

## **ANALYSIS OF THE ORGANIZATIONAL FRAMEWORK OF SMALL AND MEDIUM ENTERPRISES IN KOSOVO**

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### **Abstract**

This research paper intends to conduct a study that specifically examines the role of entrepreneurship as a valuable resource in Kosovo, with a particular focus on the growth and advancement of small and medium enterprises. The objective is to analyze the progress of entrepreneurship, particularly in small and medium-sized enterprises (SMEs), in Kosovo during the past 15 years. The aim is to identify the key elements that have had a substantial impact on their growth and resilience. This study aims to examine the objectives that are relevant to the topic at hand. Based on the analysis, recommendations will be made for policymakers. These recommendations will focus on implementing specific measures to reduce interest rates in the domestic credit market. It is believed that high interest rates have been a major obstacle to the proper growth and development of small and medium-sized enterprises (SMEs) in Kosovo. This study seeks to offer a theoretical examination of the funding techniques employed by corporations and to assess the challenges faced by Kosovar enterprises in their efforts to build strategies for the domestic markets. Throughout the project, we will also examine the expertise of developed nations about the financing of enterprises. In this paper, our aim is to provide a modest contribution by discussing the necessary steps to enhance the situation and address the existing challenges faced by firms in Kosovo when it comes to implementing effective strategies and obtaining the required funding. The data obtained in this study will provide a foundation for exploring a promising area of research for future investigations.

**Keywords:** Structure, non-volatile memory, inflation, trade balance, unemployment, labor market, monetary-credit policy

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## **1. Introduction**

This study seeks to conduct a study that specifically examines the relationship between entrepreneurs and the organizational structure of small and medium enterprises (SMEs) in Kosovo. This study aims to analyze the factors that have influenced the development of entrepreneurship in small and medium enterprises (SMEs) in Kosovo over the past 15 years. The objective is to identify the most significant drivers that have impacted the level and stability of entrepreneurship in this context. This study aims to examine the objectives that are relevant to the topic at hand. Based on this analysis, suggestions will be produced for policymakers. These recommendations will suggest specific actions that may be taken to create favorable conditions for the development of entrepreneurship in Kosovo.

Kosovo is the least developed nation in Europe. The gross national product per capita is approximately 2,000 euros, making it the lowest among the countries in the region. Specifically, it is half the average value of these countries. The mean economic expansion over the past few years was approximately 2%. Despite its seemingly significant magnitude, this economic growth is insufficient to tackle the pressing economic challenges that Kosovo is confronted with, including unemployment, poverty, and a trade deficit, given its low degree of development.

According to the existing research, Kosovo is expected to see an economic expansion exceeding 7% in order to alleviate issues like unemployment. However, given the current pace of development, it is currently impossible to achieve this goal and it is unlikely that Kosovo's institutions will succeed in doing so. Kosovo's imports of products significantly outweigh their exports, accounting for a mere 5% of the total. These ratios demonstrate a significant imbalance that signifies an exceedingly large trade deficit.

To address significant economic challenges, it is imperative to meet various criteria, including: formulating a comprehensive national strategy focused on achieving economic growth exceeding 7%; enhancing productivity and competitiveness; fostering an investment-friendly environment; implementing policies to boost exports and reduce the trade deficit; and optimizing the utilization of natural, human, and financial resources, among others.

Unemployment has persisted as the primary economic issue in Kosovo for an extended period of time. Despite the absence of definitive figures, the unemployment rate persists at a very elevated level. Based on numerous studies conducted by both local and foreign institutes, the percentage is approximately 40%.

The institutions of Kosovo must prioritize the development of policies and methods to promote employment in order to effectively combat poverty, given the significant magnitude of the issue. Naturally, measures aimed at boosting employment have financial consequences. Hence, our research focuses exclusively on policies designed to enhance employment and the corresponding government expenditures associated with labor market reforms.

The paper is organized as follows: aside from the introduction, it includes an overview of the issue, five chapters with numerous subchapters, various statistics pertaining to the problem addressed in the article, a conclusion, and a basic bibliography, among other elements.

To comprehensively examine this matter, I have begun the paper by presenting fundamental information and concepts pertaining to the definition of entrepreneurship and the individuals who engage in entrepreneurial activities. Next, I delivered a presentation on the creation of the company plan, including its structure, goal setting, and the development of both the financial and marketing strategies. In the third section, I provided a concise overview of the various sources and types of financing available for small and medium enterprises. The fourth section of this study is dedicated to examining the primary structures and forms of small and medium enterprises.

## **2. Literature Review**

Entrepreneurship emerged as a result of the surplus output that surpassed local demand. This surplus included various goods, such as agricultural products, dairy products, and cattle. Initially, this led to the establishment of a barter system, enabling individuals to trade tangible things based on their respective needs. Subsequently, it gave rise to the emergence of a marketplace, where individuals congregated to swap or vend excess products with the intention of gaining financial benefit. This arose from their recognition that they could not indefinitely await a fortuitous demand opportunity in order to trade their items. Government agencies-initiated involvement in this field during the 19th century. The purpose of XVII is to provide individuals with the necessary funds to support and invest in profitable ventures. The entrepreneur bore the exclusive liability for the risk associated with such firms and was obligated to remit a predetermined payment to the government, irrespective of their potential profits. Governments see this as a lucrative source of income. In the 17th century, the economist Cantillon believed that an entrepreneur was someone who willingly assumed risks. In the 18th century, an entrepreneur referred to a guy who spearheaded significant industrial endeavors without assuming any financial liability, relying on external funding sources, often from the government. The emergence of entrepreneurship gained momentum in the post-World War II era of the 1950s, when nations endeavored to reconstruct their economies in the aftermath of the war's destruction. Individuals conceived innovative business concepts and embarked on entrepreneurial ventures with meager financial resources, ultimately establishing enterprises that posed a competitive threat to larger corporations. The advent of the Internet has resulted in a significant proliferation of new businesses and entrepreneurs that have discovered more convenient methods of conducting business by capitalizing on the simplicity of communication.

Thus far, there has been a lack of a highly specific delineation for the classification of a small, medium, or large firm. Enterprises in numerous nations are classified based on three

criteria to determine their size: balance sheet, gross yearly turnover, and average number of employees throughout the year.

Regarding small firms, it is expected that they possess individual qualifications in this matter:

- The owners actively manage them.
- They are very customized.

Primarily, they rely on internal sources of cash.

1. Micro-enterprises consist of a maximum of nine people who may work either full-time or part-time.

Number 2. Small firms possess:

- A maximum of 49 employees, whether full-time or part-time;
- Distinguishing one from the other;

Your yearly turnover must be €7 million or less.

- The annual balance must not exceed €5 million.

A single owner or a group of owners can only own up to 25% of the total amount of property.

The number 3: Medium enterprises can be defined as enterprises that meet the following criteria:

- Employ a maximum of 249 individuals on a full-time or part-time basis;
- both alternatives;
- must not exceed an average annual turnover of €40 million;
- own a yearly balance that does not exceed €27 million;
- Fulfill the requirement of independence (where one or multiple firms collectively possess no more than 25% of the capital and voting rights).

The source is the official definition of small and medium-sized enterprises adopted by the Commission, as published in the Official Journals of the European Communities No. L107/8.

- The number of employees is the most widely used criterion for categorizing firms as small, medium, or large. Based on this requirement, one case defines small business as any form of organization where the owner or director possesses the ability to recall the names of their employees.
- According to statistical data, small businesses typically have between 20 and 250 employees. In certain small enterprises, particularly in the United States, the workforce size ranges from 500 to 1500 or even higher.

**Table 1 The enterprises in Germany and Great Britain categorized by size**

	<b>THE SIZE OF THE ENTERPRISES</b>		<b>CRITERIA</b>	
A	Balance Sheet	Asetet gjithsej	1.93 €	1.4 €
	Gross turnover	Të ardhurat totale	4.0 €	2.3 €
	Nr. mesatar vjetor i Punëtorëve	Nr. Mesatar vjetor i punëtorëve	50	50
B	<b>Ndërmarrjet e mesme</b>			
	Balance Sheet	Total assets	7.7 €	5,6 €
	Gross turnover	Total revenue	16 €	11.2 €
	No. annual average of Workers	No. annual average of Workers	250	250
	<b>Large enterprises</b>			
C	Large enterprises in Germany as well as in Great Britain are considered those that exceed the criteria highlighted for medium-sized enterprises. Large enterprises in Germany as well as in Great Britain are considered those that exceed the criteria highlighted for medium-sized enterprises.			

This research paper intends to conduct a study that specifically examines the role of entrepreneurship as a valuable resource in Kosovo, with a particular focus on the growth and advancement of small and medium enterprises. The aim of this study is to analyze the overall growth of entrepreneurship, specifically in small and medium enterprises (SMEs) in Kosovo, with a focus on identifying the key factors that have had a significant impact on their level and stability over the past 15 years. This study aims to address the objectives that are directly relevant to the analysis. Based on this analysis, recommendations will be formulated for policymakers. These recommendations will guide them in implementing specific measures to reduce interest rates in the domestic credit market. It is crucial to address this issue, as it has been a significant hindrance to the growth and progress of small and medium enterprises in Kosovo.

This study seeks to offer a theoretical examination of the funding techniques utilized by corporations and to assess the challenges faced by Kosovar enterprises in developing strategies

within the domestic markets. Throughout the project, we will also examine the expertise of developed nations about the financing of enterprises.

In this paper, our objective is to provide a modest contribution by discussing the essential actions to enhance the situation and address the existing challenges faced by firms in Kosovo in terms of implementing effective strategies and obtaining the required funding. The outcomes attained in this study will establish a foundation for exploring a promising avenue of inquiry for future investigations. Considering the nature and purpose of this project, the primary focus was directed towards achieving these goals:

- To examine the policies aimed at fostering entrepreneurship and assess their influence on job growth in Kosovo.
- To evaluate company plans, with particular focus on their execution.
- To infer the composition of business plans based on the nature of the activity and its execution.
- To provide advice to the country's institutions on how to effectively implement these policies in order to maximize their impact on employment growth.

## **2. Methodology**

The research focuses on analyzing policies aimed at promoting employment, specifically those pertaining to labor market policies that have a direct impact on the growth of small and medium enterprises in Kosovo. Hence, the research upon which we have grounded this work has a remarkable range of varieties. We will present the definition of the basic ideas associated with these policies by depending on some of the newest studies that have been done by different academics in order to create a more accurate description of these concepts. Additionally, a range of government papers, such as KAS, MTI, and Central Bank publications, were utilized. Nevertheless, it is comprehensible that a paper, regardless of its extensive nature, cannot encompass all the studies conducted in this particular sector. Consequently, our primary reliance will be on the most exemplary, up-to-date, and well-supported advancements.

## **3. Findings**

Over the past decade in Kosovo, significant progress has been made in the establishment and growth of private, small, and medium-sized firms, resulting in valuable evidence. Despite the unfavorable conditions and obstacles imposed by the discriminatory policies of the Serbian government, many enterprises in Kosovo were able to endure, and, most importantly, private initiative and entrepreneurship have been bolstered.

A decade of disregard and insufficient allocation of resources to Kosovo's economy, which involved the exclusion of Albanians from employment opportunities, has resulted in a significant portion of the population falling into poverty. Small and medium-sized firms have demonstrated efficiency not just in conventional industries such as services, trade, tourism, and hospitality, but also in high-tech sectors.

The defining attributes of small and medium enterprises are as follows:

- More resilient to market volatility and economic downturns,
- Generate immediate impacts on employment,
- Mobilize resources and investment at the community level,
- They can be classified based on various structures,
- They possess a strong inclination for transitioning between projects.
- Managerial visions are readily translated into tangible outcomes.

Similar to Kosovo, several nations in the region encounter difficulties in securing funding for small and medium-sized firms, particularly in attracting substantial foreign capital for small enterprises. The contribution of small and medium enterprises (SMEs) to Kosovo's GDP in 2000 was 65%. Additionally, SMEs accounted for around 31% of employment.

However, in the United States of America, the employee participation rate in small and medium enterprises exceeds 54%, although in Western European countries, the proportion of employees in small and medium enterprises goes as high as 65%. Small and medium firms in Great Britain employ approximately 52% of the entire workforce, while in Italy the figure is 73%, in Germany it is 38%, and in Croatia it is 30%.

The number of private firms in Kosovo increased from 5,610 in 1991 to 16,371 in 1994. Nevertheless, the growth of medium- and small-sized private firms did not exhibit the same pattern. The most significant expansion of these businesses occurred from 1990 to 1993. Furthermore, there was a substantial surge in the number of self-employed individuals, in addition to the growth seen in private businesses. In 2002, there were a total of 54,412 registered firms in Kosovo, with 31,220 falling under the category of small and medium enterprises. It is expected that around 60% of these firms are functioning. In 1995, the private economy accounted for 55% of Kosovo's GDP, while small and medium enterprises contributed approximately 31% to employment in 2000.

In Croatia, small and medium-sized enterprises (SMEs) have accounted for approximately 30% of total employment in the economy in recent years. Poland has achieved significant progress, with over 2,546,405 registered small and medium enterprises, of which around 65%,

or 1,508,187, are currently operational. In 1996, Bulgaria had a total of 315,441 private firms. Out of them, 307,708 had less than 10 employees, 6,784 employed between 10 and 50 workers, 1,425 enterprises worked between 50 and 500 workers, and 54 enterprises employed more than 500 workers. In 1999, the contribution of small and medium-sized enterprises to the Gross Domestic Product (GDP) in Romania was 61.5%. In 1998, the number of individuals employed in small and medium-sized private firms in Kosovo exceeded 120,000. In 1998, a total of 14,008 small and medium enterprises were registered in Montenegro, with 38% of them actively operating. The contribution of small and medium-sized enterprises (SMEs) to the gross domestic product (GDP) in this country amounted to approximately 33.47%.

#### **4. Suggestions**

The business environment in Kosovo lacks proper organization and structure. Based on the available profiles, there is a lack of reliable data regarding the specific nature of business activities. For instance, ARBK is registered as a commercial business, but its actual operations in the field involve either production or services. There is no universal framework for registering and executing business changes, save for applications that adhere to established standards. Other decisions are not standardized and may not always be suitable for meeting those needs. The focus of the study is on the organizational structure of small and medium enterprises (SMEs), including their divisions, primary forms, advantages, and limitations. Sources of finance for small and medium enterprises (SMEs) and the ways in which they supply company funding, as well as the many forms of financing available for SMEs.

To effectively enhance employment rates and ensure prudent government expenditure that aligns with Kosovo's requirements, we shall provide the following recommendations:

1. In order to formulate a comprehensive national strategy for economic development, it is necessary to outline the specific objectives, goals, and ideas pertaining to economic growth and advancement. This plan should function as a definitive guide for the development of sector-specific strategies (such as industry strategy, agricultural strategy, etc.) as well as macroeconomic policies, which would align with the overall national strategy.

The second is to incentivize the production side.

1. a) The government ought to refrain from borrowing from domestic banks and instead seek loans from international financial institutions. This is because relying on internal loans would negatively impact lending to businesses.  
  
b) Streamline superfluous regulations, eradicating bureaucratic impediments for business.



- c) Promote investments in human capital.
- q) Increase investments in infrastructure.

To revamp fiscal policies in order to provide robust assistance to businesses, particularly producers.

- a) Fiscal policies should adopt an expansionary approach characterized by tax reductions and increased investments.
- b) Eliminate value-added tax (VAT) and customs taxes on imported production machinery.
- c) To eliminate the corporate income tax for all manufacturing companies, with the aim of boosting employment and decreasing the trade deficit, as reducing the trade deficit would impact financial concentration, which is a necessary condition for an investment-oriented strategy.

To formulate monetary policies that would effectively stimulate lending by offering more advantageous terms for company expansion.

- a) To expand the money supply, resulting in a decrease in interest rates, a rise in investment expenditures, and an increase in aggregate demand, ultimately leading to an increase in equilibrium output.
- b) To restore the pension fund and the privatization fund in Kosovo, which would have an impact on the expansion of the monetary supply.
- c) To establish a bank via a public-private partnership, exclusively catering to strategic sectors such as agriculture and the food industry.

The is to enact progressive trade policies within a unified economy in both regional and global contexts. These strategies should prioritize development rather than focusing primarily on the outcomes of international commerce.

The Ministry of Education and Culture should enhance its systems for the execution of labor market policies, including:

- a) Enforcing the labor legislation, enhancing the tripartite discourse, and strengthening the labor inspectorate.
- b) Implementing unemployment benefits while considering budgetary expenditures and their associated consequences.
- c) To provide vocational training for individuals who are unemployed and in need of retraining while aligning the training programs with the current demands of the job market.

To centralize the collection of budget revenues within the area instead of the current practice of primarily collecting them at the borders. Meanwhile, it is advisable to prioritize capital investments, particularly in initiatives with higher economic viability, when allocating expenses. Furthermore, augment the expenditures allocated to aggressive labor market initiatives.

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