# HUMAN RESOURCE MANAGEMENT AND PRACTICES IN SMES IN DEVELOPING COUNTRIES: PRACTICES IN KOSOVO

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### **Abstract**

The Small and Medium Enterprises (SMEs) are considered as the key contributors in developing countries and plays a significant role in the overall economy in terms of contribution to overall economic development and creation of employment opportunities. The paper will primarily focus on presenting the overview of the human resource practices in SMEs in general, an in specific description in Kosovo SME sector. The economic and politic development in the region, and overall changes in the global market, increases the importance of SMEs in Kosovo's economy and is seen as unparalleled and crucial to overall Kosovo's economic development. This paper presents the overview of the HR practices and development in SMEs in Kosovo. As first, this discussed the general views of the SMEs operating in Kosovo, which is the biggest employment sector. The opinions developed supports the argument that SMEs in Kosovo SMEs are yet in the initial stages of developing sustainable and contemporary policies and strategies in developing human capacities, which would result with greeted economic and social development. Some crucial issues concerning to Kosovo's SMEs are also identified.

Keywords: Employment, development, human resources development

#### Introduction

Small and medium enterprises (SME) represent an enormous potential for economic development, and are considered as the most important sector contributor in the developing countries worldwide. Hence, SMEs are seen as the major factor not only by private sector, but also this sector is getting the attention of the policy makers responsible for overall countries development, such as government and other respective institutions (Schlogl, 2004). Given the importance of SMEs to the economies of all nations – they constitute

some 90 to 95 percent of all enterprises worldwide and account for more than 70 percent of the manufacturing all products and services. SMEs are seen also as key factor in employment and are accounting for approximately 60% of private sector employment worldwide (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011). Despite the fact that SMEs play a significant role in developing country's economies, they also play a crucial role in regional development (Smith, 1998; Bartlett, Bateman, & Vehovec, 2002; Pike, Pose, & Rodriguez, 2006; Marchese & Potter, 2010).

The objective of the research is to indicate the importance of HRD for the SMEs and how they see the implementation in practice of HR development programs. HRD is seen as the main tool for SMEs development, especially in the transitional countries where the access to other assets (i.e. financial) lacks and is yet not in the best condition (Pike, Pose, & Rodriguez, 2006). The significance of the research and especially of the results gained from this research are to add value to further SME sector development, is specific of knowledge on HRD and to enlighten the best practices. Explicitly for human resource development of youth, which consists more 50% of entire Kosovo's population, the findings of this study would enlighten the significance HRD in the SMEs in Kosovo, as Kosovo strives to become member of EU. However, it is needed an tremendous progress in overall Kosovo's economy, especially in private sector that is seen as the most important sector for country's development (Massa & Calì, 2010, p. 105). Thus, the present research paper addressed the above mentioned to determine and to increase overall understanding of the importance of HRD in SMEs in developing countries. developing countries.

Methodology implemented in the study

The natural surroundings of the analytical studies characterize one important condition that will determine the most suitable and implementable assessment methodology. When studying human resource and other related fields linked to human resource development, exploration tends to be challenging. As noted by Torraco (2004), studding the development of most valuable and most complicated assets of any firm (the human resources) needs specific methodologies and approach. Difficulties have a tendency to ascend while taking into account multiple outcomes. Efficiency of Human resource development studies provides relevant evidence on the degree of success or failure of HRM development programs with by taking into account several or multiple objectives that may be important when evaluating HR development. development.

One of the most important elements to the nature of the analytic task is the time that must be spent to carry out the research, and foremost when analyzing human development. To be able to answer questions that this

research tends to answer, researchers have implemented the combination of two methodologies (quantitative and qualitative) in order to overcome challenges that the study may bring. As the implementation of two different methodologies is more complicated and more challenging, researchers have conducted the entire research in two phases, each of which had its own methodological approach (Bamberger, 2000, p. 3). Accordingly, researchers provided their personal sets of experience that enables to analyze the data; rather, the implementation of various approaches was aimed at creating an informative and many-faceted description of the research object studied (Bamberger, 2000; Taylor, 2005; Watzlawik & Born, 2007; Teddlie & Tashakkori, 2009; Ahmeti, 2013; Morgan, 2013) (see table 1).

Table 5, Integration and implementation of two research approaches

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PURPOSE OF	MAIN RESEARCH	METHODS IMPLEMENTED	
THE RESEARCH	TASKS		
PHASE - 1	What is the nature and	Self-evaluative analysis of everyday	
focused on	content of the practice of	work	
description	HRD?		
PHASE - 2	What is the nature and	Semi-structured interviews	
focused on	content of the professional	conducted on HRD practitioners'	
understanding	expertise deployed in the	experiences of their work, learning	
	practice of HRD?	challenges encountered on a day-to-	
		day basis and careers within the field	
		of HRD	

To gather the primary data, a structured questionnaire was developed and combined with a semi-structured interview with selected companies, consequently with employees in all level within those companies. Hence, the facts are driven for the analysis involved two different sorts of data, on one side there are data gathered from institutions showing the overall development of SMEs and from previous data that illustrate the HR development carried; and secondly, HRD practitioners' responses to a semi-structured interview and discuss about subjects concerning the scope of their work, challenges that they face in everyday work and how further development may impact their efficiency and further career building. The main goal of implementation of and integrating the two forms of data (respectively research methodologies and approaches), was to capture both, describing and understanding aspects of skilled expertise (Shermon, 2004; Armstrong, 2006; Price, 2011). The structured questionnaire delivered numerical data that are used for the descriptive analyses, while the interviews enabled the researcher to gather data for interpretative analysis of the subject studied.

As a means to implement the above mentioned approach, this paper studies some empirical properties of qualitative and quantitative fields of study as a means to benefit to better comprehend how the SMEs in

developing countries (in specific in Kosovo) see HRM processes and how those processes and practices are implemented in the field. Even if by many the methodological research aspect was tended to be focused on macro-level, tending to describe in quantitative view the dimensions of world becoming global, there are many issues which cannot be measured in numbers (Lynn, 2003a). As noted by Bosma at.al. (2004), tending to measure in macro-level, there are many key aspects that can be ignored and which are crucial for the results of the study (Bosma at.al., 2004).

# Kosovo toward economic development

Kosovo toward economic development

Kosovo's national economy is considered to be at its initial phase of development. Even if in the middle of Europe, the Kosovo's economic development has suffered and is still struggling to utilize the resources and foremost its human capital. The importance of resources (human, financial and natural) is unbelievable, only if implementing appropriate development programs and understanding the importance of HR development may ensure a continued economic growth and would increase the overall social welfare. Economic growth is indispensable for the growth of socio-economic stability, which will then enable a better overall economic and politic situation and would result with country's stability. would result with country's stability.

Kosovo is a developing country that has passed through different phases on its path toward independence. Kosovo has 1.8 mil residents and has the highest unemployment rate in the region 35.1 % (ASK, 2014). There are no heavy industries and the privatization process that is in the finale phase has also contributed to the overall bad economic situation in Kosovo. As the majority working force is unemployed the main economic activities that are more developed are SME (and in specific micro-enterprises) and agricultural activities. Only in the last decade Kosovo strives to substantially shift to the industrial activities and the government is more focused on attracting foreign direct investors (FDI).

# **Definition of Small and Medium Sized Enterprises (SMEs)**

Many institutions and countries have different perception pertaining to SMEs. There are numerous definitions which set different guidelines for

defining SMEs, mainly based on headcount, sales or assets (Akkucuk, 2014).

While defines SMEs as having more than 5 and fewer than 50 employees, Vietnam considers SMEs to have between 10 and 300 employees. While the World Bank, defines SMEs as those organizations that have maximum of 300 employees, or in annual turnover \$15 million revenue, and \$15 million in assets. The EU has a bit different standards for SMEs. Under EU regulation, an SME has between 10 and 250 employees and annual turnover under € 50 million annually. Whereas the Inter - American

Development Bank, defines SMEs as having up to 100 employees and less than \$3 million in annual revenue (Beck, 2007).

As Kosovo is part of Europe and strives to become part or European Union (EU), in this research paper, the EU standards of SMEs will be followed and implemented. Based on the EU standards, micro, small and medium-sized enterprises consist of enterprises which engage fewer than 250 employees and the annual turnover does not exceeding €50 million, whereas the total balance sheet remains or is lower than €43 million. Due to overall situation in which Kosovo is, foremost economic development level, the standards applied in EU regulation is hard to implement in Kosovo. In Kosovo, organization that employs 250 people is considered as a big company (tab. 1). The majority of companies are from 10 to 50 employees, or less, which in according to EU regulation are considered as micro enterprises. Therefore, it is hard to do a specific categorizing of SMEs. It is considered that a turnover of €0 million, according to EU regulation, is a medium-sized company. However, a company to make a €0 million turnover annually in Kosovo needs much more effort and time than in EU. Therefore, a €10 million annual turnover in Kosovo consists more with big companies, rather than with small or medium sized organizations.

Table 2, Definition of micro-, small- and medium-sized enterprises

Enterprise category	Headcount	Turnover	Balance sheet total
medium-sized	< 250	≤€ 50 million	≤ € 43 million
small	< 50	≤ € 10 million	≤ € 10 million
micro	< 10	≤ € 2 million	≤€2 million

Source: EU.com, 2014

As noted by Hooi (2006), there is worldwide definition of SMEs that is applicable to all countries (Hooi, 2006). Not only that there is no unique definition for SMEs that is applicable worldwide, but even in different industries there are different definitions that are set for SMEs, if example manufacturing, service, construction, etc. (McLagan, 1989).

## **SMEs in Kosovo**

The enterprise sector in Kosovo is based primarily on small and medium enterprises. From postwar role of the private sector, especially the SMEs in the economic development of the country have been relatively weak. Nevertheless, Kosovo is still at the stage of socio-economic transition in which entrepreneurship and small business creation is expected to play a crucial role in the path to a modern economy and free market and thus towards development and economic growth. According to the latest data from the Agency for Support of SMEs in Kosovo are registered 111,590 enterprises.

Table 3, Number of enterprises in Kosovo by size (analyzed by the number of employees, only)

Classification	Nr. of employees	Nr. of Enterprises	%
Microenterprises	1 - 9 employees	109798	98.40
Small enterprises	10 - 49 employees	1508	1.35
Medium enterprises	50 - 249 employees	224	0.20
Large enterprises	> 250 employees	60	0.05
Total		111590	100

Source: Kosovo Business Registration Agency – KBRA

On the other hand, the number of new entrants to the labor market in Kosovo is very high. It is estimated that the number of young people who enter every year in the labor market is such that it required at least a real economic growth of 7%, just to start the absorption of these new entrants and to contribute to reducing the large number of existing the unemployed. Despite economic growth, our country is not creating enough places to work to absorb new entrants and to mitigate the high level of unemployment. Given the overloading of public administration, the only hope to alleviate unemployment remains growth and development of the SME sector. Given these elements, it is considered necessary to investigate Kosovo enterprise sector and their impact on the labor market and the development of a modern Human Resources Management.

In this context, in most cases, research is conducted with key persons in the company, mainly with the owners or managers of the highest level, as well as their opinions about the importance of proper management of HR. The sectors in which research is undertaken almost reflected the real situation on the market. So, has dominated the trade sector at around 50%, then it services approximately 30% and the manufacturing sector with about 20%.

The vast majorities of entrepreneurs surveyed are secondary education (42%) and complete college (41%) and the rest are with the high school or superior education. Regarding the gender structure of the employees have a male domination. Thus the total employed 70% of them are male. This shows not desirable participation of women in the labor market and perhaps even the likes of employers to hire male.

Table 4. Employ qualification in SMEs part of this study

	, <u>1</u>			1		
		M	%	F	%	Total
1	PhD	48	(1%)	6	(0.1%)	54
2	Master	132	(2%)	115	(5%)	247
3	Bachelor	952	(17%)	527	(23%)	1479
4	High school	37	(11%)	92	(13%)	929
5	Secondary school	659	(64%)	1340	(58%)	4999
6	Unqualified	276	(5%)	20	(0.1%)	296
	Total	5704	/	2300	/	8004

Source: Data from the Survey of Enterprises

Theoretically, but also based on empirical research is shown that the small in enterprises and medium have a high degree of failure / closing. In literature abound in this context is said that over 50% of enterprise initiatives closed in the first two years of operation. Although not made any study in which investigates the failure rate of SMEs in Kosovo, it is not surprising if the rate of closure of businesses in the first two years is more than 50%. This mainly relates to the difficult conditions for doing business in Kosovo, extreme environment for business development and growth of enterprises, and the lack of meaningful preparation of entrepreneurs before entering the market.

However, the number of registered companies in 2013 is 9,203, which is a similar number in comparison with 2011-2012, while the number of enterprises is terminated 1516. From terminated enterprises in Kosovo by type of ownership, individual businesses significantly dominating with a total of 1,424 businesses off, expressed in percentage 93.93%, while enterprises terminated as general partnership are 37 expressed as a percentage 2:44% limited liability company 47, expressed in percentage 10.3% and others under 1%. In this research are included 249 small and medium enterprises. 113 or 45.4% of them belong to trade, 44 enterprises or 17.7% belongs to production and 92 enterprise or 36.9% are in the services sector. and 92 enterprise or 36.9% are in the services sector.

# Barriers facing SMEs when doing business in Kosovo

Despite some improvements in the environment of doing business especially from the legislative aspect which is also demonstrated Kosovo's ranking in the World Bank's Index of Doing Business, the business environment in Kosovo remains characterized by corruption and unfair competition. These barriers remain the same, and without any substantial difference over the past five years. Immediately after the war, Kosovo businesses complained about the lack of electricity and other infrastructure issues. By addressing these issues in an adequate more businesses orient issues. By addressing these issues in an adequate, more businesses orient their complaints at factors associated with institutional and legal terms.

Table 5, Barriers in Business in Kosovo (SME sector)

Barriers in Business	AVERAGE
High tax	12 %
Harshly competition / strong	19 %
Gray economy	9 %
Corruption	13 %
Access to credits	5 %
Managerial skills	9 %
Skill level of employees	11 %
The lack of demand	15 %
Delaying payments	7 %

Source: Data from the Survey of Enterprises

In fact, it is the duty of national or local institutions to provide equal conditions for all actors in the market. However, this is not happening, because businesses still continue to complain about unfair competition and

corruption as some of the greatest barriers in doing business.

Despite the fact that human resources companies are not considered as obstacles from entrepreneurs they are not self-critical, these resources should be identified and treated seriously by them for the purpose of developing human resources more successful and competitive with the countries of the region and beyond.

Among other reasons that may affect the performance of workers at work, is the lack of a stable employment contract between the employer and employee. This phenomenon is expressed in enterprises in Kosovo, as in the private sector as well as in public. One of the important information that is sought to be taken through this research is the patience of Job. When we asked what your status at work was during the previous four weeks, 42.59% of respondents to this question have labor contracts indefinitely. According to a survey KBRA, 43% of workers' contracts have been indefinitely, which means long-term employment. This result is fully complies with other research. Employees with limited duration contracts have a share of 29.88%, with day workers about 13%, followed by other categories lower percentage.

From the research we can conclude that the largest percentage of

those who are working have stable jobs.

Your status at work in last 4 weeks

# 1% farmer who provides selflivelihoods 43% ■ self-employed other 30% day workers

## Figure 1, Employee status at work in last 4 weeks (Source: Data from KBRA)

As cam be seen from the figure 1, 8% of respondents constitute the category (self-employed), while only 0.7% of respondents to this question belong to the category subsistent farmer (farmer who provides self-livelihoods), which also can shows as a very little interest of young's to deal with agriculture as the primary sector of the economy in Kosovo.

The objectives of human resources development are not based only on creating wealth, though economic development is essential (Sen, 1998; Stiglitz, 1999). Rather the objectives are focused at gaining the benefits of, at least, essential standards of wellbeing, safety and education, which are seen as the most crucial for inhabitants to contribute fully in all aspects of social, economic and political life in the country where they live (Stiglitz, 1999) economic and political life in the country where they live (Stiglitz, 1999). Therefore, ideal models of HR development are models and programs based on multi –dimensional issues pertaining to staff or employee knowledge, whereas every dimension is integrated into a comprehensive learning framework (Sen & Wolfensohn, 1999).

As mentioned above, an effective development program of HR contains and in the same time affects multiple dimensions which reflect the full range of individual needs and rights, though in some cases it is more specific. In this respect HR development is focused on competences and entitlements inside a society. Therefore, HR development programs and incentives are integrated and combined with other development issues which are important for the society, such as infrastructure and overall economic development. Within this approach human resources development as a process, is the practice of growing the employee knowledge, the individual and collective organizational skills, and the overall knowledge in a society, is thus a essential but not sufficient part of the comprehensive development objective which ate the end makes employees more loyal to the company and

are more are more emotionally attached which will result with higher productivity (Ahmeti & Zeqiri, 2013).

Human Resource Management and Practices in SMEs in Kosovo

The concept of HR development tends to create overall wealth in a society as its emphasis the overall of individual and collective knowledge, capacities, skills, and capabilities to undertake and implement them in economic development. Additionally, there is an interventionism embedded in human resources development; it is not only a single activity, but more a series of activities commenced and supported by many supplementary initiatives in order to improve others knowledge and personal skills. The importance of human capital improvement has been most clearly revealed in the transitional economies, such as Kosovo and other countries in Balkans peninsula. In Kosovo in particular, policy makers and other decision makers peninsula. In Kosovo in particular, policy makers and other decision makers decided that the insufficiency of knowledgeable and prepared human capital had to be systematically addressed a many issues that have been left aside for many years. There were many incentives undertaken by the policy makers to change this devastating situation, with the result that the impact of the Kosovo's education and training policy has been broadly attributed to that country's economic success. Likewise, there is prevalent indication that economic growth is an essential component for overall development (Stiglitz 1999, Sep 1992) 1999, Sen 1992).

Despite these comparisons, the term related to human resources development has been revealed to have numerous implications which reflect the diverse purposes of scholars, practitioners and policy makers. These alterations reveal four essential questions.

- who will benefit (directly and indirectly) from HRD?
- why is HRD projected or trained?
- what does the HRD consist of?

what does the HRD consist of?
what is the objective of the HRD?
Being or becoming an experienced member of the HR in a organization, means hard and long learning process. There are different needs for different employees to become experiences in a level that may be seen form the organization as an asset or as an important part of the company. The length of the education needed varies and depends on many indicator and factors that are related to the company, individuals or the group that is part of learning process. As seen on the table 5, the companies have noted that one of the largest obstacle that needs to be overcome and which is seen as one of the biggest barriers for their development, was the low level of skilled employees that have in their company (11%) and the lack of skilled employees in managerial level (15%), which is seen as the major lack of knowledge in their companies. As noted by Ahmeti (2014), there is a lack of organizational

awareness in recognizing the importance of knowledge, as they see it as an

awareness in recognizing the importance of knowledge, as they see it as an expense rather than as an investment.

The majority of SMEs that have been part of this study see the knowledge accumulated in by one individual, especially in managerial level, as a threat that may become a competitor in the future. This is one of the reasons, but not the only, why the SMEs are careful when deciding about the individual that needs additional development. Another issue that is related to SME hesitation to further develop their employees is that they will become more dependable to that particular individual, and so they are more vulnerable when it comes to replacement. Asked about the duration and the content of the training/education that their most important employees need, there was no clear answer. They are not very familiar with the form and structure of how they would deliver additional (needed) knowledge to their employees, especially to managerial level, without having to fear that this will become a threat to them. will become a threat to them.

will become a threat to them.

To complicate even more the situation related to knowledge, the overall educational system in Kosovo is in lowest level when it comes to deliver practical knowledge which can be immediately implemented in the organization. There are several training centers for different areas; however, none of them is capable to compete with western educational institution. An additional hurdle comes within the companies, as new technologies are to be implemented. As noted earlier (table 4), the majority of workers are with secondary school and bachelor level of education. This shows that the majority of the employees possess only theoretical knowledge, whereas the practical is assumed that will be gained during the work. This worsens even more the situation, as organizations need to invest over-and-over for each new employee, or when implementing new technology. This makes owners and high level managers to become self-learning employees, as they tend to learn everything that is needed by them self, rather to invest in new employees or on those that are seen as a threat or with a tendency to move of the competition. the competition.

Kosovo, being a developing country and going through a transition phase, from closed to open economy, is facing numerous challenges to manage its HR in several aspects. SMEs have an enormous potential as the majority of inhabitants are young. However, Kosovo has the largest unemployment rate in the region, in total 35.1% of available work force are unemployed. From them, the youth unemployment rate (15-24 years) is 55.3%. This is an indicator that there are many that are interested and ready to work, only that there is no work (ASK, 2014). As noted by Khan et al. (2013), where available HR may be utilized effectively, the chances to contribute to the economic development are larger. SMEs establish are seen as the key player in any economy (in particular in developing countries),

which can play crucial role in overall development such as in Kosovo. Due to other political and overall developments, the importance of managing HR in SMEs and overall in private sector, there were no important policy measures taken by the government or at national level. High level of corruption and the difficulties for SMEs to access the finance are seen as the major hurdles from the private sector, which can only be overcome only through government support.

# Conclusion

It is more than evident that human resource development is crucial for economic development, in particular for developing countries such as Kosovo. Furthermore, this paper confirms the argument that SMEs in Kosovo have enormous potential for organizational development and larger social improvements. As noted, the SME and in general the private sector in developing countries can play an essential part in emerging the viable economic structure of the country. The figures and facts presented in this paper point out the potential of additional growth in SME sector through human resources development. Though, the paper also reviles the fact that SMEs in Kosovo are not exploiting their human resource purposefully and consistently and management pay no attention to organization's most valued assets, that is, the its employees. SMEs are facing many obstacles and are not achieving their maximum, dues to incompetency in applying contemporary and substantiated HR practices due to the lack of experience and low level of awareness pertaining to HR development. Therefore, significant initiatives have to be implemented in order to improve the foundations of organizational efficiencies to attain the maximum SME performance.

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