

# ENTREPRENEURSHIP IN SERBIAN ENCLAVES IN REGION OF KOSOVO AND METOHIA

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**Abstract:** *On the sample of 84 Serbian companies which operate on Kosovo territory (Serbian enclaves) in post-conflict situation we want to find out which factors are crucial for their survival and success. Also we want to find out is EU regulatory document for small enterprises helpful for them in this situation. We did not find EU document helpful in this situation. The results have confirmed that the enterprises are aware that expanding the market range is the only real and sustainable method of developing their activities. The key limiting factor in expanding the market range is the unfair competition. Furthermore, we are particularly pleased with the fact that enterprises from the northern part of Kosovo and Metohia are aware of the importance of innovative activities, and they realized that in contemporary business world it is possible to survive and grow in the market only by developing and introducing innovations. There are no universal solutions in post-conflict situations. Search for ideal solution for developing the entrepreneur activities and it depends on the combination of social/political, institutional, cultural and economic aspects.*

**Key words:** *post-conflict, entrepreneurship, region of Kosovo and Metohia, Serbian enclave*



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## 1. Introduction - Absens, Carens<sup>1</sup>

The region of Kosovo and Metohia, as well as other parts of the former Socialist Republic of Yugoslavia, has no long tradition of entrepreneur activities, but they relied on large public and social enterprises. The large public and private enterprises, besides social, had a significant share in the structure of Kosovo and Metohia economy. The public enterprises, specifically those established by Serbian Government, despite extremely unfavorable and almost impossible economic conditions, successfully operated and thus contributed to the economic stabilization of the Province.

The process of establishing private enterprises in Kosovo and Metohia has particularly accelerated after the adoption of the Privatization Law by the end of 1991. It has unabatedly continued during the whole decade until NATO bombing of the Republic of Yugoslavia in 1999. The majority of established enterprises engaged in commercial activities, and less in agronomy, construction, transport, etc. Despite the fact that, according to the official data, these were small enterprises with the low capital and a small number of employees, due to their abundance they were of significant importance in the province economy. The owners were citizens of all nationalities, but mostly Albanians. The ambient of Serbian 20<sup>th</sup> century economy was very unfavorable and turbulent.

The economic sanctions, total blockade of the transport of goods and services to our country, astronomical inflation rate and great number of internally displaced persons are some of the factors of additional destruction of Serbian economy. Stronger, healthier and larger economies could not have endured or survived such conditions. The economic situation in Kosovo and Metohia province was more difficult and complex. The permanent activities of the separatist and terrorist organization, so-called Kosovo Liberation Army were directed not only to public assets but also to legal entities. Kosovo and Metohia, following NATO bombing (10<sup>th</sup> June 1999), pursuant to the international legislature and in accordance with the UN Resolution 1244, was proclaimed part of Serbian territory, under United Nations (UN) control. Kosovo unilaterally declared its independence, on 18<sup>th</sup> February 2008, recognized by majority of EU countries and USA.

However, a large number of countries still have not recognized Kosovo as an independent state, including the UN Security Council and thus Kosovo is still not an UN member. Despite the fact that the Republic of Serbia has not recognized the independence of Kosovo, there are *de facto* local institutions under no Serbian jurisdiction at the majority of its territory. However, the northern part of Kosovo and Metohia with predominantly Serbian population consisting of 4 Municipalities: Kosovska Mitrovica, Zvečan, Leposavić and Zubin Potok, remained under partial control of the Republic of Serbia and Serbian institutions are still functioning there. These institutions are part of economic, political, health, cultural and educational system of the Republic of Serbia and have partially survived in Serbian enclaves, as well.

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<sup>1</sup> Absent, Broken

## 2. Literature review and research issues

The reconstruction of the society and economic activities in post-conflict regions is not an easy task at all. The common characteristic for all these societies is destroyed infrastructure, economy and social devastation. (Dana & Dana 2000). The conflicts in Southeast European region (Southwest Balkans) left not only thousands dead and millions displaced, but also destroyed industry, economy and whole civil society (World Bank 2000). The reconstruction of this region is a very complex and difficult task.

There are a number of obstacles, In Kosovo and Metohia precisely, such as: lack of democratic tradition, violence and apartheid, insecurity of regional models (not any ethnic group in the region could be used as a model of ethnic co-existence), archaic social feature (“relicts of the past interfere with western style of leadership...”), transition without visible results (unclear/badly defined progress), humanitarian help (the help is not provided as swiftly as promised probably due to the lack of internal stability) (Pekmez, 2001). Most of assessments indicate that the influences of civil war, specifically indirect ones, have tendency to last over a long period of time (Chen et al, 2007). This includes direct costs as regards destroyed infrastructure as well as higher indirect costs as regards market disruption and increased risks of uncertainty.

The costs include destroyed capital, technological regression and huge shortfall in revenue (Abodie & Gordeazabal 2003 and Bozzoli et al, 2010). The participation of the government in entrepreneurship development is valuable due to the fact that small enterprises in post-conflict societies are mostly burdened with many problems and limitations not only economic in its nature and the role of the government is thus even more significant. The limitations vary from region to region or from country to country and from the sectors or enterprises in industry. However, there are common limitations in all post-conflict regions. Such as limitations as regards the lack or difficulties in capital access, specifically to financial capital, difficulties to access raw materials which are mostly imported, lack of access to business information, difficult access to other markets, difficulties in marketing, goods and services distribution, technological obsolescence, problems in communication, bureaucracy, rules and regulations generating market disruptions. (Michael & Pearce, 2009).

The economic development is the key feature as regards the promotion of stability, specifically in post-conflict regions, according to Lemmon (2012). Poor economic conditions and poverty are precisely the causes of majority of conflicts (Lee 2011). Therefore, economic reconstruction of the country or the region should be the priority once the conflict ends (Lemmon 2012 and McCauley 2013). The researches indicate that certain factors contribute to differences in economic development in post-conflict societies. The duration of the war and resource depletion have significant effect on economic development, according to Collier (1999). Vansandt and Sud (2012) indicate similar observations and specify that the war features, the features of the state participating in the war, economic policies and programs related to reconstruction also influence economic development.

The social reconstruction also takes place, parallel with economic reconstruction. It is multiple phenomena that consists of reconstruction of economic, legal, political and social institutions of the society (Krause and Jutersonke, 2005). This reconstruction includes infrastructure rehabilitation, economic policy management, reforms in public management sector, peace building, reforms in security sector and health and educational programs. (Sack 2005; Barakat and Zyck 2003).

However, the problem of post-conflict reconstruction is that it is so fragile and the probability of its recurrence is pretty high. (Collier 2013). The risk also depends on the quality and efforts of post-conflict reconstruction. (Bray 2009, Schramm, 2010). Researchers indicate that entrepreneurship is the most sustainable road to economic reconstruction and largely contributes to the development of post-conflict regions (Schramm, 2010, Leemon, 2012). The entrepreneurship enables employment, sustainable standard of living and decreases poverty, (Kunt et al 2009, Vansandt and Sud, 2012).

The problem occurs due to the fact that there are small numbers of studies in the current literature that explicitly refer to the influence of conflict on entrepreneurship and vice versa. Naude (2007, 2008, 2009), in his research about entrepreneurship, conflict and economic development, asserts that violent conflicts have devastating effect on economy and entrepreneur activities and often continue during the conflict even though they have to be adapted. Baumol (1990) defines entrepreneurs as geniuses who are very creative in finding ways to increase their wealth, power and prestige. Therefore, entrepreneur talents can be used for productive activities, but also for non-productive (renting) or destructive ones (illegal activities).

The significance of this view is emphasized through both theoretical and empirical researches. This means that entrepreneurship is not inherently productive or non-productive and available awards make it socially productive or non-productive. Similarly, Naude (2007) indicates that entrepreneurship itself is not either good or bad and it depends on incentive structure of particular time and society. Baumol's theory on productive and non-productive enterprise activities assists in explaining the development conditions of different economies.

The economies in former communist countries, e.g., are at different success levels in transition. He also explains that in stagnate and poor economies the award for non-productive entrepreneurship is sufficient to discourage the majority of highly productive activities.

Mehlum et al (2003) demonstrate the model on poor countries that remain trapped in their development as a result of misused entrepreneur talent according to what they named "predation". Their model indicates that the entrepreneur must choose to be either "predator" or "prey" (i.e. producer). Predators' activities include robbery, extortion, bribery and fraud. The economic development shall impact the mentioned choice and they indicate that in underdeveloped countries predators are more attractive than in developed ones due to insecure property rights.

Their model indicates that the economic growth and influx of new entrepreneurs is a way out of this trap and when economic growth leads to increase incentives, profit from productive activities, as well as the increase of government's ability to improve the implementation of the law. Thus, influx of new entrepreneurs undermines vested interests and even extrudes "predators" and offers new possibilities (Baland and Francois 2000). The instability may directly or indirectly influence the entrepreneur activity (Naude, 2009).

It is primarily reflected in the change of prices of goods intensively used in such situations, or in reducing the requests for entering the market and thus decreasing the costs of discovering potentially beneficial activities (Bennett, 2010). Entrepreneur activities during civil war often aim to provide public goods which the state cannot or is not willing to provide. The entrepreneurs also may be actively involved in initiative for peace building after the conflict. It is sensible, when analyzing both conflict and entrepreneurship, to differentiate conflict damaging to basic capital of the country (including buildings, infrastructure, hospitals, land) and the conflict targeting the civilian population (i.e. through the displacement of population or large number of victims).

Human victims lead to the lack in human resources and it impacts the quality and quantity of the workforce and thus also the business activities. Collier and Dupchonel (2013), referring to the data from Sierra Leone in post-war reconstruction, indicate that a great loss of human resources led to the lack of high-quality workers in the region. Thus, while the physical damages are mostly visible, conflict consequences are also reflected in technological regression and decreased demand. Singh (2013) considers that long-term conflict period overshadows short-term positive impacts on some entrepreneur activities. He has determined that conflict decreases investment in long-term technologies and other innovative activities. Collier and Dupchonel (2013) have determined that conflict leads to decrease of enterprises' technological sophistication. Thus, the conflict leads to the decrease not only in human resources, but also in technologies and innovation that can also lead to negative impact on long-term economic growth.

The importance of local entrepreneur activities that could be the key feature of economic and society reconstruction as regards to entrepreneurship in conflict region and post-conflict reconstruction is emphasized. The most sustainable method of economic development in these regions is local participation in entrepreneurship, (Bray 2009). The entrepreneurship is emphasized as the most sustainable modus for people to continue their lives through accepting the local business activities that contribute to economic reconstruction and social stability, (Bray, 2009). Schramm (2010) claims that entrepreneur model is the best mean to reconstruct post-conflict economy.

The entrepreneurship creates possibilities for employment, social security, maintains the standard of living and decreases poverty. The combination of traditional efforts in developing entrepreneurship and initiative in social entrepreneurship can lead to sustainable growth and development, specifically in regions where economy and society were affected by conflict, (World Bank, 2000).

The need for such combination in the approach has been emphasized in academic institutions and reports in order to achieve economic and social/political development, (World Bank, 2000, Dana, 2000, Nachmians 1999, Pekmez, 2001). The entrepreneurship educators should find it helpful to respect the level of national or regional development, to use adequate and relevant examples in their courses, to set goals for students, and also to contribute to a complete success of entrepreneurship education, (Mueler, 2002). The students' needs and goals should be taken into account when modeling entrepreneurship education, specifically in post-conflict situations considering that it may differ from the other entrepreneurship models or features. Reynolds et al (2002) have discovered a dynamic dimension within the enterprise activities.

This "dynamic dimension" indicates whether the entrepreneurship activity commenced as a reply to market opportunity (enterprise chance) or it was initiated as the best alternative (necessity entrepreneurship). They also determined that entrepreneurship as the necessity prevails in underdeveloped countries with no social security system. The local population differs from the category of "necessity entrepreneurship" which Reynolds et al (2002) published in GEM category, in a sense that the scope of entrepreneur abilities and not the individual motivation limits the growth of business.

One may, for example, imagine "opportunity entrepreneurs" stuck into local entrepreneurship. Provided the scope of possibilities available in the market was different entrepreneurship opportunity could have led to the growth of business. However, it is possible that local entrepreneurship and necessity entrepreneurship may overlap to some extent.

### *2.1 The regulation on small-sized enterprises*

The Regulation on small-sized enterprises for Europe was adopted in June 2008 and reflects the political will of European Council to recognize the central role of small businesses and systematize it in coherent framework for EU countries and EU candidates often recognized as post-conflict regions. The objective of this Regulation is to improve the basic entrepreneurship approach in society and to strengthen the principle "first think about the small" in European policies and administration.

This slogan should become the leading one for all political and administrative decisions. The Regulation on small-sized enterprises should help the enterprises to grow faster and stronger and provide them the support and encouragement to use the potential of creating sustainable growth and more jobs. The Regulation prescribes a number of measures aiming to strengthen small-sized and medium-sized enterprises (SMEs) being the main force of economic growth, innovations, employment and social integration in the region.

The Regulation on small-sized enterprises refers to the following principles: promotion of the entrepreneurship, the second chance after bankruptcy, better legal regulations, public administration, access to public procurement, access to government help, support in access to financing, internal market access, support in innovations and support in internationalization.

All these principles aim to facilitate business operations of the small-sized enterprises and provide them with adequate support. As regards to the northern part of Kosovo and Metohia, it is necessary to explore which principles of the Regulation on small-sized enterprises may be implemented and prioritized considering the specific situation. Previous researches (Krampe, 2016) indicate that enterprises in Kosovo & Metohia region conduct their most intense activities in the territory of the municipalities where they are located (Northern Kosovo and Metohia), in Serbian enclaves and other parts of Kosovo and Metohia.

Serbian enterprises conduct their most intense activities in other parts of Kosovo and Metohia, Serbia and the other Balkan countries. The best markets for the enterprises from Kosovo and Metohia are considered to be the northern part of the region, the Municipality where the enterprise is located and Serbian enclaves. The best markets for the enterprises from Serbia are considered to be the territory of the Municipality where the enterprise is located, Serbian enclaves and the remaining part of Kosovo and Metohia. As regards the projected progress, enterprises from Kosovo and Metohia believe that they achieve the best results at the territory of the Municipality where the enterprise is located, northern part of Kosovo and Metohia and Serbian enclaves.

The enterprises from Serbia consider that the best progress can be achieved in other parts of Kosovo and Metohia, Serbia and the remaining part of Europe. As regards the obstacles for expanding their market, Kosovo and Metohia enterprises consider them to be: unfair competition, working skills and safety situation. On the other hand, enterprises from Serbia consider that their main obstacles for progress are: safety situation, working skills, high taxes and regulations. As regards their greatest problems the enterprises from Kosovo and Metohia believe them to be: standards, regulations and information on technologies.

The enterprises from Serbia consider their greatest problem to be: regulations, lack of capital and access to public procurement. As regards to the administrative obstacles, enterprises from Kosovo and Metohia cite the following ones: issuance of building permits, tax system and export system. The enterprises from Serbia cite tax system and export-import system as the greatest obstacles in their business operations. As regards to the financial resources, enterprises from Kosovo and Metohia believe the most problematic to be international donations, government institutions loans and their own resources.

The enterprises from Serbia as their greatest problem cite international donations, their own resources and bank loans. The enterprises from Kosovo and Metohia consider the key support is provided by their chamber of commerce, the government and cooperation with international institutions. Serbian enterprises believe that it is priority necessary to improve the regulations, provide finances and solve the issue of standards. They also consider it necessary to solve tax issues and export-import system. As regards the financial resources, they believe it is necessary to solve the problem with international donations, bank loans and their own resources.

They believe that the key support is provided by public procurement, cooperation with international institutions and loans. As regards the innovations, there is complete congruency: both believe it necessary to create new appearance on the market, acquire new knowledge and skills, as well as new markets.

The enterprises from Kosovo and Metohia believe the best method to achieve the above mentioned is to cooperate with consultant agencies and research institutions. The enterprises from Serbia are of the same opinion. Having in mind the above mentioned facts, we formulated the following research hypothesis:

1. *How do innovative enterprise activities affect successful work operationally defined by gained revenue*
2. *How does the market range affect successful work*
3. *How does the enterprise business environment affect the successful work*
4. *Does the EU Regulation on small-sized enterprises moderate<sup>2</sup> these relations*

### **3. Variables**

For this research and in compliance with the theory thesis and hypothesis, two ad hoc questionnaires have been created. The first Questionnaire relates to business activities and consists of four subscales: general enterprise data, market range, innovative activities and business environment. The scales are operated at the nominal level by multiple choice questions and at the interval level by questions replied to by the examinee choosing from five-level scale of Likert-type.

The reliability coefficient for this Questionnaire is 0,89 confirming it to be a reliable method for data collection. The second Questionnaire is designed in compliance with the Regulation on small-sized enterprises. It consists of ten subscales operated at the internal level by questions at five-scale of Likert-type. The reliability coefficient of this Questionnaire is 0,91 indicating good metric features.

### **4. Research procedures**

The authorized enterprise representatives replied to the Questionnaire related to business activities in the first part of the research (Podsakoff, 2003). The total of 250 online Questionnaires sent by e-mails, 117 examinees (response rate=44.83 %) replied.

The e-mails were sent, in the second round of the research, with the Questionnaire based on the Regulation on small-sized enterprises to the examinees who replied in first round. The total of 91 examinees replied in the second round of the research. The total of 7 examinees was excluded from the processing leading to the final sample of 84 enterprises.

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<sup>2</sup> The Variable that moderates the relation between two other variables and thus produces the interaction effect

#### 4.1 Research sample

Our research included 84 enterprises: 55 from Kosovo and Metohia and 29 operating near the administrative border in Serbia. We may conclude that most enterprises from Kosovo and Metohia have been established after 1999 (61,8%), while most enterprises in Serbia have been established prior to 1999 (44,8%). Based on the territorial distribution, we conclude that both examinees' population are dominated by small-sized enterprises of up to nine employees: Kosovo and Metohia 76,4%, Serbia 55,2%. The smallest number of enterprises employs 50 to 250 employees.

### 5. Factor analysis of the Questionnaire based on the Regulation on small-sized enterprises

In order to provide adequate analysis by structural modeling, we decided to factorize moderate variable, i.e. reduce it to minimal number of variables providing the creation of one latent. We reduced the questionnaire from ten subscales to two manifest variables applying the procedure of the exploratory factor analysis (EFA). We decided, in order to provide robustness of this analysis, to apply the procedure of creating fixed number of factors, in this case two. The results are as follows.

Factor	Roots			Rotated		
	Total	% variances	cumulative %	Total	% variances	cumulative %
1	11.754	31.767	31.767	9.227	24.938	24.938
2	3.794	51.253	82.020	6.321	52.083	82.020

Tab. 1. Percentage of the variances explained by factorization

Table 1 displays that the factorization of the questionnaire onto factors with characteristic roots exceeding 3 is 82,20% of explanations of the variance of the observed phenomenon ensuring an evasion of unnecessary facts in providing moderate role of this variable in procedure of structural modeling and for the purpose of confirming hypothesis of the research.

	Component	
	1	2
You consider Entrepreneurship to be the key principle in educational program	-.211	<b>.613</b>
You consider there is good level of cooperation between business communities and schools	<b>.460</b>	.358
You think the tax system supports the business	<b>.363</b>	-.112
You consider support measures are very incentive for business	<b>.512</b>	.130
The efficient procedure shall swiftly restart the business provided the bankruptcy is not false	-.267	<b>.716</b>

The honest entrepreneurs restarting their business should be treated as beginners	-.024	<b>.539</b>
You consider that the national goal is to decrease the administrative business taxes	<b>.463</b>	.185
There is the usual commencement and annual report date	.257	<b>.602</b>
The lowest rate of VAT(Value Added Tax) for registration in the municipality	.166	<b>.699</b>
Possibility to decrease VAT in labor market services	.065	<b>.594</b>
Time and money needed to register the enterprise	<b>-.182</b>	.168
Time and reasons needed for applying for business permit and license	-.170	<b>.367</b>
You consider there are rules protecting enterprises from unnecessary taxes	<b>.478</b>	.391
You consider the information on public procurement is sufficiently available	<b>.596</b>	.017
You consider there are public programs that facilitate the participation of SMEs in public procurement procedure	<b>.786</b>	-.032
You consider there are special measures which protect and support subcontractors of public contracts	<b>.748</b>	.092
You consider there is a good quality and availability of government assistance to SMEs	<b>.646</b>	.001
You consider the government assists in supporting innovations in SMEs	<b>.711</b>	.022
You consider there are measures to support energy savings in SMEs	<b>.715</b>	.028
You consider there are sufficient guarantees for loans and credits	<b>.559</b>	.344
You consider there is public support for equality in final product access	<b>.683</b>	.014
You consider the tax system is affirmative for private investors	<b>.702</b>	.276
Availability of finances for SMEs from EU funds	<b>.677</b>	.083
You consider small-sized enterprises and entrepreneurs are protected from delayed payment	<b>.628</b>	.369
Grade the importance of implementation of the internal market rules	<b>.586</b>	.382
Grade the importance of support service	.361	<b>.526</b>

Grade the availability of EU prices and international standards	.419	<b>.456</b>
Grade the support service protecting intellectual property rights	.329	<b>.617</b>
Grade the support service assisting SMEs	<b>.508</b>	.463
You consider there are support measures to improve innovation capacities	<b>.640</b>	.308
You consider there are support measures for participation in EU funds	<b>.652</b>	.337
You consider there are support measures to technological innovation	<b>.588</b>	.307
You consider there is access to electronic invoicing and e-management	.228	<b>.555</b>
You consider there are support programs for eco-management and organic products	.400	<b>.466</b>
Grade the programs and promotions for small-sized enterprises	.404	<b>.577</b>
Grade the support measures in finding international partners	.395	<b>.551</b>
Grade the quality of level of EU enterprise network	.291	<b>.627</b>

Tab. 2. Saturation factor

Based on the content of the thesis and saturation factor, (Table 2) the first factor was named RECOMMENDED SUPPORT, and the other RECOMMENDED PROCEDURES.

## 6. Structural model

The basic parameters of SEM analysis indicate that the suggested model is statistically significant and that all relevant parameters indicate the significance of the analysis within the acceptable limits. Table 3 displays the indexes of these parameters.

Average path coefficient (APC)	0.190	<b>P=0.045</b>
Average R-squared (ARS)	0.175	<b>P=0.039</b>
Average adjusted R-squared (AARS)	0.171	<b>P=0.033</b>
Average block VIF (AVIF)	1.174	<b>acceptable</b>
Average full co linearity VIF (AFVIF)	2.040	<b>acceptable</b>
Tenenhaus GoF (GoF)	0.196	<b>intermediate</b>
Sympson's paradox ratio	1.000	<b>ideal</b>

(SPR)		
R-squared contribution ratio (RSCR)	1.000	<b>ideal</b>
Nonlin biv direct ratio (NLBCDR)	0.750	<b>acceptable</b>

Tab. 3. Basic parameters of the structural model

The achieved results clearly indicate that only latent variable of MARKET RANGE could affect the business activities (path  $c=0,230$   $p=0,013$  effect= $0,067$ ). The effect is positive and indicates that the increase of market range increases the business activities. The other elements of the model have no significant effect, while the Regulation on small-sized enterprises did not lead to the modeling effect (Table 4).

	INCOM E	Mark et	BusEn v	Innovati on	AktOM P	AktOM P*	AktOM P*	AktOM P*	
INCOM E		<b>0.23</b>	-0.13	0.090		-0.074	0.115	-0.018	Path coef.
INCOM E		0.01	0.100	0.200		0.245	0.140	0.435	Importance
INCOM E		0.06	0.02	0.009		0.009	0.012	0.002	Effect

Tab. 4. Path coefficients, importance and size of the effect model

Therefore, we confirmed the first general and individual hypothesis indicating that market range affects the success of business activities. Other hypotheses are hereby rejected.

## 7. Discussion

The fact indicated by the obtained results is that market range increase is the key factor for increasing business activities of the enterprises subject to our research. In order for these enterprises to achieve it the preventing obstacles should be overcome. The most important for enterprises from Kosovo and Metohia is to solve the problem of unfair competition. They face it with enterprises from Kosovo, as well as with enterprises from Serbia that regard Kosovo and Metohia as a very significant market. Furthermore, a large number of enterprises using *lacuna legis* have not registered their activities and therefore, they have not paid taxes and duties constituting unfair competition to the enterprises operating legally and in accordance with the regulations.

When they wish to expand their activities outside the borders of Kosovo and Metohia region, they face tariff rates causing their goods and services to be uncompetitive on Serbian market while they expect some reliefs in this domain to be provided.

They are uncompetitive in the territory they consider their country due to the current situation. Therefore, these enterprises are unable to anticipate their business activities or to significantly invest in them.

Double taxes increase the prices of their goods and services while drastically reduce their competitiveness. The safety situation surrounding their businesses causes that the existential fear leads to the activities conducted at the capacity level of mere survival. The fact that these enterprises are mostly active in the territory of the municipality of where they are located and that every attempt of expansion carries a great risk only confirms this thesis. These enterprises are destined to a mere survival and not to expansion of their market range in such politically created hermetically closed circumstances.

The administrative obstacles they face are just the reflection of the difficult and complex situation they are forced to operate in. It is fully understandable that the Regulation on small-sized enterprises cannot moderate their position considering that it has been designed for stable and solved political situations. These enterprises would gladly expand their activities to other parts of Kosovo and Metohia and Serbian enclaves as well, but they face the problem of unfair competition and unawareness of their goods and services.

Furthermore, the obstacle to expand their activities to the remaining part of Kosovo and Metohia and the Serbian enclaves is the registration with Kosovo's authorities. The enterprises from the northern part of Kosovo and Metohia have been mostly registered with the Serbian Business Registers Agency, but if they wish to expand their activities to the remaining part of Kosovo and Metohia they have to register with Kosovo Business Registers Agency demanding the payment of double taxes and increasing the costs of their business activities. It is a paradox but Serbian enterprises also represent a kind of unfair competition, the fact that is primarily caused by political and not economic factors.

The progress of the municipalities they operate in represents the key to the sustainability of their businesses but their competitor Serbian enterprises, on one hand and enterprises from Kosovo and Metohia, on the other hand as well as international enterprises causes the situation to be hardly sustainable and the initiative for expanding their market range almost unfeasible. The sheer socioeconomic situation in Kosovo and Metohia hardly improves the competitiveness in identical business by innovative activities and these enterprises regard the only way out in cooperation with enterprises operating in compatible areas. Human factor also has a very significant role and therefore these enterprises are aware that their managers and employees represent serious obstacle for expanding their activities considering the evident lack of skills.

On the other hand, Serbian enterprises consider Kosovo and Metohia some kind of promise land considering the recognizable goods and services. The safety situation and lack of skills of their employees represents the main obstacle for expanding their market range.

As regards the nature of their activities, taxes represent the main obstacle for expanding their market range. These enterprises consider the remaining part of the province as a promise land for expanding their market range, but the political situation dictates its own tempo. Both sides consider international donations a precondition of their success, but recently it has become clear that in due course time they would significantly decrease and all these enterprises will have to search for their own sustainability.

The enterprises from Kosovo and Metohia will face the reality that help from international institutions in creating favorable business environment will be lower and that they will have to rely on designed political solutions. The same applies to enterprises from Serbia which have to accept the fact that international donations will be lower and that the tax system shall comply with the final political solutions. The fact that enterprises from Kosovo and Metohia clearly recognize the innovative activity to be a very important condition for their sustainability should be considered a happy coincidence.

The enterprises from Serbia rely on the current range of goods and services recognizable throughout the province. The enterprises from Kosovo and Metohia need assistance to find new strategies and skills and mostly the global approach to adapt their goods and services to the market demand regardless of political solutions. This approach would enable the real expansion of the market range and provide sustainability and revenue increase. The encouraging fact is that the majority of researched enterprises from Kosovo and Metohia were established after 1999. This is important due to the fact that even though Kosovo and Metohia was in an unfavorable political situation after 1999, the majority of entrepreneurs have found the way to develop their business activities. Notwithstanding, our research includes enterprises with relatively small number of employees and locally oriented by their nature, this approach in overcoming obstacles to expand their market range even at the local level is the only possible one. The Regulation on small-sized enterprises simply cannot moderate these relations due to the fact that it can only function in relatively stable economic and political regions, Kosovo and Metohia not being one of them.

## **8. Conclusions**

Considering the political context of the researched environment, the achieved results represent a solid base for analysis of practical problems of the enterprises in northern part of Kosovo. The results have confirmed that the enterprises are aware that expanding the market range is the only real and sustainable method of developing their activities. The key limiting factor in expanding the market range is the unfair competition. Furthermore, we are particularly pleased with the fact that enterprises from the northern part of Kosovo and Metohia are aware of the importance of innovative activities, and they realized that in contemporary business world it is possible to survive and grow in the market only by developing and introducing

innovations. Finally, it is necessary to emphasize the fact that the enterprises are strong catalyst for reconstruction of the whole society, especially one with unpredictable political solution such as Kosovo and Metohia. There are no universal solutions in a search for ideal solution for developing the entrepreneur activities and it depends on the combination of social/political, institutional, cultural and economic aspects.

### **9. Courses for further research and its disadvantages - Errando Discimus<sup>3</sup>**

The basic disadvantage of this research is the relatively small sample of included enterprises. As regards the unstable political situation, this sample could be very reliable and representative in given circumstances. This is one of the rare researches of this area and obtained data are very precious. The scientific information this survey offers primarily probably refer to paradoxical fact that expanding the market range is the basic condition of survival and success of the enterprises regardless of the sociopolitical context of their activities or their size. These findings are consistent with globalization trends of large companies, however it is very interesting that it adapts to medium and small-sized enterprises (hereinafter referred to as SMEs) too. The business environment and innovative activities are not decisive factor and that the synergy with enterprises conducting similar activities should be mentioned.

This is completely logical considering the trend merging small companies with large ones considering the small ones could rarely achieve the key innovative activity to separate them from the competition. It would be interesting to research human resources and leadership skills of the owners considering that the clear vision is one of the basic preconditions for the success of SMEs regardless of the circumstances they operate in. The obtained results represent a solid base for future researches related to factors that dominantly affect the development of entrepreneur activities in northern part of Kosovo. Considering the legal and political uncertainty direct foreign investments are almost impossible. Furthermore, in this situation, bank loans are very unfavorable and other financial instruments remain undeveloped. In order to find the final political solution leading to political safety and stability, institutional factors have to work on shaping favorable and stimulating business environment for growing of SMEs.

The Government and local authorities have to strongly support the entrepreneur activities, primarily in providing favorable loans with minimal interest rates, developing public/private partnerships as well as organizing courses and trainings for entrepreneurs and decreasing bureaucracy. Long-term goals should aim at strengthening of entrepreneurial culture, developing working and leadership skills, combating the informal structures leading to unfair competition, etc.

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<sup>3</sup> Mistakes learning us

It indicated that unresolved political situation may affect the breakdown of economic activities, but on the other hand it may produce the demand for other necessities. For that matter, proper mechanisms of coordination that would prevent illegal flows and activities and would direct economic activities towards legal and productive flows are a single necessity. However, the experience has shown that without stable political solutions there can be no full capacity of entrepreneurial activities either. The practical implication of this research is clear: without expanding the market range of SMEs there is no survival or success. The expansion may be local, regional and global. This impulse shall produce innovative activities and directly and indirectly affect also political solutions that will optimize the business environment.

This research could be the starting point for the institutional factors in creating the strategies and policies for supporting SMEs considering it realistically reflects their problems on site.

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