Impact of Small and Medium Enterprises in Generating New Jobs in Case of Kosovo

Rrezarta Gashi[1]

Abstract: This study is an original study and adds to the research debate on the impact of small and medium enterprises in generating new jobs, with a special focus on the industry and services sector, as in Kosovo for these sectors still do not there has been special research. The objective of this research paper is presents the impacts of small and medium enterprises have in generating new jobs. To achieve the stated objective and to prove the hypotheses in this research, the OLS regression model has been used whereas the data processing has been done through SPSS. This research paper has been conducted by using secondary data collected by the World Bank and Kosovo Agency of Statistics, for the time period 2012-2018. Results in this research paper from this model show that the industry and services sector affects generating new jobs in Kosovo, therefore there is a positive correlation between the presented variables. Also we can notice a positive correlation between the GDP and employment rate. The results presented in this research paper can be used as a guide for new businesses in the services and industry sector and their impact on the generation of new jobs in Kosovo, as well as efforts to further improve performance in these sectors.

Keywords: Small and medium enterprises; industry sector; services sector

JEL Classification: P42; M10

1. Introduction

In the economy of every country in the world, SMEs play a crucial role and they are recognized as the key economic developer of a country. Besides in the economic development of a country, they also impact the development of innovation and creation of new jobs.

Small and medium enterprises (SME) are recognized as economic developers of their countries and facilitators in creating new jobs. Therefore, the developed and

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[1] AAB College, Albania, Address: Pristina, Albania, Corresponding author: rrezartag@gmail.com.

developing countries are aware that SMEs are one of the key components in facing social and economic issues and in achieving economic development objectives of a country (Bouazza, 2015). According to Meyer & Meyer (2017) research, countries will not be able to register economic growth without the development of current SMEs and by creating new SMEs. SMEs make 95% of the companies registered in the world and thus contribute over 35% of the GDP of the developing countries, and 50% of the developing countries (World Bank, 2019). In EU countries, SMEs make up 99% of the total number of businesses and 67% of the employees (European Commission, 2019).

Only during 2018, 9,805 enterprises were registered, all being small and medium enterprises (KAS, 2019). During the period 2008-2018, 98,335 enterprises were registered in Kosovo, whereas 16,101 have stopped their business activity. From this number of businesses, 99% are SMEs. Only during 2018, 9,805 small and medium enterprises were registered (KAS, 2019). SMEs in Kosovo, as in other countries, face various financial crises. Since it is a country in transition, the World Bank has approved the Project on Strengthening the Financial Sector to improve access to finance for Micro, Small, and Medium Enterprises, including here businesses owned by women. This project is worth 22.3 million euros (World Bank, 2019).

This research contributes to the identification of the biggest sectors that generate new jobs because there are very few research papers that are focused on this area. The aim of this research is to prove that SMEs have a huge impact in generating new jobs, with the case study of the country of Kosovo.

2 Literature Review

Kwarteng & Li (2015), mention in their research that small and medium enterprises have a crucial role in economic growth, generating new jobs, and decreasing poverty in developed and developing countries. According to Gbam (2017) the criteria in setting SMEs are circulation, employment, and net profit they have. These criteria operate independently and are managed by their owners. SMEs are one of the key contributors to GDP growth.

This is supported by the growth of these businesses even in EU, whereby during the period 2016-2018 registered growth of 60%, from which 28.5% in micro businesses, 16.9% in small businesses, and 14.1% in medium businesses (European Commission, 2019). Rotar et al. (2019) in their research assert that EU SME growth

contributed to economic and employment growth thus meeting Europe's strategic objectives during 2020. According to the Organization for Economic Cooperation and Development (OECD), SMEs play an important role in economic development, where 95% of OECD businesses make up 60-70% of employment in most of the countries (OECD, 2000).

Factors that contribute to market economy through SMEs are (Ahmeti, Hoxha, & Hoti, 2015):

➢ Contribution to technological changes processes,

➢ Contribution to creating fair competition in the operating market,

➢ Opening new jobs,

➢ Offering various products from local manufacturing.

In Canada, small and medium enterprises are recognized as the main contributor to the economy, where only during 2005 SMEs represented 54.2% of economic production. During 2012, 69.7% of employees were in the private sector (www.bdc.ca, 2013). According to Bouazza (2015), SMEs are the main contributors in creating new jobs in developed and developing countries. This is supported by the World Bank research which points out that over 50% of jobs created come from SMEs, specifically from businesses that employ less than 100 individuals (World Bank, 2017; Ayyagari, Kunt, & Maksimovic, 2011). In Uwitonze's (2016) empirical study it is asserted that enterprises that expand or grow their activity they also increase the number of employees. Also Herman (2012) in his study notes that SMEs have key contribution in economic growth and creating new jobs. In addition to that, this study notes that these enterprises have impacted also the transition period in order for the managed economy to transition in entrepreneurial economy. According to et al. (2019), in developing countries the importance of SMEs in generating new jobs is because of the simplest manner of employment, expanding revenues by employing is more reasonable based in various sectors, and there is easier access to employment in these businesses rather than in large businesses.

Hashi & Krasniqi (2010), in their research where they analyze two different groups of countries in transition, found that, before every study, about 46% of the sample businesses have registered employment growth. Businesses in South Eastern Europe -SEE (Albania, North Macedonia, Serbia and Montenegro) registered 38% employment growth compared to Central and Eastern Europe- CEE (Poland, Hungary, Czech Republic) with 14%. Compared to Central and Eastern Europe

countries, the largest percentage of businesses in SEE were businesses that were growing. Also in empirical research to Haddad et al. (2019), present highly positive results between SMEs and employment decrease, i.e. between these two segments with significant connection.

Ukshini & Zeqiri (2018) in their research about SMEs in Kosovo, assert that the manufacturing industry is less effective, therefore GDP is low and the trade, industry, and services sector is higher. Therefore, less that 10% of SMEs are included in the manufacturing sector, whereas over half of them are included in the trade sector. The enterprises structure in Kosovo, according to the employees, is as follows:

Table 1. Classifying Enterprises in Kosovo

Classification	Number of employees
Micro enterprise	1 - 9 employees
Small enterprises	10 -49 employees
Medium enterprises	20 - 249 employees
Large enterprises	Over 250 employees

Source: Kosovo Agency of Statistics -KAS

Every year, Kosovo registers growth in the number of new registered businesses, where 99% are small and medium enterprises.

Table 2. Enterprises in Kosovo 2008-2018

Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
New enterprises	7,557	7,505	7,729	7,879	9,576	9,421	9,405	9,811	10,424	9,223	9,805
Extinguished enterprises	943	1,136	1,363	924	1,081	1,434	1,669	2,170	2,350	1,613	1,418
Difference	6,614	6,369	6,366	6,955	8,495	7,987	7,736	7,641	8,074	7,610	8,387

Source: Kosovo Agency of Statistics –KAS

Based on table 2 we notice that the year which had the most registere and extinguished SMEs was yeas 2016.

Table 3. Employment and Unemployment Rate in Kosovo 2008-2018

Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employment rate	24.3%	26.4%	/////	/////	25.6%	28.4%	26.9%	25.2%	28.0%	29.8%	28.8%
Unemployment rate	47.5%	45.4%	/////	/////	30.9%	30.0%	35.3%	32.9%	27.5%	30.5%	29.6%

Source: Kosovo Agency of Statistics -KAS

Table no.3 presents theemployment and unemployment rate through the period 2008-2018. Kosovo Agency of Statistics has not presented official data for 2010 and 2011.

Despite the numerous challenges for enterprises in Kosovo, today they have marked crucial achievements which have helped the country improve the SMEs performance by implementing similar EU regulation such as (OECD E. E., 2019):

➢ Governmental institutions are more prone to encourage innovation in enterprises,

➢ Kosovo Credit Guarantee Fund (KCGF) has increased the loan demand between SMEs,

➢ Regulatory barriers in enterprises have significantly decreased.

Table 4. Employment Mediation in Kosovo's Sectors

Years	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public	41%	41%	26%	33%	37%	26%	38%	24%	17%
Private	59%	59%	74%	67%	63%	74%	62%	76%	83%

Source: (Minister of Labour and Social Welfare, 2017)

As seen in table no.4, the private sector has significantly grown by absorbing the largest number of employees with the help of the Ministry of Labor and Social Welfare. The rules followed by these businesses have resulted in them to be closer to the best global practices in business development (Krasniqi, 2019).

Table 5. Employment Intermediaries According to the Size of Enterprises

Enterprises:	Number of employees	%
Micro	1.481	36.8%
Small	1.323	32.9%
Medium	906	22.5%
Large	312	7.8%

Source: (Minister of Labour and Social Welfare, 2017)

Only during 2019, with the help of Ministry of Labor and Social Welfare, 4,022 people were employed in Kosovo, 92.2% employed in small and medium enterprises. SMEs in Kosovo make up 99.8% of enterprises and generate about 75% of the overall employment rate (EBRD, 2019).
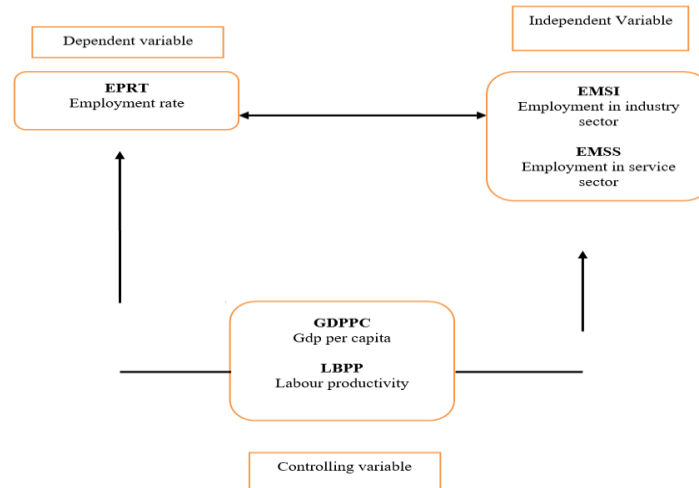
3. Research Methodology

The research has been conducted by using secondary data collected by the World Bank and Kosovo Agency of Statistics. The data are presented for the time period 2012-2018 due to the complete data available for this period. The research aims to identify the impact of SMEs in generating new jobs. Therefore, the research form is quantitative with secondary data collected by secure sources which present a real reflection of 2012-2018 in the aspect of the impact of SMEs in generating new jobs.

More specifically, the data collected is the general number of enterprises (TTND), employment rate (EPRT), Gross Domestic Product (GDPPC), labor force (LFPR), employees in industry sector (EMSI), employees in services sector (EMSS) and labor productivity (LBPP), variables that are based on the research done by Rotar, Pamić, & Bojnec (2019).

Table 6. Descriptive data: 2012-2018

YEAR	TTND	GDPPC	LFPR	EPRT	EMMA	EMFA	EMSI	EMSS	LBPP
2012	8,495	$ 3,600.58	33.48 %	23.14 %	39.90 %	10.70 %	33.10 %	66.90 %	41.75
2013	7,987	$ 3,876.97	40.51 %	28.40 %	44.00 %	12.90 %	34.10 %	65.90 %	41.75
2014	7,736	$ 4,054.72	37.18 %	26.90 %	41.30 %	12.50 %	27.20 %	72.80 %	40.75
2015	7,641	$ 3,574.24	33.32 %	25.20 %	38.70 %	11.50 %	30.60 %	69.40 %	41.00
2016	8,074	$ 3,697.13	34.11 %	28.00 %	43.00 %	12.70 %	33.60 %	66.40 %	41.25
2017	7,610	$ 3,948.05	37.23 %	29.80 %	46.60 %	12.70 %	34.70 %	65.30 %	42.00
2018	8,387	$ 4,302.28	35.20 %	28.80 %	45.30 %	12.30 %	29.70 %	70.30 %	42.00

Source: World Bank & Kosovo Agency of Statistics

Figure 1. Conceptual Framework

For the realization of the econometric model, have used the OLS econometric model whereas the data processing has been done through SPSS. Below you may find the group of variables and their understanding.

The testing of the research model will be done by the below mentioned formula:

$$Y_{i,t}=\beta_0+ \beta_1 GDPPC_{i,t}+ \beta_2 EMSII_{i,t} + \beta_3 EMSSI_{i,t}+ \beta_4 LBPP_{i,t}+ \varepsilon_{i,t}$$

Y represents the total number of employees, GDPPC the gross domestic product, EMSI the employees in the industry sector, EMSS the employees in the services sector, and LBPP labor productivity presented in the number of hours working and ε presents the term 'error'. In this case, the employment rate (EPRT) is presented as a dependent variable, whereas independent variables are the gross domestic products (GDPPC), employees in the industry sector (EMSI), employees in the services sector (EMSS), and labor productivity (LBPP), specifically variables.

H0. There is statistically significant positive impact in generation in new jobs in Kosovo from small and medium enterprises (SMEs)

Sub-hypotheses:

H01. Number of employees or generating new jobs depends from GDPPC

H02. Number of employees or generating new jobs from SMEs in Kosovo depends from the labor productivity

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H03. Number of employees or generating new jobs from SMEs in Kosovo depends from the total number of employees from the total number of employees in the companies in the industry sector

H04. Number of employees or generating new jobs from SMEs in Kosovo depends from the total number of employees in companies in services sector.

4. Research Analyzes

The results below represent a real reflection of the situation of enterprises in Kosovo during 2012-2018 which changes from 7,610 to 8,495 maximum. The total number of employees is in percentage, therefore 29.80% during a year, whereas the minimum 25.20%, and on the other hand the GDPPC had a slight increase during these 7 years from 3,574$ (lowest) to 4,302$ (highest) being GDPPC and LBPP.

Tabel 7. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Total SME	7	7,610	8,495	7,990.00	353.651
Employment rate	7	25.20%	29.80%	27.5286%	1.69776%
GDP per capita	7	$3,574.24	$4,302.28	$3,864.8519	$263.59230
Labor force	7	33.32%	40.51%	35.8614%	2.60947%
Total employment Industry	-7	27.20%	34.70%	31.8571%	2.75733%
Total employment Service	-7	65.30%	72.80%	68.1429%	2.75733%
Labour productivity	7	40.75	42.00	41.5000	0.50000
Valid N (listwise)	7				

Sources: calculate by author

The labor force is 40.51%, whereas the total employment is 29.80%, in industry is 34.7% for a year, whereas in services maximum is 72.80%, with a productivity of 42 working hours within a week. This is how the difference of total employees between two sectors, services and industry, has been analyzed.
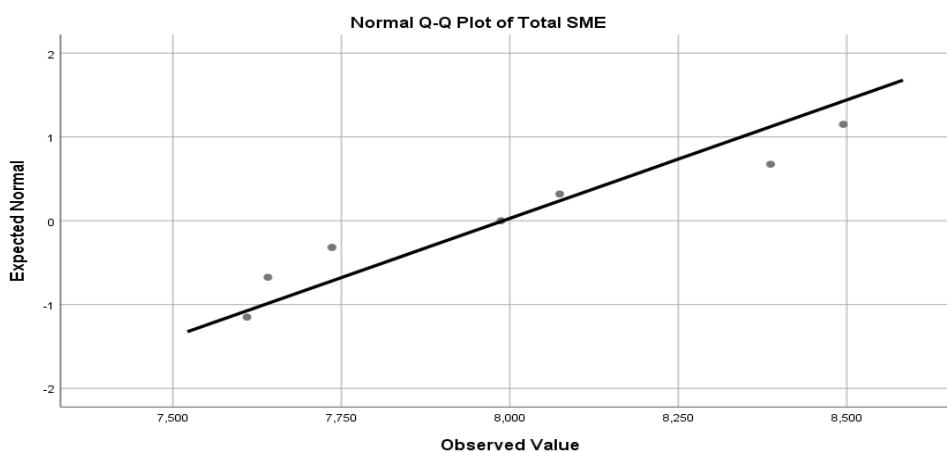
Table 8. Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Total SME	0.192	7	0.200*	0.907	7	0.378
Employment rate	0.181	7	0.200*	0.947	7	0.705
GDP per capita	0.166	7	0.200*	0.942	7	0.657
Labor force	0.178	7	0.200*	0.896	7	0.306
Total employment Industry	–0.245	7	0.200*	0.906	7	0.371
Total employment Service	-0.245	7	0.200*	0.906	7	0.371
Labour productivity	0.263	7	0.155	0.885	7	0.252

*. This is a lower bound of the true significance.

a.   Lilliefors Significance Correction

Sources: calculate by author

The results included in table no.8 show that our data have a normal spread and in order for us to prove the research hypothesis we need to use parametric tests. In both cases whether in Kolmogorov-Smirnov or Shapiro-Wilk, the results show Sig > 0.5%.

Normal Q-Q Plot of Total SME

The aim of the analysis is to prove the impact that SMEs in Kosovo have in generating new jobs. The analyzed period in this research is 2012-2018. This period was chosen due to the complete data in both main sources of information, World Bank and Kosovo Agency of Statistics.

Table 9. Research Results

Independent Variables	**Model -1-**			
	B	S.H.	*β*	*Sig.*
GDP per capita	0.009	0.001	1.326	0.003
Labour productivity	-1.829	0.579	-0.539	0.050
Total employment - Industry	0.870	0.109	1.413	0.015
Total employment - Service	-0.755	0.110	-1.227	0.006
R	0.988			
R²	0.976			
ΔR²	0.951			
F	40.123			
ANOVA (Sig.)	0.006390			
Dependent variable	**Employment rate**			

Sources: calculate by author

According to the abovementioned results we see that Gross Domestic Product (GDPPC) has a positive relation with the employment rate (B =.009, SH =.001, β = 1.326 and p value =.003) which means that we have a significantly positive correlation. Furthermore, in labor productivity (LBPP) we also have a positive result (B =.-1.829, SH =.0579, β = -0.539 and p value =.050), i.e. a significantly positive effect or correlation between labor productivity and employment rate. Also, in employees in the industry sector (EMSI) we have positive impact (B =.870, SH=.109, β = 1.413 and p value =.015) and in employees in the services sector (EMSS), the result is (B = -0.755, SH = 0.110, β = -1.227 and p value =.006), therefore we have significantly positive effects.

5. Discussion and Conclusion

Based on the abovementioned data, we come to the conclusion that in Kosovo, as in other countries in the world, SMEs make the largest ratio of enterprises in Kosovo, and consequently are the largest employers in the country. Based on the presented results in this research we notice that employment in the services and industry sectors has significant effects in generating new jobs in the country. Therefore, from this model we prove the importance of these sectors in employment. In addition to this, Chlouk's (2016) study for the country of Lebanon notes that the industry sector is one of the main sectors of the Lebanese economy in which SMEs dominate and,

therefore, this sector is an important contributor to employment. The importance of industry and services sectors in generating new jobs is also noticed in several studies done earlier. For instance, Wegner (1987), in his study in several states (USA, Germany, Japan), asserts the importance of these sectors in employment. According to European Commission report (2017), in 2016 the services sector was more dynamic in recuperating employment in SMEs.

The importance of the industry sector in generating new jobs is also supported by Haddad et al.'s (2019), empirical study, where 83.9% of respondents said that the industry sector positively affected employment. According in data, during 2017 and 2018 the number of employees in the industry sector decreased. Fusfeld (1968) notices in his study, by using the regression analysis, that changes in employment in the industry sector come as a result of changes in the population Whereas according to the European Commission report (2019), the industry sector in Kosovo is characterized with low diversification where this sector is dominated by SMEs with low levels of integrationin global value and innovation.

During the last few years, Kosovo has registered economic growth. Compared to the most European countries, Kosovo has registered economic growth, whereas according to (World Bank, 2019) Kosovo, in comparison to regional countries, has the highest economic growth rate. This is also supported by the results of the research conducted by Rexha, Bexheri, and Ukshini (2020).

Besides the importance of these sectors, we should also keep in mind the importance of the manufacturing sector which, unfortunately, is stagnating compared to other sectors. The reason for this is that SMEs are focusing in the industry and services sectors. These enterprises need to focus more in manufacturing and at the same time to utilize various financings allocated specifically for these enterprises from the World Bank and European Bank for Reconstruction and Development.

The next research is planned to be in the importance of manufacturing sector in generating new jobs and its comparison to other sectors.

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