

## DEVELOPMENT OF THE SMALL AND MEDIUM ENTERPRISES IN THE MUNICIPALITY OF PEJA

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### Abstract

Under this topic we have discussed development of SMEs, the place, role, and definition, types of activities of SMEs, the interdependence between small enterprises, medium and larger ones, like leaving a business, strategic planning process, strategic management, and legal forms of ownership. It made a SME look to the municipality of Peja, where analyzing the number of registered enterprises, the number of employees etc., then favorable economic environment, tax policy, customs policy, forms of financing of SMEs, internationalization of their is analyzing the legal regulation and new developments in policies for SMEs, and given their opinions and proposals on key policy of tourism development, agricultural development etc.

### Introduction

Recently the debate and relevance of clustering as alternative strategy for industrial development in developing countries have dominated many discussions in economic literature. The constraints faced by SMEs in developing countries are not only accentuated with ineffective policy design, but also by market failures in the region. Experts in development economics and industrial organisation have therefore shown some empirical evidence that small firms in developing countries can grow and be competitive as well, through cluster formations. Schmitz (1995) made an in-depth analysis on gains from clustering through collective efficiency - comprising external economies and joint actions that facilitate growth and competitiveness of small-scale industries. The forms of co-operation between agents within the cluster in terms of sharing of resources, information, technical expertise and knowledge helped to reduce transaction costs. This in turn can strengthen the competitiveness as well as facilitating learning and technical innovation. Furthermore, Sengenberger and Pyke (1992) pointed out that the problem of many small enterprises is not their size, but being isolated. This is because small enterprises individually have little capacity to respond to competitive pressure and to generate factors for expansion. Nadvi and Schmitz (1999) analysed how clustering can help SMEs to mobilise human and financial resources.<sup>313</sup> Economies of scope on the other hand arise due to the efficiency of the firm to engage in more than one activity successively. There are three kinds of economies of scope namely: concurrent scale economies; coordinative scale economies; and technical know-how and working skills sharing economy (McCormick, 1998). Control over the market only cannot sustain the profitability of SME clusters in the long run. Profitability of the firms in the cluster can be sustained firstly, through the nature of internal process that encourage learning. Secondly, by acquiring specific comparative advantage or competence, this is important in maintaining the firms' competitiveness. The third factor is the path chosen by the firms, because changes in any firm

are pathdependent (Kaplinsky and Readman, 2001). Thus, through upgrading these three factors is rapidly identified in order to meet the needs of markets quicker than the rivals. Upgrading is important for firms. The processes are systemic in nature and are achieved effectively when firms are linked together. It is important to understand the concept of value chain in order to get true picture of upgrading. The relationship between value chain and upgrading are based on identifying not only the key problems in entire production organisation but also the methods through which upgrading can occur.

Value chain is the process which is required to bring a product or service from the conception, through the intermediary phases of production, then delivery to the final consumers and finally disposed off after use (Kaplinsky, 2000)<sup>314</sup>. Upgrading can be done in different chains: process upgrading, product upgrading, functional upgrading and chain upgrading. Process upgrading occurs when SMEs can improve effectively by organising the internal working process of entire production system better than their local rivals. Product upgrading entails ability to introduce new products or improve old products faster than the local rivals. Functional upgrading takes place in firms where the productivity is increased by improving the quality of the management skills and the organisation of the labour factor. Chain upgrading in turn means moving to new value chains. An example is, moving from household products to industrial input products (for more details see Kaplinsky, 2000; Humphery and Schmitz; 2000 Kaplinsky and Readman, 2001). Kaplinsky and Readman (2001) further warned that rate of upgrading should not be more than the competitors; otherwise, it will lead to immiserising growth. This is an important case particularly for African clusters, because the market in the region is underdeveloped and competition is very low. The policy that aimed at improving quality standard for example, should first consider how to stimulate market competition in the region. SMEs development in the region can be effective only when the market is developed and growth can be sustained in the long run when the capability to upgrade is developed.

### The nature of institutions supporting the cluster

It is now generally accepted in economic discussions that institutions are important not only in industrialisation process but also to development in general. Clustering can foster economic exchange quickly. Therefore, it is

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<sup>313</sup> Using the words of Schmitz: " Indeed, it could be argued that clustering raises the capacity to respond to crisis and opportunities since the capabilities of specialised clustering firms can be combined in many different ways." (Schmitz, 1995: 534)

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<sup>314</sup> Transaction costs economics give more in depth analyses on the organisation of such transactions

important that a third party is available in order to support the transactions. Furthermore, the quality of the service rendered by the third party should be dynamic and in line with the growth-path of the cluster. To understand the importance of institution in cluster development, it is important to make brief ex-curs on the role of social capital in economic development.

Social capital is defined as a capital jointly owned by the parties in relationship and is not divisible. None of the parties have exclusive right of ownership of the capital. It is the final arbiter of competitive relations, because it generates positive interactions within a firm, among groups of firms, within an industrial district in order to reduce transaction costs and propagate growth. It is a critical variable and has influence on the mobilisation of other factors of production such as financial capital, labour and crucial in producing public goods (Burt, 1992; Putnam, 1993). The voluntary and spontaneous cooperation existing within a given community depends on stock of inherited social capital. It can be referred to as "moral resources", which are resources that increase in value when they are frequently used in transactions, but depreciate when they are not applied. This is called social capital of trust (Hirschman, 1985). Trust manifests as a result of the existing cooperation among a set of actors in order to maximise their current desires (Sabel, 1992). The more it is displayed in a relationship, the greater a mutual confidence is developed. Social capital is then classified in two forms – collective and specific social capital.

Collective social capital exists when the cooperative norm is embedded in the production of common goods of various kinds by group of firms or a community. The costs and benefits of deflecting or cooperating are determined by internal and external sanctions existing in the community (Putnam, 1993). Furthermore, it is defined as the mutual cooperation that sustains the survival of economic relations, repeated market transactions and inter-firm transactions in a community or in an industrial cluster (Gambetta, 1988; Barr, 2001). Such capital is open for all members in the community. It is a by-product of common values that allows participants to obtain gains from transactions. The capital possesses considerable value such as trust, which has impact on reducing the need for various forms of monitoring. Monitoring the actors behaviours and transactions usually implies not only considerable direct costs, but has also the negative effects in generating distrust in business community (Dasgupta, 1988; Dei Ottati, 1994).

#### **Development of the small and medium enterprises in the municipality of Peja**

Ministry of Trade and Industry for each year is followed with the greatest care and activity zhvillimin.Ndërmarrjeve Small and Medium Enterprises (SMEs) in Kosovo. By gathering useful information through surveys and other forms of research, aims to analyze the situation of SMEs, are examined and compared trends in different periods, and identify problems to solve and areas where improvements and easements of regulations and procedures. The objective of this paper is through collection of data from the private business community, and

particularly the SME community, to analyze trends and identify development needs and challenges which are facing SMEs, and the same in the form of requests to addressed to the responsible institutions, and organizations that support the economic activity of SMEs in Kosovë.Ky project is actually a continuation of the surveys from previous years. The survey was conducted according to the sampling method, and the level of Kosovo, and has been spread across all regions. SME survey is done through the questionnaire that is designed specifically for this project, and previously was assessed by the expert group.. The basic aim of this research project is to diagnose the current situation of small and medium enterprises, and identify problems, obstacles and barriers that ngulfasin development activity, identifying both the needs and demands of the community to improve the situation , The advancement of developmental processes and developing positive trends in strategic terms.<sup>315</sup>

#### **2.2 STRUCTURE OF OWNERS**

Structure of business owners who own the firm is an indicator of importance and is treated in terms of sex business founders, their age group and level of education and professional training for business management.

Gender structure of the founders-in any market economy with the gender structure of firms in business holders analyzed and treated with greater care, with the goal in this field conducted gender equal rights and equal opportunities based approach to establishment of new businesses.

Age-group analysis grupëmoshës founder of the founders of the companies in small and medium comprises five age groups and at the Kosovo and also by region. Of the total number of firms in the business, dominates the 36-45 years age group

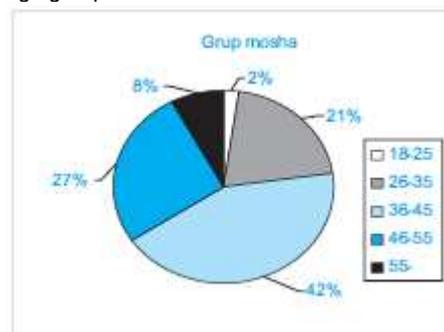


fig.4.1 founders structure by age group

Level of education (education) - According to the education level of the survey participants were divided into five groups:

1. Primary Qualification;
2. Secondary qualification;
3. Qualifying high;
4. Faculty;
5. Other (Master and PhD)

<sup>315</sup> Prof.Dr. Arjana Qepani – Bizneset e vogla dhe te mesme

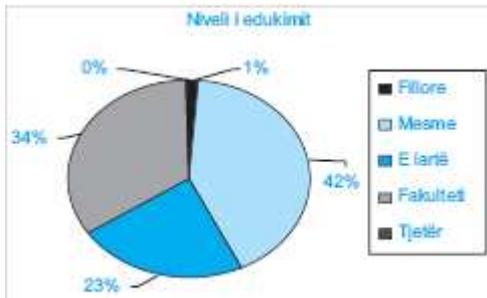


fig.4.2 The level of training of entrepreneurs

### STRUCTURE OF ENTERPRISES

Since the establishment of private enterprises in Kosovo-economy began to develop in the second half of the 90s-to the 20th century. In the postwar period the private economy, ie small business and secondary education in Kosovo are marking an expansive and development both in quantitative and in qualitative terms.

Structure of SMEs by economic activity-By type of activity are manufacturing enterprises, commercial, and service. According to the survey done with 600 SMEs in 2005, 49.5% of businesses surveyed were identified as commercial enterprises, 32.2% were stated as manufacturing enterprise, and 18.3% are enterprise service. So, dominates the same number of commercial enterprises as well as in 2004, and in previous years, even with their numbers tend to and the number of service companies to grow while the number of manufacturing enterprises fall.

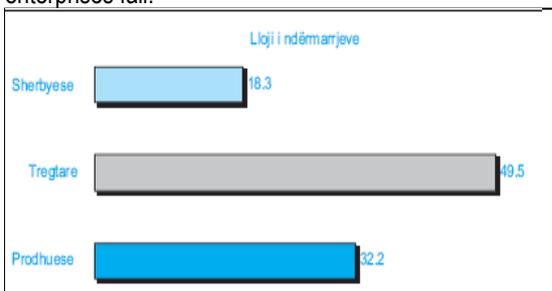


fig.4.3 Type of enterprises

Summing up, we can conclude that the structure of enterprises according to their activity in 2005 again shows the trend of deterioration, namely the increasing number of commercial and service enterprises and reducing the number of manufacturing enterprises. This however must be analyzed and treated by makropolitikave makers in the country, in order to stimulate domestic production.

Management of enterprise-enterprise management method depends directly from the firm's form of organization. Thus the firms in the business of organized business in the form of individual, mainly the owner himself manages his company, while the firms in the form of joint management of the firm is more easy because the owners of the company except their capital and unite their skills professional and managerial, which assists and facilitates the management of the firm quite. Meanwhile, the companies held in the form of joint stock companies on equity ownership and management of the firm are separate and opportunities for higher quality management of businesses are much larger

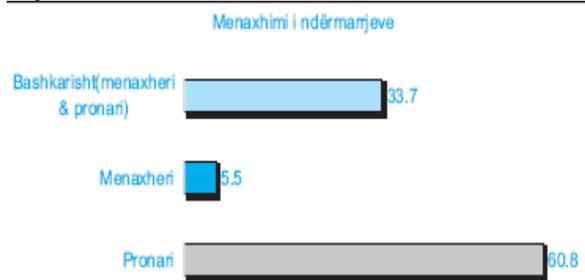


fig.4. enterprise management

Structure of employees by qualification, position and gender constitutes a very important quality indicator for the economy and private economy as a whole. From surveys conducted with 600 small and medium enterprises in Kosovo in 2005, collected data on the structure of employment by qualification, position and gender, which in summary are presented in the figure below.

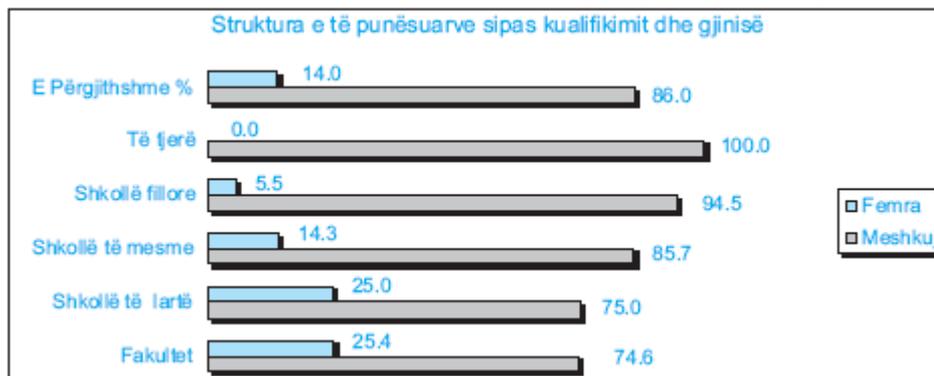


fig. structure of employment by qualification, position and gender

### Literature

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