is based on the mix of quantitative and inductive approaches and applies the cross-sectional study research methodology. This is because it involves different companies from the processing industry in Macedonia for examination of the differences that exist among them at one period of time. The research is empirical and questionnaires are used as a method for collection of the primary data directly from companies that operate in Macedonia. By using probability sampling, a sample of randomly selected companies was created and survey was done. For this purpose, questionnaires were sent to 152 companies (Macedonian SMEs) by e-mail of which 95 responded and represented the base for our analyses. The questionnaire was designed for respondents who indirectly could indicate possibility of the existence of the "blue ocean" in their organizational structure, in their daily operations and in the market segment in which they operate. The questionnaires were sent to the managers of the companies because they create the business politics of the companies and they could provide the most relevant answers. The questions were aimed to gather three different types of answers which were not formally divided in the questionnaire, and they are as follows: a) basic information of contacted company, b) data on its organizational structure in terms of innovation and postulates of The Blue Ocean Strategy, and c) external conditions data that influence the creation of the new usable value. The impact of innovation on marketing management in companies was the key point in the questionnaires. The Blue Ocean Strategy was not mentioned and the participants were not asked to enter information that could identify anything designed for that purpose, in order to be less subjective in the process of answering the questions. Four possible answers were offered for each question, from which the respondents were given option to select one by solely selecting what they considered appropriate.

We also did an extensive survey of secondary data, the extant literature and online databases on the topic of applying of this new marketing concept. The goal was to provide a preliminary theoretical framework about its application in SME segment.

The structure of the surveyed companies is shown in the following charts.

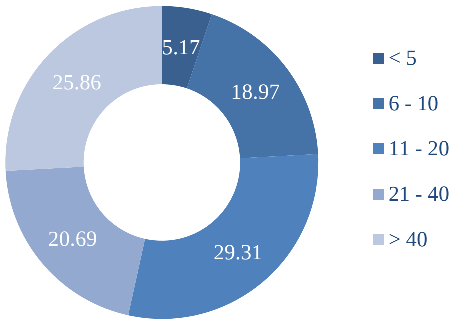


Chart No. 1. Company profile

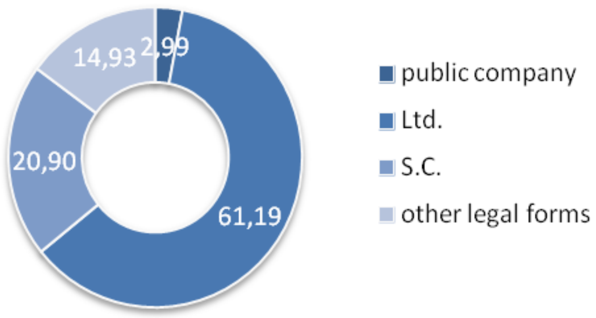


Chart No. 2: Years of existence

The companies that responded to the questionnaire were mostly limited liability companies (almost 59%), followed by shareholding companies (22%). A small portion (approximately 3%) were public enterprises and the rest (about 16%) belong to entities that have different legal form of the foregoing.

As for the age group they belong in, most of the surveyed companies have market existence between 11 and 20 years (29%). Second were companies more than 40 years old (almost 26%), third were those aged 21 to 40 years (almost 21%) and fourth were the companies from 6 to 10 years (nearly 19%). The remaining 5% belong to young companies, up to 5 years.

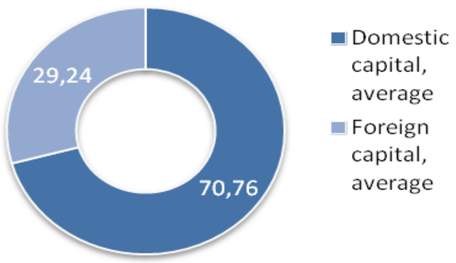


Chart No. 3: Ownership

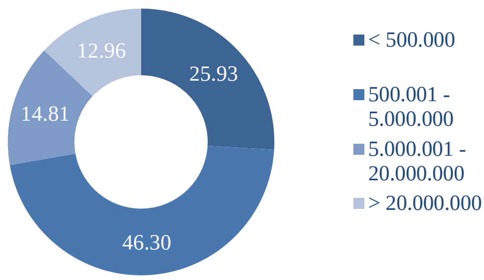


Chart br. 4: Annual turnover structure (%) (EUR)

From the ownership structure as an indicator that was obtained from the survey was the average share of domestic and foreign capital in companies - respondents. The average share of domestic capital for participants in the survey was 70.76%. A total of 39 companies had 100% participation of domestic capital in their ownership structure. Foreign capital had an average share of 29.24% and a total of 6 companies working with 100% foreign capital. According to the realized annual turnover expressed in Euros, 46% of respondents said they operate within a range of half a million and five million Euros per year. Second largest is the group that had annual turnover less than half a million Euros per year, 15% of the companies make between five million and twenty million Euros and 13% make over twenty million Euros annually.

From the point of view of the market (domestic or foreign) where surveyed companies create the majority of their sales, 70% of the companies operate at the domestic market, while 30% sale on the foreign markets.

Findings – Macedonian SMEs innovation behavior

One of the basic findings that emerged from this research is certainly the answer to "How companies expect to reflect on their company if any of their product or service is unrivaled in the market?" The results confirm the awareness of companies about the positive impact of such a condition: 81% responded positively, 5% negatively, and the remaining of more than 13% of respondents did not distinguish whether their offer had no competition in the market or not, which is perhaps partly due to the nature of their activity.

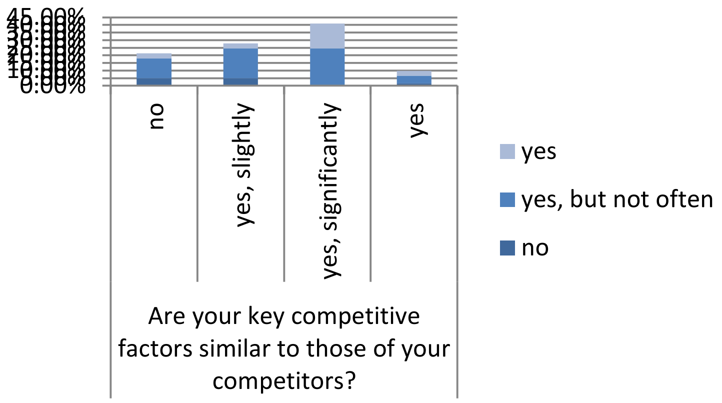
~~M~~ost of the surveyed companies responded that they were (30%) or still are (25%) the only company that offered to the market a certain product or service without competition. From the companies that answered the questionnaire, 40% are found in such a situation. If we combine the two positive answers to this question, we may come to a common rate of 55%, which is high value. However, it should be taken with caution because of the subjective nature of the answers given (self-promotion), despite the great deal of anonymity in the process of surveying.

The answers of the two questions below reveal the similarity of the key competitive factors and the concerns of companies about the offer to their customers:

a) Are your key competitive factors similar to those of your competitors? and

b) Does your competitors' offer of products (services) that is the same as yours, often concern you?

Chart No.5: The combination of answers to questions about the similarity of the key competitive factors and the concerns of companies about the offer to their customers. (in %)



From the responses, it can be seen that:

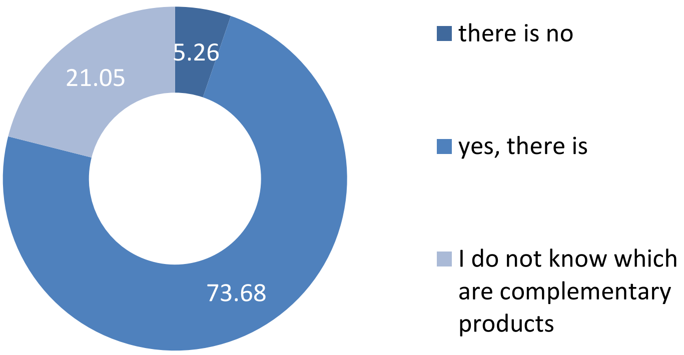
- Most of the surveyed companies (almost 70%) agree that their key competitive factors are similar to those of their competitors;

- In all variations of responses on competitive factors, the view prevails that by this similarity responsible persons are concerned, but not often;

- The group that thinks that its offer is substantially similar to that of the competition, expresses severe concerns.

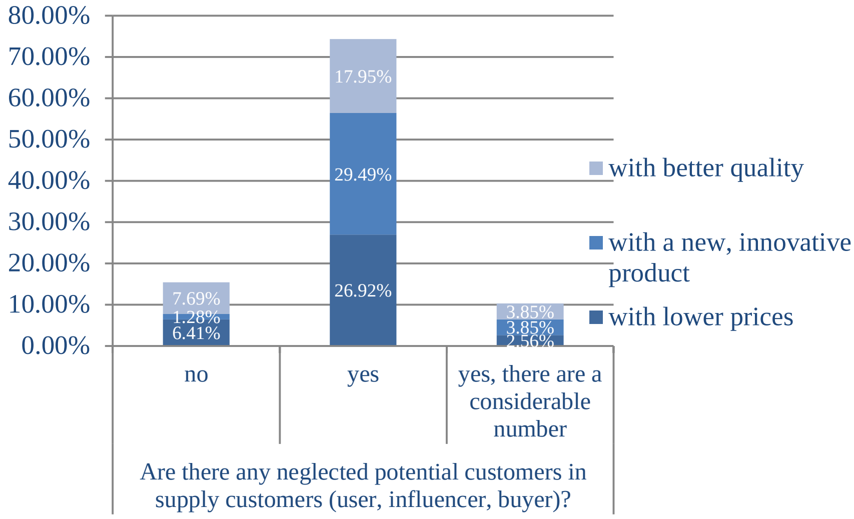
According to the answer to the question: "Is there a need for complementary products or services that are not yet satisfied?" (In *Chart* No.6) we can see that Macedonian companies mainly have a capacity to identify complementary products and services, representing a prerequisite for the engagement of business entities for their gratification. Sure, you cannot bypass 21% of respondents who do not know what complementary products are, which quite certainly speaks for their professional level.

Chart No.6: Complementary products and services. (In percentages)



When asked about the existence of some overlooked prospects in the chain of buyers (user, influencer, buyer), most of them responded that there are such subjects on the market, the much smaller part responded that there is not any, and the smallest number of companies reported that they exist in significant portion.

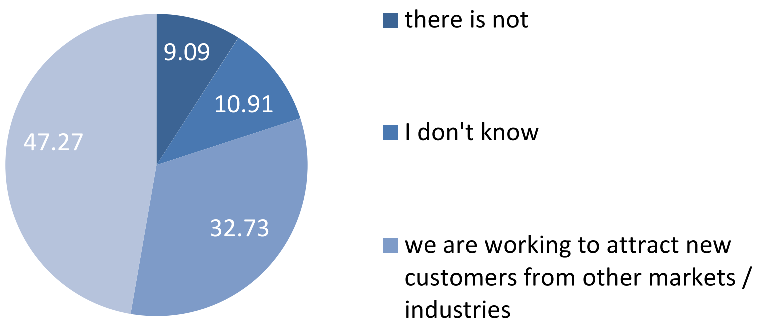
• *Chart No. 7: The combination of answers to questions about the existence of neglected potential customers and how they could be attracted. (In percents)*



The respondents who believe that there are neglected customers in the chain of buyers (around 75%) consider that the most important in order to satisfy consumer needs are: innovative products, lower prices and finally, improving the quality of supply. This can be understood in terms of the current macro-economic situation and the purchasing power of consumers, and taking into account the respective indicators of the surrounding markets, which are their markets. Having in mind the current economic crisis, the lack of confidence in improving the quality of the order to attract completely new customers is due to the connection of higher quality with higher costs for its achievement, and accordingly a higher price. Certainly, the high importance that gives to the measure of introducing new, innovative product indicates the existence of potential for any blue oceans.

The question: "Are there any alternative products / services from other industries that you could start to offer to your customers?" In terms of creating new use values, optimism is giving the confirmative response of almost 33% of respondents, but the indifferent attitude expressed by the other respondents, also concerns. (*Chart* no. 8).

Chart no.8: Introduction of alternative products / services to offer. (In) percents

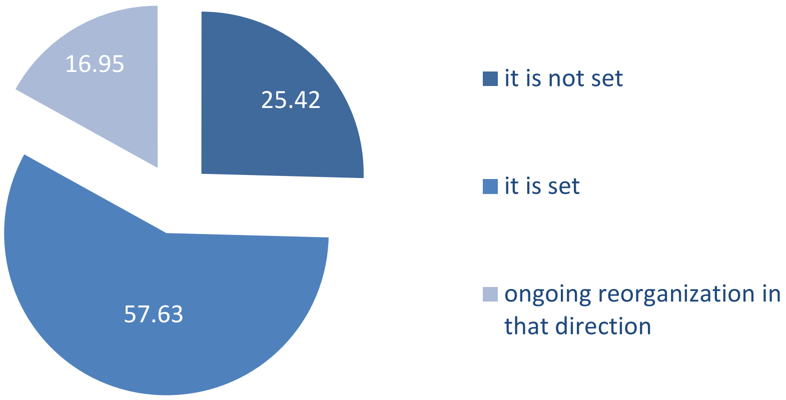


Analysis of the organizational structure of Macedonian SMEs in terms of application of the The Blue Ocean Strategy

The organizational structure of companies that answered the questionnaire, in their predisposition to create a blue ocean, can be analyzed through the prism of answers to multiple survey questions.

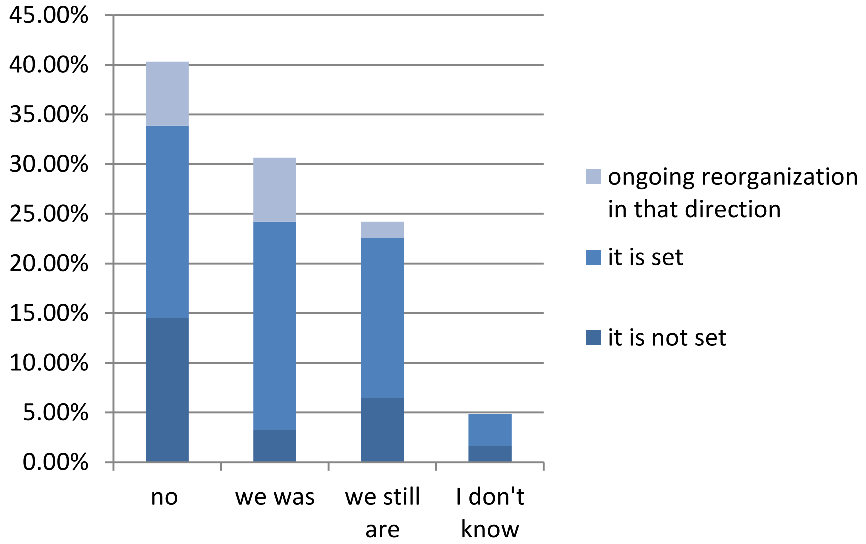
On the direct question: "Is your company's organization set so it can produce products / services with new use values?" Companies responded as follows:

Chart No.9: Distribution of responses to the question: Is your company's organization set so you can produce products / services with new usable values? (In%)



According to the results of the analysis, more than half of the companies are organizationally structured in a way that enables them to produce a final product / service with new usable value.

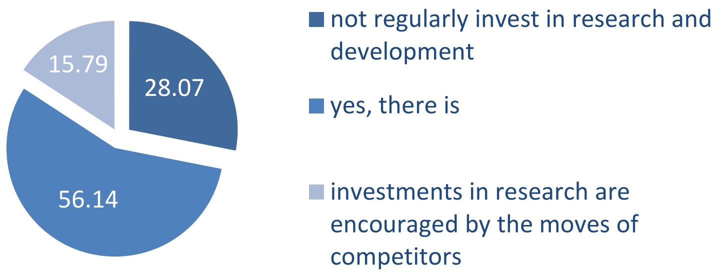
If the answers to the above question are combined with the answers related to the question "Whether the company has ever been in a situation to have a unique product to the market" we would obtain the *Chart. No.10* expressed as a percentage of the total number of answered questionnaires:



In the group of those companies where the position of the organization is ready to produce innovations (i.e. they have research and development departments, have an organizational culture which allows free expression of ideas by employees and furthermore they are valued at motivating manner, and so on) either were or still are unique in the market with their own product or service. Next largest is the group which said that the organization is not ready for an innovative approach to the market and in its structure has companies from all categories regarding the second parameter.

Regarding the question "Is there a stable and irreversible trend of innovation of new products / services that can significantly change the business?", respondents answered as follows:

Chart No. 11: Trend in the innovation of new products / services (in%)



As can be seen of the chart, most of the companies (56.14%) responded that there are stable and irreversible trends of innovation of new products or services that can significantly change the business, which roughly corresponds to the percentage share of companies that have or had a unique offer on the market, if we take this response from that view. More than 28.07% of surveyed companies said that there is no regular investment in research and development. The smallest group of companies (15.79 %) said that they reactively respond to the moves of their competitors.

The organizational structure of companies, in terms of their internal structure, certainly has influence over their ability to produce new use values. Some perception about the organizational structure of companies can be obtained by analyzing the answers to the question: "Is your company more focused on cost reduction, quality control and brand management or on the account of growth, innovation and creating new use values?". Chart No.12 represents the percentage portion of each of the three answers. It may be noted that most of the surveyed companies allocate their resources towards activities related to cost reduction, increasing quality and branding - activities that "keep the fight" in red oceans. 12 percent of the companies allocate their resources towards activities related to innovation, creating new use values (possibilities for creation of blue oceans) and higher growth. The group of companies of the same size as the one that indirectly favors staying in the red oceans considers that both ways of organizational structure are equally important for profitability and future growth of the company.

Chart No.12: Schedule of efforts in companies for marketing related activities and activities for research and development. (In percentage)

Proposed measures for creating the conditions for introducing The Strategy of Blue Ocean in Macedonian SMEs

Seven years, since The Blue Ocean Strategy was theoretically rounded into a whole by W. Chan Kim and Renée Mauborgne, is not enough time for the popularization of the strategy to such an extent that would make it accessible for use by management neither in the world, nor in the Republic of Macedonia. Hence it is not to be expected that companies in Macedonia, even only a few of them, consciously and systematically apply the strategy. Indicators derived from the survey show that companies in Macedonia are still pinning their efforts in competition with their competitors.

Innovation and creation of new use values are the basis for the creation of a "blue ocean". So, the **first** and main measure that should be proposed and which should stimulate the introduction of the Blue Ocean Strategy in Macedonian SMEs is **creating a system framework by the state institutions that will stimulate the creation of innovation in the broadest sense.** The Blue Ocean Strategy does not limit those who would apply it in terms of scope. Potential for innovation and development of The Blue Ocean Strategy is literally everywhere. With the development of technology, especially IT, the path of innovation to their full realization is much easier. The most specific example that could be pointed out is "Facebook" - a project that started from an idea and with one computer in the student dorm at Harvard University in 2004, and reached annual revenue of billion dollars in 2012.

The second measure is to increase the level of **education of companies' management** in order to raise awareness of the options that The

Blue Ocean Strategy offers. There are some claims that The Blue Ocean Strategy is more advisory than scientific. Therefore it is necessary to direct this strategy (with its principles and instruments) towards those who should decide on acceptance or rejection of it. From the micro-economic perspective, if The Blue Ocean Strategy can bring more profits and a more secure future for the companies without turbulence caused by competitors, then for the decision makers would be irrelevant whether this strategy is advisory or scientific.

Removing organizational barriers to create a blue ocean, of any nature, in the companies is **a third measure** which should be implemented mainly by the companies. It is not possible to introduce The Blue Ocean Strategy and its effective functioning in any organization, unless the company creates a system that will make team members aware and motivated about the aim that should be achieved. It implies that company resources are directed to creating a new use value and demand and to identify the key figures in the organizational structure that can pull the others towards the pursuit of stated strategy. By applying this measure and with active involvement of the wider human capacity, the focus of the company will be much more pointed toward proactive search for solutions to external issues rather than just “waste” the attention of management on solving the current internal problems.

The fourth measure is to promote **internal entrepreneurship** (intrapreneurship) inside the companies. This measure is valuable insofar it represents a more formal shape for the implementation of the executive functions in a company that seeks to implement the Blue Ocean strategy.

All business entities, even those that have created blue oceans, need a larger market space for several reasons, of which the most important are two of them. First, an increasing market space with its potential could motivate and encourage companies to begin to apply The Blue Ocean Strategy. Second, the performance of a well-formulated Blue Ocean Strategy, a bigger market space for companies that own blue oceans enable greater effectiveness and greater efficiency. Finally, considering the size of the Macedonian market, a systematic approach in terms of The Blue Ocean Strategy application is required in order to define the potential, first of the national economy, and then of the interested companies, to increase their competitiveness outside the Republic of Macedonia. Based on the work done with regards to this strategy, it will be of further importance to promote and stimulate the creation of blue oceans in the segments of the economy and the businesses that have a major objective chances for success of regional and global markets

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ISSUES AFFECTING THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN KOSOVO[55]

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Abstract

The objective of this paper is to describe and analyze the obstacles impacting the growth of small and medium enterprises (SMEs) in Kosovo. In the process of transition from communism to a market economy, Kosovo experienced a severe war, international governance, and subsequently the declaration of its independence. The Government is trying to position SMEs at a central point and make them a key factor for economic development in the country, however, findings indicate that there are a number of factors affecting negatively the growth of SMEs in the country, such as access to finance, corruption, lack of skilled labor, lowinvestments in innovation, technology and marketing, etc.

The empirical data for the description is primarily provided by the World Bank and statistical office of Kosovo.

The overall objective of this research is to elaborate particular obstacles and institutional settings of Kosovo, and not to provide generalizations about national government systems.

Key words: SMEs, growth, entrepreneurship, economic development in Kosovo.

JEL Classification: L26, O20

[55] professional paper

INTRODUCTION

Kosovo is very rich in mineral deposits; however its potential has been left unused for different reasons. During the Yugoslavian rule, the mining sector was a key segment for Kosovo's economic growth. The capacities of the mines have suffered due to management neglect during the 1990s, as well as war damage (ASAK, 2002). Agricultural land has also been underutilized despite favorable soil and weather conditions. The agriculture has traditionally been an important economic factor in Kosovo, participating around 30% of the total GDP. The transition process, under-investment and war led to a sharp decline in the sector (Dr. Mustafa, Dr. Xhelili-Krasniqi, 2011).

Private enterprise development started during the 90's when the first elements of entrepreneurship in Kosovo began to emerge. In practice these elements did not develop because of the favorable business environment but as a response to several political developments in ex-Yugoslavia, especially the political movement of the 90's when Albanians from Kosovo declared their independence. At that time, a vast number of people who were employed in the state industries or in agriculture were expelled from their working place by the Serbian regime. Therefore, people had to find a way out of these unimaginable circumstances and began to open small retail grocery stores, craft stores, cultivation of agricultural products, etc.

After the war in 2000, almost everything started from zero. Countries that experience prolonged periods of conflict and wars face a lot of challenges; there is an immediate need to rebuild and improve the basic infrastructure, the governmental capacity, lack of public revenues, and investor interest to provide those services (Schwartz, Hahn, and Bannon 2004). Even though donors have provided considerable aid for reconstruction and rehabilitation, Kosovo is still struggling to absorb aid in the constructive manner due to a wide range of capacity constraints.

"Initially, the GDP growth figures were in double digits during 2000–2001 and this was mainly the result of the massive donor-funded reconstruction effort, but during the following years, despite continued donor financing and remittances, only a moderate growth can be seen" (World Bank 2009, 16). This paper argues about the constraints for developing strategies for SME's in Kosovo the reforms which are needed to overcome these obstacles.

THEORITICAL FRAMEWORK

The investigation of barriers and obstacles of small and medium enterprises in transition countries has been an area of interest for many academics (Bukvić and Bartlett, 2001; Aidis 2002; Bartlett and Prasnikar, 1995; Hashi, 2001; Pissarides et al., 2003; Smallbone, 2002).It is well known that in developing countries the institutions do not perform well, they are weak in creating and implementing governmental policies. This definitely impacts the economies of countries in transition, which are characterized with limitations of general continuity in the economic sector, particularly in the sector of small and medium enterprises (Hashi, 2001).

It should especially be noted that one of the major barriers for enterprises in transition countries is the low level of institutional development in the legislation area and in the business tax system (Aidis and Sauka, 2005).Governmental policies of economies in transition are considered a burden for entrepreneurship and for the regular functioning of the businesses, and they often have a negative role in the growth and performance of small and medium enterprises. This role of the government institutions in transition countries is expressed, amongst others, in the issuance of numbers of unnecessary rules and laws for the activities of entrepreneurship and business operations. The excess bureaucracy of formal rules causes an increase of informal activities, such as corruption and nepotism (Bartlett and Bukvić P 2001).

CURRENT ECONOMIC SITUATION

Kosovo is a developing country and the entrepreneurial environment is vibrant and growing but it is still quite far behind the other Balkan countries. Kosovo business structure is not stable and the government does not promote business and entrepreneurship. However, there are some remarkable initiatives sponsored by the government to promote exports, consumption, etc.

Managing small enterprises is a difficult task, especially knowing the fact that the access to finance is very limited and mainly depends on the owner's capital, while domestic and foreign banks support the limited number of SME's. In typical developed economic environments, the management of small and medium businesses is an attractive task, but in business environments like Kosovo, managing small and medium businesses is a real challenge.

Development Framework General and Perspectives Geographical position, access and free trade in the region, the potential for EU export growth, and the largest Kosovo underutilized resources (labor, land, and minerals) can be used to attract foreign investments in agriculture, mining, and labor-intensive manufacturing. However, given the deteriorating economic outlook in Europe and slowing of the global economy, the economic growth in Kosovo is expected to be moderate (World Bank Report).

DOING BUSSINES –WORLD BANK

Country's financial figures used in this paper are taken from the World Bank's report 'Doing business" 2012. According to this report, Kosovo is ranked 117 out of 183 economies. This year Kosovo dropped six places, compared to the previous year. The report on the reform of the business sector in 2012 was negative; the process of opening a business in Kosovo became harder and longer. It takes on average 320 days to obtain a constructing license in Kosovo and the price to be paid is 8.5 times the average of the per capita income. In investor protection terms, the World Bank's report ranks Kosovo in the 174 position which compared to the previous year is worse-off for two positions.

In enforcing contract agreements, Kosovo has not changed from the previous year, remaining in the 155th position. The anomalies in the judicial system and the inefficient law enforcement remain unaltered.

Ease of Doing Business Rank (out of 183 economies)			
Topic rankings	Doing Business Rank 2012	Doing Business Rank 2011	Change in Rank
Starting a business	168	165	-3
Dealing with construction permits	171	169	-2
Obtaining electricity	124	120	-4
Registering property	73	66	-7
Obtaining credit	24	21	-3
Protecting Investors	174	172	-2
Paying taxes	46	45	-1
Trading across borders	131	129	-2
Enforcing contracts	157	157	No change
Resolving insolvency	31	31	No change
DOING BUSINESS Rank	117	117	No change

Source World Bank 2012

LEGISLATION

Since 1999, Kosovo's established judicial system is fully in compliance with the EU legislation. Kosovo has installed international financial reporting standards. The legislation in Kosovo is available in the two official languages Albanian and Serbian but also in English.

TAXES AND CUSTOMS DUTIES

Currently, the majority of Kosovo's taxes are collected at the border. If the production industry is able to develop, the tax collection could be expanded and shifted internally which would mean it would be carried out by legal and private people, and that would have vital effects in encouraging imports of goods and raw materials for production purposes. If this does not happen, it is likely to discourage both domestic and foreign investors in terms of production. Clearly, it would be premature to abolish the duties which would have a devastating negative impact on the income and in the position of the government but Kosovo is heavily dependent on its competitiveness and its ability to grow and attract manufacturers. Some existing policies speak out against this tax category for intermediate goods and raw materials.

SMAL AND MEDIUM ENTERPRISES AND THE INFORMAL SECTOR

The informal economy prevents open competition and increases the operating costs of enterprises in the formal sector. Informal labor contracts and systematic evasion of social security contributions weaken employee protection and reduce their social benefits. It has a negative influence on the fiscal budget and in the complete infrastructure of the society. The approximate size of the informal economy ranges from 39%-50% of the GDP (Government Programme for Prevention of the Informal Economy in Kosovo 2010-2012). Increasing the number of small and medium enterprises in the formal sector is one of the biggest challenges of the small and medium enterprises' strategy (Government Program for Prevention of the Informal Economy 2012).
The informal economy weakens the trust between small and medium enterprises and the financial institutions, and reduces small and medium enterprises’ access to credit and the ability to make use of formal mechanisms for dispute resolution.

INSTITUTIONAL SUPPORT

Institutional support does not appear to be coordinated with well-defined policies which support business development. Kosovo government has planned a series of initiatives, however it is difficult to assess whether they will actually be implemented.The SME Support Agency has been created with the main purpose to take the leading role in supervising SME Strategy. These agencies are the following: Investment Promotion Agency of Kosovo (IPAK), the Kosovo Business Registration Agency (KBRA) and the Agency for Standardization. The Investment Promotion Agency of Kosovo (IPAK) is the primary Government Institution which supports foreign investment in Kosovo. “IPAK provides a wide range of support programs to help international businesses achieve their relocation objectives, and the Agency is also charged with the promotion of exports” (www.invest-ks.org/).

The Kosovo Chamber of Commerce (“KCC”) is the main business association in Kosovo. Established in 1962 by the Assembly of Kosovo, it is the legal representative of the interests of the business community in Kosovo.” The Kosovo Chamber of Commerce is a non for profit, independent organization with no political affiliation. KCC is organized and works under the objective of improving the market economy, entrepreneurship and triggering competition between its members. Kosovo Chamber of commerce members operate in different areas of the economy, including construction, banking and insurance technology, telecommunications, metal processing, wood processing, food and beverage processing, etc’’ (www.oek-kcc.org/2012/en/)

EDUCATION IN ENTERPRENEURSHIP

“Highly educated entrepreneurs are particularly successful when they are owners of firms, their educational level makes them choose the firms with higher growth expectations“(Almus, 2002; Wasilczuk, 2000). Education system in Kosovo since the end of the war is dramatic (Sommers & Bucklan, 2004). Only part of the entrepreneurs went through the formal school system at one level or the other (Koman 2008). It is also hard for small and medium enterprises in Kosovo to retain the employees they have trained when they cannot offer competitive compensation to them because of external factors.

CORRUPTION

According to the Global Corruption Barometer by Transparency International in 2010, 73% of respondents in Kosovo believe that the level of corruption in the country is increasing, while only 8% believe that corruption is the same or has decreased. The report adds that political parties lead in terms of corruption, followed by the judiciary and the

legislative body (http://gcb.transparency.org/)
Compared to the region, Kosovo is ranked among the countries with the highest level of corruption, with a coefficient of 2.8 (0-3 are listed countries where the level of corruption is pervasive), and 110 in place in the overall standings.
The perception of the respondents according to this report is that the sectors that are less corrupt in Kosovo are: Military institutions, religious institutions, and the police. Around 15% of respondents said that they or someone associated with them have been involved in bribing institutions. According to the Global Corruption Barometer, 61% of people surveyed think that anti-corruption measures by the government had no effect, while 32% think that the measures have been effective. When asked whether respondents were willing to participate in the fight against corruption, 70% declared themselves willing to report any case of corruption. In addition, about 70% of them stated that people have an impact on the fight against corruption, while half of them said that they could imagine themselves in a fight against corruption.

FINANCING

Financial resources are an important factor for the development of enterprises in Kosovo, which in turn will affect the country's economic growth. However, funding is likely to facilitate the creation of new businesses or expanding current capacity of the enterprises in Kosovo. This statement comes from the fact that interest rates of commercial banks, which are the main source of external finance companies, are categorized as high and as additional liquidity for the company. From research done in Kosovo industry, survey shows that the majority of companies that have invested in Kosovo (75.8%) have used their capital and 20.7% had used bank loans from banks operating in Kosovo. Other sources of funding are proportionally less; loans from banks operating abroad to participate by 0.5%, non-governmental organizations, donors, or to refuse the return of those funds by 0.9% and loans from friends and family with 0.7%. Moreover from the same survey, the results show that the majority of the companies that have received bank loans (81%) reported that credit conditions are unfavorable. In this context, the majority of the companies (74.2%) reported that the annual interest rate is 10-15%, and 14% of companies reported that they paid higher interest rates. Only about 11% of businesses have received loans with interest rates below 11%. These data show solid financial conditions that are presented in the perceived barriers to such commercial enterprises as well

(Riinvest- Industry Strategies 2011)

DISCCUSION AND CONCLUSION

The purpose of this study was to identify the primary elements influencing the growth of Kosovo SME's. The aim is to answer the research questions, the conclusions are drawn based on these evaluations and the research as a whole. This study shows the need for further improvement in the financial and juridical sector. The role of a sound financial system has been recognized worldwide and state policies concerning the economy have proven to be successful in supporting economic growth. However, it is important to recognize that growth is important to further remove market imperfections, develop better credit allocation, and improve access to financing for small and medium-sized enterprises. The present phase of transition in Kosovo is crucial for the development of an effective market economy. SME's are expected to play a very important role in the creation of modern market economy development and economic growth of countries. Kosovo has a large trade deficit, where imports dominate exports by 90% (Kosovo Agency of statistics 2012). Small and micro enterprises do not compete globally. Exports are dominated by scrap metals, raw metals, and other minerals produced by large companies (Doing Business in Kosovo, 2012).

In order to improve the competitiveness of prices, companies need to become more efficient in their internal operations and to advocate changes in the economic policy. Competitive advantages in labor quality and costs must be supported by measures, which will reduce the costs of production inputs, raw materials, and energy and expense transactions. With the aim of achieving success in export industries, companies must have clear developing strategies and acquire knowledge necessary for penetrating foreign markets.

The creation of a friendly regulatory environment for foreign direct investments, as well as the fight against corruption, may create the necessary background for the establishment and functioning of SME's and the reduction of unemployment.

The strategic advantage of small and medium enterprises in Kosovo should be based on innovating, developing partnerships and penetrating in the regional market.

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IMPACT OF THE BUSINESS ENVIRONMENT IN PERFORMANCE OF SMEs IN KOSOVO

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Abstract

The aim of the paper is to explore the impact of the business environment in the performance of small and medium enterprises (SMEs). Research objectives include identification of the literature review outcomes for the SME sector, barriers of external factors that SMEs encounter during the development of entrepreneurial activities, and the impact of business environment in performance of SMEs. Employing secondary data, this paper analyzes the impact of business environment in performance of SMEs. In particular, it analyzes the impact of external factors that are key important to development of SME sector. Among the external factors to be investigated are institutional factors and access to finance. The results of this paper include several constraints of the business environments on SMEs in Kosovo. The main ones are high interest rates, informal economy and institutional barriers, fiscal evasion, strong competition and administrative borders. This research study is only focused for SMEs in Kosovo.

Key words: business environment, SMEs, performance

INTRODUCTION

It is commonly acknowledged fact that business environment has a large impact on the performance of firms. It is also well known that business environment impacts the international economic integration and aggregate performance as well. Since 1999, Kosovo’s economy has been driven mainly by international aid, remittances and public sector (World Bank, 2010), and the role of the private sector have been relatively weak. Kosovo is still in transitional period, where small and medium enterprises (SMEs) are expected to play a crucial role towards a free market and economic growth. SMEs contribute to generating employment, open competition, fast industry development, innovation and economic growth. However, firms need more favorable external business environment to support their entrepreneurial activities. Due to the unfavorable business environment and lack of capital liberalization, Kosovo has a lack of SMEs with fast growth potentials, which are contributors to job creation and economic growth.

In transition countries, it was crucial firstly to have legal and regulatory institutions in order to enable SMEs to register and get license for working purposes. Since there was a lack of relationship and trust between banks and businesses, the establishment of different laws, such as commercial, contractual, property rights, bankruptcy and collateral, real estate regulations and labor, have contributed significantly to strengthen their relationship and provide access to external finance. SMEs encounter a difficulty also with the compliance cost as a result of changes in the rules and regulations, as well as in laws and administrative procedures. External finance remains a challenge for SMEs, especially for new enterprises, which usually start their businesses with their own sources. Nevertheless, in order to be a growth-oriented firm, they have to expand by ensuring external finance from banks and venture capital. It should be emphasized that small firms encounter a challenge to access external finance mainly because they are less able to provide track record and collateral (Hashi & Krasniqi, 2010).

Kosovo suffers from misbalance of payments where imports dominate exports significantly. This is mainly due to the fact that Kosovo firms are not competitive in regional and international level. Weak firms exporting limit the contribution of firms to GDP, job creation and economic development. Dollars *et al.* (2006) shows, an important implication is that the investment climate affects the minimum level of productivity needed for a firm to export and therefore only most productive firms find exporting profitable. Therefore, the better the investment climate, the higher is the number of exporters in a particular country.

Considering the interaction of firms with business environment, this study aim to answer the following research question: *what is the level of the impact of business environment to SMEs?*

LITERATURE REVIEW

This part of the paper summarizes the review of literature on business environment and SMEs. Different studies have analyzed impact of business environment in performance of SMEs.

SMEs are generators of innovative and entrepreneurial activities. The entrepreneurial activity is very important for transition because it is a good source for economic growth through job creation and offering a wide variety of products and services (Mc Millan and Woodruff, 2002).

The SMEs represent a factor of balance at the micro and macroeconomic level. Having as the correspondence the middle class in the society, the SMEs counter balance the monopolies and oligopolies, reducing the capacity of the big companies of controlling the market (Savlovshi and Robu, 2011). Another important contribution of SMEs is that they generate innovation in the process of creation of goods and services, which creates value in the eyes of customers. New job creation, products and services are the result of innovation. SMEs play a unique active and critical role in the innovation process by their ability to invent in the new technological space and to improve the high technology information networks (Almeida, 2004). For economy as a whole, SMEs are launchers of new ideas and assemblage of new processed accelerating the increase based on a more effective use of resources (Zaman, 2007).

"Business environment is a concept that refers to the institutional framework, regulatory mechanism, macroeconomic stability, price stability, technological opportunities, and industry growth, including the rising demand for new products" (Tsai *et al.,* 1991; Zahra and Ellor, 1993; Lumpkin and Dess, 1996; Hashi, 2001; Smallbone and Welter, 2001a, b; McMillan and Woodruff, 2002; Pissarides *et al.,* 2003; Clement *et al.,* 2004, cited in Hashi & Krasniqi, 2010). Challenges to the growth and viability of SMEs are arising from globalization, increased customer expectations, technological advances, and increased competition (Benham, 2010). In the conditions of an economic environment in a permanent change, the SMEs are flexible and they have a great capacity of adjustment, encouraged by the low dimensions and the fast decision making process (Savlovshi and Robu, 2011).

According to Ayagari *et al.* (2005), theories provide ambiguous prediction about the correlations between the business environment and the size of

SME sector. On the one hand, easy entry and exit, sound contract enforcement, effective property rights registration and access to external finance can foster a thriving and vibrant SME sector with high turnover that sees a lot of entry of new and innovative firms, the growth of successful firms unconstrained by rigid regulations and exit of unsuccessful ones. On the other hand, costly entry and exit, rigid labor regulations and restricted access to external finance can also foster a large SME sector, but one that consist of many small enterprises that are either not able to grow or do not have incentives to grow beyond a certain size. Countries with higher GDP per capita, with lower entry cost, more effective systems of credit information sharing and more rigid employment regulations have larger SME sector.

According to Worthington *et al.* (2006), if the enterprise is to remain successful, constant attention needs to be paid to balancing the different influences on the organization and to the requirement to adapt to new external circumstances. This responsibility lies essentially with the organization's management, which has the task of blending people, technologies, structures and environments. Business organizations differ in many ways, but they also have a common feature: the transformation of inputs into output. This transformation process takes place against a background of external influences which affect the firm and its activities. This external environment is complex, volatile and interactive, but it cannot be ignored in any meaningful analysis of business activity.

Ovaska and Sobel (2004) have investigated the rates of entrepreneurial activity in post socialist countries. Such factors as low government corruption, credit availability, sound monetary policy, high foreign direct investment, contract enforcement, low regulations and taxes are associated with the higher rates of entrepreneurial activity.

Bah el *et al.* (2011) argues that businesses loose large share of their sale due to government regulation, poor infrastructure, crime and corruption. The implication of the losses is the lower aggregate output and total factor productivity. Beck *et al.* (2006) argue that main growth constraints of firms are financing, legal and corruption. They suggest that focus on improving institution and the overall business environment is the most effective way of relaxing the growth constraints firms' face and facilitate their contribution to economic growth.

Sloman (2008) concludes that the PEST or STEEPLE framework is widely used by organizations to audit their business environment and to help them establish a strategic approach to their business activities. To be successful, a business needs to adapt to changes in its business environment and, wherever possible, take advantage of them. Ultimately, the better business managers understand the environment in which they operate, the more likely they are to be successful, either in exploiting ever-changing opportunities or in avoiding potential disasters.

RESEARCH METHODOLOGY

A quantitative empirical research approach has been chosen to investigate the research questions. The investigation of impact of the business environment on the firms is based on secondary data sources such as current books, academic articles, and other sources on business researches and evidences. The main source of information is the Business Service Centre of Kosovo (BSCK) datasets obtained from survey of 500 SMEs in Kosovo carried out in 2011. BSCK survey addresses several aspects of SME management and its interaction with business environment. This survey allows us to gain an understanding of business environment from the firms' perspective. Various experts have contributed to design the survey questionnaire and sample selection. The questionnaire contained nine sections, which included qualitative and quantitative questions relevant to the entrepreneurship and SMEs growth in Kosovo. Face to face interviews were conducted mainly with owner/managers or in some cases with financial managers. The sample of SMEs is drawn randomly from the business register kept at the Ministry of Trade and Industry / Agency for Business Registration through excel and SPSS using random command. Nevertheless, because of the unsatisfactory results of representation of medium enterprises and manufacturing ones, stratification was applied to have representation of both size of the company and sectors of business activity. The sample includes SMEs within all the regions of Kosovo, stratified to the three main sectors, such as trade, production and services (BSCK, 2012).

FINDINGS AND DISCUSSIONS

Based on the indicators of Doing Business from World Bank, Kosovo is ranked 98^{th} out of 185 countries in 2013. Table 1 shows most of the indicators improved in 2013 compared to 2012.

Table 1 Rank of indicators in 2012 and 2013

Indicator	Rank in 2012	Rank in 2013	Progress/Deterioration
1. Starting a business	168	126	Improved
2. Dealing with construction permits	171	144	Improved
3. Getting electricity	124	116	Improved
4. Registering property	73	76	Deteriorated
5. Getting credit	21	23	Deteriorated
6. Protecting investors	174	100	Improved
7. Paying taxes	46	44	Improved
8. Trading across borders	131	124	Improved
9. Enforcing contracts	157	138	Improved
10. Resolving insolvency	31	87	Deteriorated

Source: World Bank Doing Business Report, 2012&2013

It should be emphasized that the growth of SMEs is not caused because of favorable business conditions, but due to the entrepreneurial spirit among Kosovo’s citizens. It is crucial to identify external and internal environment that influence the growth of enterprises in Kosovo. The internal factors are dependent on the enterprise itself, while the external ones are dependent in the institutional factors (Ukaj, 2010).

Kosovo, being a new state in transition economies, can achieve economic growth by promoting entrepreneurship. However, there exist several barriers in entrepreneurial environment. Table 2 identifies some obstacles perceived by entrepreneurs based on BSCK SME Survey in 2011.

Table 2 Obstacles to Business

Obstacles to business	Average 2011	Obstacles to business	Average 2010
Strong competition	3.95	Informal economy/black economy	3.92
Informal economy/black economy	3.81	Strong competition	3.84
Taxes too high	3.58	Corruption	3.79
Supply with electricity	3.57	Taxes too high	3.64
Corruption	3.55	Fiscal evasion	3.41
Fiscal evasion	3.34	Supply with electricity	3.33
Law enforcement	3.22	Law enforcement	3.30
Crime ,robbery and anarchy	3.21	Sufficient and adequate Laws	3.15
Administrative borders	3.18	Political instability	3.13
Sufficient and adequate Laws	2.93	Administrative borders	3.07
Political instability	2.88	Crime ,robbery and anarchy	3.05
Delayed collection of debts	2.68	Lack of market demand	2.94
Lack of market demand	2.63	Delayed collection of debts	2.79
Access to finance	2.58	Access to finance	2.43
Insufficient capacities	2.22	Insufficient capacities	2.17
Supply of materials, machinery and equipment	1.98	Supply of materials, machinery and equipment	1.98
Luck of information concerning business	1.87	Luck of information concerning business	1.85
Business licensing	1.65	Transport	1.80
Transport	1.64	Business licensing	1.65
Employee skills	1.59	Employee skills	1.53
Managerial skills	1.35	Managerial skills	1.35

Source: BSCK SME Survey 2010 and 2011

Table 2 shows that obstacles caused by external environment are very high. The top ones include black economy, competition and corruption. This shows that there is poor institutional environmental for doing business. Therefore, it is crucial to improve legal framework in order to mitigate these barriers and stimulate productive entrepreneurship (BSCK, 2012). Informal economy hinders fair competition and increase costs relative to enterprises operating in the formal sector. Informal labor contracts and systematic evasion of social security contributions weaken the protection of workers and reduce their social benefits. Informal businesses have caused a negative impact on the budget and social infrastructure due to decreasing revenues and subsequent reduction of proper public services.

By creating appropriate structures, entrepreneurial activities will be developed. Moreover, Hoxha and Capelleras (2010) argue that informal barriers are present due to the lack of strong institutional framework. The importance of formal sector and informal sector varies from country to country. While less than 5.5% of the formal work force is employed in SMEs in Azerbaijan, Belarus and Ukraine, this share is more than 80% in Chile, Greece and Thailand. Similarly, the ratio of informal economy relative to GDP varies from 9% to Switzerland to 71% in Thailand (Ayagari *et al.* 2005). In Kosovo, the ratio of informal economy relative to GDP varies from 39-50%.

Similar barriers experienced by entrepreneurs in SMEs in Kosovo have been identified by Riinvest Institute survey (2006). Based on Riinvest results the top three barriers were unfair competition, corruption and informal economy which are the same as identified in BSCK Survey in 2010, only the ranking is slightly different. This shows that the barriers remain the same throughout the years and there has not been so much to alleviate them.

Institutional factors

In general, the institutional factors are the main features of the business environment, which comprises of legal system, judiciary and law enforcement agencies, as well as the level of crime and the extent of the corruption within a country. The institutional framework affects the growth of businesses, especially the entrepreneurial activities. Unfortunately, due to the poor institutional framework, many enterprises move to partially or fully informal sector by not obeying the necessary laws and regulations. This leads to unfair competition, because those that obey the laws and regulations encounter high costs of doing business (Hashi & Krasniqi, 2010).

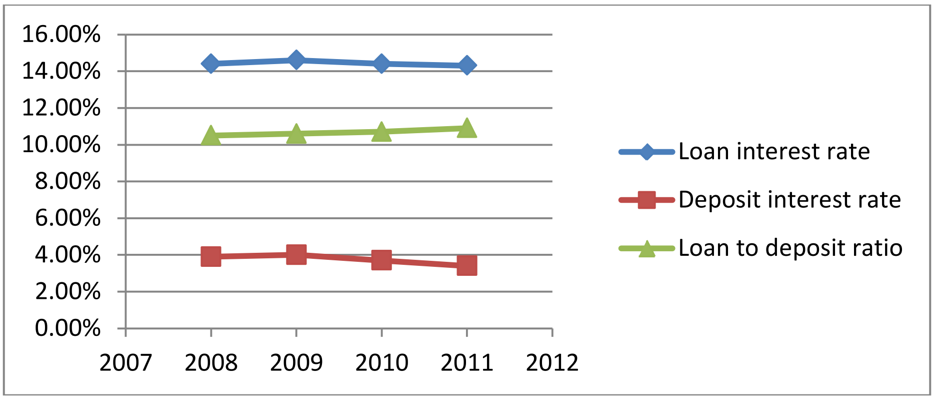
Kosovo is facing problems with high informalities and tax evasions, where large share of turnover from businesses is not declared to tax authorities. However, in 2011, there are some improvements because of more frequent and strict control of officials from tax administration (BSCK, 2011). Furthermore, there should be an adequate legal framework for SMEs in order to stimulate investors and to upgrade the informal economy to formal.

According to BSCK report the major obstacles to the businesses are related to low performance of institutional factors. Removal of barriers to business investment, growth and job creation depends on all levels of government and administrative simplification is important to promoting the development of the SME sector. This is particularly important as regulatory and legislative barriers appear to have greater impact on SMEs than on other large businesses. Also, according to Ahmeti *et al.* (2012), legal framework remains a barrier for SMEs. Therefore, there is a need for more suitable legal framework comprised of laws of property, bankruptcy, contracts, commercial activities and taxes.

Access to finance

Access to financing continues to be one of the most significant challenges for the creation, survival, and growth of SMEs, especially innovative ones (OECD, 2009). Whether business owners can access adequate and appropriate finance to grow is a particular concern for policy makers (Olawale and Gawre, 2010). According to Ayagari et al (2006) low entry cost, easy access to finance (low cost of registering property which makes it easier to put up collateral) and greater information sharing all predict a large SME sector. Beck and Demirguc (2006) analyzed recent empirical research on effects of access to finance in SMEs performance, showing that access to finance is an important growth constraint for SMEs. Financial and legal institutions play an important role in relaxing this constraint, and that innovative financing instrument can help facilitate SMEs' access to finance even in the absence of well developed institutions. The competitive business environment, of which access to finance is an important component facilitates entry, exit and growth of firms and is therefore essential for the development process. Access to external finance affects implementation of growth opportunities (Fadahunsi, 2012).

Lending activity of the commercial banks represents an important source of financing for the consumption and investments in the country. Loans to businesses remain very expensive with interest rates around 14 %.
Figure 1 Loan in business sector



Source: CBK, Financial Stability Report 2011

The average interest rates on deposits are 3.4%. On the other hand, interest rates on loans are 14.3%. Consequently, the interest rate spread margin in 2011 averaged at 10.9%.

According to UNDP (2007), the external factors that affect entrepreneurs include finance, taxes, laws and regulations and political instability. When entrepreneurs start a new business, they face financial constraints, especially in the initial phase. The main problem that enterprise owners encounter is the high interest rate and repayment term in the banking sector. That is why the main source of finance is personal savings which comprise of 55%, while less than 33% finance their business through bank credits. This shows the lack of financial support to SMEs (Ahmeti *et al.*, 2012).

CONCLUSION

This paper adds value to the existing research literature on the business environment in Kosovo and its impact on the SME sector development. The paper uses available data and employs the descriptive statistics indicators in order to explore the impact of external business environment in performance of SMEs. The paper provides a solid review of existing literature in its field of research. In particular the aim of the work was to identify the impact of institutional factors and access to finance in performance of SMEs.

Institutional factors are the main features of the business environment, which comprises of legal system, judiciary and law enforcement agencies, as well as the level of crime and the extent of the corruption within a country. Some of the top barriers that hinder businesses such as informality, unfair competition, corruption, enforcement of law have remained as the consequence of low performance of institutions. An obstacle of business environment in Kosovo is the high rate of Informal economy that hinders fair competition and increase costs relative to enterprises operating in the formal economy.

Despite the important impact that access to finance have on creation, survive and growth of SMEs, the amount of loans offered by banks is limited and interest rates are extremely high amounting around 14%. Access to finance is related to other institutional factors which are changing rapidly and thus being unstable imposes risk on bank credit activities.

Due to the fast legal, property and fiscal transformation Kosovo as transitional country has very dynamic and turbulent business environment which imposes a lot of barriers for SMEs performance. Sustained reforms would improve indicators of business environment that have a crucial impact on SMEs sector. Kosovo as a country in transition depend on improvement of SME sector that can deliver high quality employment, technology spillover and economic growth. BSCK survey (2011) and Riinvest Institute survey (2006) have identified similar barriers experienced by entrepreneurs in SMEs in Kosovo. This shows that the barriers remain the same throughout the years and there has not been so much to alleviate them. However, just recently some indicators of doing Business Report of the World Bank shows solid improvement in 2013 where Kosovo is ranked 98th compared to 2012 ranked 117th out of 185 countries. Significant improvement has been done in recent time in terms of protecting investors and registering a business.

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