

Understanding Small Business Growth and Development in the Context of an Extreme, Transitional and Marginalized Environment

Doctoral Thesis

**International Doctoral Programme in Entrepreneurship and Management
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May, 2013

Abstract

The literature on small firm growth is extensive. However, an important question that remains unclear is whether small business growth models of western developed economies are applicable to transitional and underdeveloped economies, especially in post-war/conflict contexts.

The main purpose of this doctoral thesis is to examine entrepreneurial and institutional determinants of small business growth and the interrelationships between institutional factors in the context of an extreme, transitional and marginalized environment.

In order to investigate these issues, we use both Institutional theory and Human Capital theory. These theories have been considered as useful theoretical frameworks for analysing the determinants of small business growth but have not previously been integrated within this literature.

Empirically, the doctoral thesis is based on data collected from face-to-face interviews with more than 500 entrepreneurs in Kosova. Entrepreneurship is developed under extreme conditions in Kosova, which can be considered a marginalized context. Institutional deficiencies of a post war yet emerging country, continued political and social and ethnic turbulence, and high level of poverty and corruption, offer an interesting setting for examining entrepreneurial behaviour and small business development.

The findings from a series of multivariate regression models suggest that entrepreneurs' specific human capital attributes and intentions to grow are significant determinants of start-up size and (fast) firm growth. Results also confirm the interrelationship between formal and informal institutional factors.

By drawing the research from Kosova, this doctoral thesis offers a contextualized view of entrepreneurship and small business growth, enabling a better understanding of the importance of context for research in this field. The thesis concludes by discussing theoretical and practical implications derived from the findings. Limitations and future research directions are also offered.

Acknowledgments

It has been a long journey. But I was not alone. I was surrounded by people who made this journey much easier and not as painful as sometimes really felt.

There are lot of people that I am grateful to. I would like to begin by expressing my deepest acknowledgements to my supervisor Prof. Joan-Lluís Capelleras for all his support, continued guidance and motivation to complete the PhD thesis, especially in the last stage of doctoral thesis which proved to be the most difficult part.

I deeply appreciate all the help offered by the Department of Business Economics, above all Prof. Joaquim Vergés for addressing all my academic doubts and Mireia Cirera and Alicia Alesan for being extremely efficient in solving all logistical issues.

A warm recognition goes for Prof. Bengt Johannisson, who made the fourth Semester in Vaxjo University - Sweden, so enjoyable. Thank you Swedish Institute for supporting my stay at Vaxjo University.

Also the support received from Tempus Project is deeply appreciated. In this context I would like to thank Prof. Iraj Hashi, Prof. Harald Niklasson, Prof. Ali Sylqa and Prof. Edmond Beqiri who supported me in this regard.

My PhD thesis has benefited from the great generosity of Riinvest Institute for Development Research which has provided a free access to SME database. Thank you Prof. Muhamet Mustafa for enabling data access and for providing moral support in early stages of the PhD studies.

Finally, I am forever thankful to my family, especially to my parents who have supported me all the time, who understood the choices that I made, and provided unconditional love and care. This thesis is dedicated to them.

CONTENTS

Table of contents

1. Introduction	2
1.1. Problem statement	2
1.2. Purpose and research objectives.....	4
1.3. General context of the research	8
1.4. Theoretical background	10
1.5. Anticipated contributions	16
1.6. Structure of the Doctoral Thesis	18
2. The historical development of entrepreneurship and small business in Kosova.....	21
2.1. Economic position of Kosova during Socialist era	21
2.2. Political turmoil and entrepreneurship development.....	25
2.3. Post-war period and entrepreneurial opportunities	26
2.4. Entrepreneurship under new circumstances: a post-independence view.....	31
3. Start-up size and subsequent firm growth in Kosova: the role of entrepreneurial and institutional factors.....	35
3.1. Introduction	36
3.2. Theory and hypotheses.....	38
3.2.1. Theoretical background	38
3.2.2. Entrepreneurial factors.....	40
3.2.3. Institutional factors.....	41
3.3. Methodology.....	43
3.3.1. Context of the study	43
3.3.2. Data.....	44
3.3.3. Variables and measures	45
3.4. Results.....	48
3.5. Discussion and implications	52
4. Fast Growing Firms in a Transitional and Extreme Environment: Are They Different?	57
4.1. Introduction	58
4.2. Fast-growing firms – a literature review.....	60
4.2.1. Fast-growing firms – a distinctive group	60
4.2.2. Defining fast growth	61
4.2.3. Contribution of fast-growing firms	63

4.2.4. Determinants of fast growth	64
4.3. Methodology.....	67
4.3.1. Context of the study	67
4.3.2. Data.....	69
4.3.3. Variables.....	70
4.4. Results.....	73
4.5. Discussion and implications.....	79
4.5.1 Discussion.....	79
4.5.2. Implications, limitations, and future research directions.....	82
5. Entrepreneurs' perceptions of institutional barriers in an extreme and marginalised context	86
5.1. Introduction	87
5.2. Theory and hypothesis.....	90
5.2.1. Theoretical background	90
5.2.2. Formal institutions and entrepreneurship	93
5.2.3. Informal Institutions and entrepreneurship.....	94
5.3. Methodology.....	97
5.3.1. Context of the study	97
5.3.2. Data.....	100
5.3.3. Variables and measures.....	101
5.4. Results.....	103
5.5. Discussion and extensions	111
6. Conclusions	117
6.1. Summary of main results and discussion	117
6.2. Contributions of the Doctoral Thesis.....	122
6.3. Theoretical implications.....	124
6.4. Policy implications	126
6.5. Practical implications	130
6.6. Limitations of the study and future lines of research	131
7. References	136

List of Tables:

Table 2.1. GDP in Socialistic Federal Republic of Yugoslavia.....	23
Table 2.2. GDP in Kosova.....	27
Table 2.3. Official registration of SMEs in Kosova.....	28
Table 3.1. Rotated factor matrix and Cronbach's alpha.....	47
Table 3.2. Descriptive statistics and correlation matrix.....	50
Table 3.3. Regression results for start-up size and firm growth.....	51
Table 4.1. Various definitions on fast-growing firms.....	62
Table 4.2. Relative employment growth in four groups.....	70
Table 4.3. Description of variables.....	72
Table 4.4. Rotated factor matrix.....	73
Table 4.5. Correlation matrix.....	76
Table 4.6. The contribution of fast-growing firms to employment.....	77
Table 4.7. Ordered logit model and marginal effects for each group.....	78
Table 5.1. Descriptive statistics on the barriers to doing business 2001 / 2006.....	106
Table 5.2. Correlation matrix 2006.....	108
Table 5.3. Correlation matrix 2001.....	109
Table 5.4. Results from the Survey in 2001.....	110
Table 5.5. Results from the Survey in 2006.....	111

List of Figures:

Figure 1 : Map of Kosova.....	21
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CHAPTER 1
INTRODUCTION

1. Introduction

1.1. *Problem statement*

Over the last two decades, the interest of scholars in small businesses¹ has increased dramatically and studies on small business growth are no longer short in supply. However, this by no means implies that we know everything about the phenomenon. Definitely, a coherent in-depth view on small business growth still needs to be built. Wiklund *et al.* (2009) argues that despite substantial increase in research volume, recent reviews of the literature on small firm growth suggest that relatively little is still known about the growth of small firms, and thus conceptual development has been limited. Moreover, the large number of empirical studies has not given a very high yield of generalizable knowledge (Davidsson *et al.*, 2006), and the knowledge base related to this field still lacks a body of theory capable of explaining the growth of small businesses (Dobbs and Hamilton, 2007). For these reasons, the findings on small firm growth are far from being conclusive.

Even so, the knowledge in this field has been continuously and substantially developed, a central question is whether the models of small business growth in western developed economies are applicable to transitional and underdeveloped economies, especially in the extreme and post-war context. An emerging theme in entrepreneurship research is a contextualized view of entrepreneurship. There is growing recognition that entrepreneurial behaviour needs to be interpreted in the context in which it occurs (Welter and Smallbone, 2011). Indeed, the contextual particularities of transition, extreme, and marginalized countries, such as Kosova, present a unique setting for testing different hypothesis and generating more sophisticated and specific knowledge on entrepreneurship and small business growth which is

¹ In this doctoral thesis, the term small business and small and medium sized enterprises (SMEs) are used interchangeable. Both terms reflect the European Union Commission Recommendation 2003/361/EC as published in the *Official Journal of the European Union* L 124, p.36 of 20 May 2003, micro enterprises are included in the definition of SMEs. According to this recommendation, micro firms have up to ten employees; small enterprises are those with less than 50 employees; and firms with employees from 51 up to 250 are classified as medium-sized.

certainly currently lacking. In this regard, Naudé (2007) underlines that entrepreneurship in extreme contexts, and in particular in states emerging from conflict, is an under-researched topic. Therefore, in order for a theory of the growth of the firm to be inclusive, more research should be directed toward small business growth in extreme, transition and marginalized settings. An increased knowledge of entrepreneurial behaviour in the above mentioned context will enrich what we know today about small business growth and entrepreneurship in general.

Importantly, the transition processes show distinctive features of entrepreneurship (Smallbone and Welter, 2001; Aidis, 2005.). This distinctiveness becomes even more pronounced in the context of countries or communities experiencing violent conflict (Naudé, 2010). The inadequate and often hostile institutional environment in countries in transition was frequently mentioned as playing a major role in constraining small business development (Smallbone and Welter, 2001). In such setting, it was argued that the creation and the growth of new firms as well as the strategies that they adopt are substantially influenced by the external environment in general (Peng, 2003), and the institutional context in particular (Welter and Smallbone, 2003). Moreover, firms operating in this kind of transitional environment face rather different barriers compared to firms in western economies and developed countries. This is mainly because of the formal and informal constraints that emerge due to this particular setting.

Without doubt, one of the reasons for the increased attention toward the growth of small businesses is their contribution to employment. Certainly, firm growth is an important indicator of a thriving economy, and small and medium sized enterprise (SME) development is seen as a key to economic growth, innovation and market competition in most advanced western economies (Acs and Audretsch, 1990). Moreover, SMEs are considered as a central source of job generation, and wealth creation (Birch, 1979; Storey, 1994) and as a remedy against high unemployment and stagnant economic growth (Thurik *et al.* 2008).

In an extreme, transition, and marginalized context, the role of SMEs is even more emphasized. It is expected that they take the role of renewing the economic and social position of the

country. Though transition toward free market economy opened many opportunities for entrepreneurship, the heritage from the planned era was in many ways not favourable (Estrin *et al.*, 2006), and several elements of the reform process created an even less conducive context for productive entrepreneurship (Baumol, 1990). During this period, small business growth could potentially be contributing to absorbing any labour surpluses which might result from economic restructuring and improving the trade balance through export earnings or import substitution (Acs and Audretsch, 1990), and since they offer individuals a livelihood and a source of independent revenue (Coad and Tamvada 2012,) small business and entrepreneurship provide a vehicle for people to escape from poverty and inequality (Naudé, 2010).

Furthermore, the development of SMEs facilitates the adjustment from highly concentrated structures that were excessively focused on the manufacturing, to more flexible production systems which include a wider variety of services (Smallbone *et al.*, 2010). For example, in Hungary, a former transition country, the contribution of the private sector to GDP went from 7% in 1988 to 60% in 1995 and 85% in 1999 (World Bank, 2000). However, in most of the former transition countries, SMEs failed to take this role. Especially in South Eastern Europe, the small firm sector has neither grown sufficiently rapidly enough to address the issue of unemployment, nor has it fulfilled its potential as an engine of growth (Acs and Audretsch, 1990).

1.2. Purpose and research objectives

Considering the uniqueness of the extreme context in transitional and marginalized countries such as Kosova, and in the light of significant shortcomings in terms of the research on small business growth and development in this particular context, the general purpose of the present doctoral thesis is:

To examine entrepreneurial and institutional determinants of small business growth, and the interrelationships between institutional factors in the context of an extreme, transitional and marginalized environment

As we have underlined in the previous section, small business growth models based on the western developed economies can hardly be generalized in the research context characterized by transitional particularities, extreme events and the context of marginalization. Considering this and aiming to have a more inclusive model of small business growth, researchers should certainly consider all sorts of contexts in which entrepreneurial behaviour occurs. For achieving the general purpose of this doctoral thesis, and contributing to building a more coherent picture of small business growth, in this study we shall be focused on investigating the following topics within a broad domain of small business growth and entrepreneurship research.

The first topic deals with the determinants of start - up size and subsequent growth. The initial size of new firms and their subsequent growth have been the focus of much research. This is because start-up size is a significant determinant of firm survival (e.g. Mata and Portugal, 1994; Audretsch and Mahmood, 1995) and business growth contributes to job creation and regional development (e.g. Storey, 1994; Acs and Armington, 2006). However, the vast majority of prior research has been conducted in developed and advanced economies. Little is known about the determinants of start-up size and subsequent growth in transitional and marginalized contexts. Therefore, empirical research in such contexts may help to increase our understanding of the factors influencing the creation and subsequent development of firms, which is of crucial importance for countries going through crises, such as Kosova.

Human capital attributes of entrepreneurs, and their intentions to grow, are also likely to have an impact on the start-up size and subsequent growth of the firm. Extreme events such as violent conflict have the potential to impact psychologically the entire population, through affecting both their expectations and their perceptions, and as such might be even more important than visible consequences in the form of material destruction. Therefore, investigating the role of human capital and intentions toward growth of entrepreneurs in a

transitional context might provide a deeper insight in analyzing the determinants of small firm growth.

However, transition economies, such as Kosova, are known for unpredictable and volatile institutional environments (Smallbone and Welter 2001, Ahlstrom and Bruton 2006). The creation and subsequent development of new firms in this particular context is thus substantially influenced by the external environment in general and the institutional context in particular (Welter and Smallbone 2003). Institutional factors have been used to explore new venture growth and performance in transition economies (Hoskisson *et al.* 2000, Aidis 2005, Wright *et al.* 2005, Meyer and Peng 2005), and this approach offers the highest degree of novelty in this highly unusual and novel context of transitional environment (Peng, 2003).

Hence, the specific research objective for the first topic is the following:

To analyse entrepreneurial and institutional determinants of start-up size and subsequent firm growth

In the second topic we discuss fast growing firms in the extreme context. Most authors undoubtedly agree that fast-growing firms account for a disproportionately large amount of jobs created. Regardless of their contribution to job generation, it seems that this specific group of firms did not receive sufficiently the attention of researchers in both developed and developing economies. In the few papers written in this topic, it is claimed that there have been too few studies on rapid growing firms as a distinct category (Fischer and Reuber, 2003), that there is a dearth of research on fast growing firms and that surprisingly little research has been done explicitly on the needs of high-growth firms and their implications for policy (Autio *et al.*, 2007).

Importantly, the contribution of fast growing firms in transitional marginalized and extreme context remains unclear, while generalizing the results from Western economies to this specific context could potentially be misleading. Various studies uphold the view that those new firms

that achieve a fast growth rate have significant effects in the economy (Birch, 1979; Storey, 1994; Delmar, 1997) and fast growth is an indicator of a firm's overall success (Fischer and Reuber, 2003). Hence there is an increasing interest in understanding the determinants of small business growth. Presumably, fast growing firms are of significant importance for transition and extreme environments as well, therefore the investigation into the factors that foster and hold back the fast growth of new firms is of crucial importance.

Deriving from this discussion, the specific research objective related to this topic is the following:

To examine the contribution to employment of fast growing firms and the factors which have an influence on the fast growth of firms

Considering that institutional context plays a crucial role in the development of small business and entrepreneurship, **our third topic** investigates how institutional factors shape entrepreneurial behaviour in these specific economies. There are several research papers investigating the role of the barriers (formal and informal) to entrepreneurship and small business growth (Manolova *et al.* 2008, Sobel 2008, Grilo and Thurik 2006, Estrin and Mickiewicz, 2011, Van der Zwan *et al.* 2011). Only few of them focused on, if and how these barriers are interrelated (Aidis, 2005). On the other hand, studying the interrelatedness of barriers certainly offers a deeper insight on how barriers to small business growth are developed. As Williamson's (2000) illustrates, formal and informal institutions are not independent and tend to interact. If formal barriers are interrelated with informal barriers, then a potential change to formal barriers may imply effects on informal barriers and vice versa (Aidis, 2005). This is especially important for policy makers.

For this reason, the specific research objective for this topic is the following:

**To investigate how entrepreneurs perceive institutional factors and the interrelationships
between formal and informal institutional factors.**

By achieving these three objectives, this doctoral thesis will contribute toward a better understanding of small business growth and development by drawing from the perspective of an extreme, transitional and marginalized context such as Kosova.

1.3. General context of the research

The need properly to take into consideration the influence of the context in which the research is taking place, is receiving greater attention among scholars researching entrepreneurial behaviour. According to Welter (2011), the context provides individuals with entrepreneurial opportunities by setting boundaries for their actions, and it is important for understanding when, how, and why entrepreneurship happens and who becomes involved.

In the opening introduction of this doctoral thesis, we have questioned the generalization of small business growth models, without taking into account all sorts of contexts and theoretical implications that the research context might have. Actually, Bruton (2008), correctly underlines that entrepreneurship research today can be summarized as what is known from the world's developed economies, and may not readily apply to entrepreneurship in emerging economies, as there is only limited research directly on those environments.

The significant economic and political changes that have occurred in many emerging economies (e.g. transition economies) provide distinctive and dynamic settings for studying entrepreneurship in general in new contexts (Kiss *et al.*, 2012). According to Meyer and Peng (2005), Central and Eastern European (CEE) countries provide an interesting laboratory for developing and testing theories, because the transition processes provide a series of unique societal quasi-experiments, and that countries undergoing the transition process show distinctive features of entrepreneurship (Smallbone and Welter, 2001; Aidis, 2005). The unique

mix of significant institutional upheaval and particular resource endowments in emerging and transition countries, often create settings in which entrepreneurial growth strategies are likely to be different from those in the West (Manev and Manolova, 2010).

Considering the discussion above, there is an urgent need for pushing small business growth and entrepreneurship research behind the borders of developed economies by fully investigating the characteristics of the particular context in which entrepreneurship thrives. Only in this way will the theories of entrepreneurship and small business growth be inclusive. As Zahra (2007) points out, it would be insightful if the contextual nature of emerging economies is integrated, so that insights on theory can be generated to expand the understanding of emerging economy entrepreneurship or potentially to generate a new theory.

Therefore, this doctoral thesis draws on empirical research from Republic of Kosova where the institutional context in general is characterized by following features: a) extreme conditions for entrepreneurship (Solymossy, 2005), as a result of post-war consequences, a high level of poverty, continuous low level ethnic conflict, and political turbulence; b) a transitional period influencing entrepreneurial activities (Krasniqi 2007, Hoxha 2008), mainly through weak regulatory framework and high level of corruption; c) a marginalized context as a consequence of a regional and international isolation due to the partial recognition of the independence declared in 2008, as well as lagging behind in the European integration process (Hoxha, 2009b). As Solymossy (2005) has claimed, Kosova presents the complex circumstance of an extreme socio-economic environment through which to analyze entrepreneurship. For this reason, understanding the distinctiveness of small business growth and entrepreneurship development in Kosova may supplement our understanding in this field. In addition, the lessons that can be learned could potentially be helpful and further applied to other similar regions.

Empirically, we make use of a representative sample of around 600 firms from the business register of the Statistical Office of Kosova. The selected firms were interviewed face-to-face in 2006 by Riinvest Institute for Development Research based in Prishtina, Kosova. The author of

this doctoral thesis was substantially involved in all stages of research. In addition, we test the impact of a large number of variables, both objective and subjective, by utilizing different multivariate techniques such as multiple regression and ordinal logit regression. For the third topic, dealing with the interrelatedness of institutional factors, we benefit from the database of 610 businesses that were interviewed in 2001. It is worth highlighting that the database of 2001 did not contain data related to start-up size, hence it was not possible to measure firm growth and to use it for further analyses.

1.4. Theoretical background

There is no unique theoretical model explaining the post-entry performance of firms (Veciana, 1999). Moreover, Acs and Mueller, (2008) claim that until now there has been no theory with which to explain rapid firm growth. Indeed, the current research is not able to combine a variety of strands of literature in order to arrive at an empirically testable model. Consequently, the lack of a theoretical grounding has often produced inconclusive research results, and various authors utilized different theoretical perspectives to investigate small business growth and entrepreneurship. Researchers from all fields of social sciences, such as economics, sociology, psychology, and politics have been making efforts to contribute to this area of research.

Thus, for example, stochastic models of firm growth, developed mainly in the field of economics, stem from Gibrat's (1931) "Law of Proportionate Effect" which has been a valuable framework for many previous studies. According to Gibrat's Law, the probability of a given proportionate change in size during a certain period is the same for all firms in a given industry, regardless of their size at the beginning of the period. Most studies conducted within this framework have showed a tendency to reject Gibrat's Law, emphasizing that smaller firms grow faster. In the context of stochastic models, the opposite to Gibrat's legacy is the Jovanovic learning model according to which new firms gain information about their effectiveness only

after market entry, and are able to learn based on previous periods and experiences, hence new and small firms should grow faster given that they survive.

The 'population ecology' or 'organizational ecology' perspective comes from sociology and the seminal contribution of Hannan and Freeman (1984). The main focus of this theoretical framework is the founding and mortality rates of organizations, and it is based on the assumption that organizations are selected by the environment, i.e., organizations that closely fit with environmental requirements survive, while organizations that do not fit will disappear (for extended review see Hannan (2005). Organizational ecologists argue that there may exist several relationships between age and survival. Hence, for example, according to the liability of newness, the risk of an organization closing reaches its peak right after it has been founded, and then decreases over time (Stinchcombe, 1965). On the other hand, according to the liability of adolescence, the mortality risk that rises from the time of the start up, reaches its peak after several months of survival, and then declines over time (Brüderl and Schüssler, 1990).

Psychological theories such as those developed by McClelland (1965) and which focus specifically on personal traits, motives and incentives of an individual to engage in entrepreneurship, conclude that entrepreneurs have a strong need for achievement. Within this similar framework, Davidsson (1989) underlines achievement motivation as the most important factor explaining variation of growth rates and entrepreneurship.

In contrast to stochastic models, the evolutionary models suggest that growth is the result of a learning process triggered by a firm's performance and the performance of other competing firms.

A frequent framework for analyzing the small business growth has been the resource-based view, which reflects the influential study of Penrose (1959). She postulated that differential growth was the result of internal resources and activities, particularly management capabilities and behaviour, in addition to strategic capabilities to identify possibilities for growth. Penrose's

vision of firm growth considers that firms grow because of 'economies of growth' that are natural in the growth process, and not because of any advantage linked to size.

Without aiming to get involved in the further discussion about various models of firm growth, we underline that as a result of the lack of a unique theoretical framework for explaining firm growth, researchers are frequently influenced by the characteristics of the context where the research is taking place. Nevertheless, the contextual view corresponds with a growing recognition that entrepreneurial behaviour needs to be interpreted in the context in which it occurs (Welter and Smallbone, 2011). Hence, considering the general purpose of this doctoral thesis, and its specific objectives, and taking into account the particularities of the context in which the research took place, we apply both institutional theory and human capital theory. Indeed, multiple theoretical perspectives are necessary for an in depth understanding of the evolution of entrepreneurship in extreme environments.

The institutional theory has proven to be a popular theoretical foundation for exploring a wide variety of topics in different domains ranging from institutional economics and political science to organization theory. The application of institutional theory has proven to be especially helpful to entrepreneurial research (Bruton *et al.*, 2010). Recent studies in the field of entrepreneurship (Bruton *et al.*, 2010; Welter and Smallbone, 2011) point toward the growing prominence and explanatory power of institutional theory. Particularly, the institutional theory appears to provide a valuable theoretical framework in an environment characterized by institutional volatility, social change and transformation. In this context, Bruton *et al* (2008) have argued that very little is known about the impact of institutions on the behaviour of entrepreneurs, in either transition or mature market economies, and that in terms of theory development and extension, researchers employing institutional theory have focused extensively on culture, and have largely ignored the impact of other institutions. Henrekson, and Johansson (2009), argue that the literature specifically addressing the effects of institutions on fast growing firms is scarce. Moreover, the institutional perspective has been considered as a useful theoretical framework for analyzing the impact of external barriers on new venture

development in emerging and transition economies (Aidis, 2005; Wright *et al.*, 2005; Meyer and Peng, 2005).

According to North (1990), institutions provide the rules of the game in a society that reduce uncertainty by providing a structure to everyday life, and thus guide human interaction. Institutions consist of formal constraints, such as laws and regulation, while informal constraints include conventions, codes of behaviour, norms and culture. Ideally, formal rules are designed to facilitate exchange reducing transaction costs. Overall, both formal and informal elements strongly influence the goals and beliefs of individuals and organizations.

In same domain, Baumol (1990) provides in depth analysis of the different types of entrepreneurship that can emerge in different institutional contexts. Actually, institutions are considered as the structures providing the incentives for different sorts of entrepreneurial behaviour. Hence, for example, in a context where the rewards for rent seeking activities offset their costs, unproductive entrepreneurship, i.e. entrepreneurship that benefits the entrepreneur but the economy, will not flourish. Likewise, if the rewards of engaging in illegal entrepreneurial activity prevail over their costs, entrepreneurs tend to be more disposed to engage in destructive entrepreneurship, i.e. entrepreneurship that is unfavourable for economic development. On the other hand, if the incentives are for 'productive' entrepreneurship (contributing positively to growth) then this form will predominate. Consequently, entrepreneurial behaviours will be guided by a judgment of the incentives deriving from the context in the form of formal institutions, as well as informal ones.

Institutions are not static and they change over time. How institutions change and develop through the time, especially after extreme events, such as war and conflicts, has important implications for development of the entrepreneurial culture in a given context. Indeed the institutional factors impacting entrepreneurial efforts include the direct action of governments in constructing and maintaining an environment supportive of entrepreneurship, as well as societal norms toward entrepreneurship (Bruton *et al.*, 2010). Therefore, as Baumol *et al.*

(2009) correctly points out, the level of entrepreneurship that develops in a society is directly related to the society's regulations and policies governing the allocation of rewards, and hence productive entrepreneurship will be at low levels where the incentives supporting it are weak. Moreover, institutions are context specific since same rules applied in different societies can produce different economic outcomes (North, 1990)

Looking from this perspective, institutions set boundaries for entrepreneur's behaviour by defining what is appropriate or expected in various transactional relationships within a certain context. In other words, formal institutions create opportunity fields for entrepreneurship; but informal institutions determine the collective and individual perception of entrepreneurial opportunities (Welter and Smallbone, 2008). Taking this into consideration, it is of crucial importance to analyze under which institutional framework entrepreneurs will direct their efforts toward productive, rather than unproductive and destructive entrepreneurship. Moreover, in countries that face a huge unemployment rate, it is equally important to analyze which institutional setup is likely to be most conducive to the fostering of fast growing firms.

Although institutional factors play an important role in small business growth, other theoretical frameworks should not be neglected. In fact, small business growth and entrepreneurship research, the human element has received attention recently, and there is increasing research effort and theorizing on this topic (Rauch *et al.* 2005). The human capital theory (Becker, 1975) was frequently used with respect to general understanding of entrepreneurship. However, this is not the case in transition countries. A decade earlier, Honig (2001) underlined that our understanding of the influence of human capital in transitional environment is quite limited. Yet, it seems that attempts to examine the impact of human capital upon the growth of firms in the transitional context are still scarce (Lafuente and Rabetino, 2011). The relationship between human capital and small business growth is particularly vital in transition economies, since in the former communist system the process for the generation of human capital may have become less efficient when dealing with new features of the free market economy. According to the Kovacs and Virag (1995), this is because the political system in these countries hampered

the accumulation of business experiences, and the education systems in former communist countries was more oriented towards hard sciences and engineering, neglecting social sciences, law, business and public policy.

The human capital (Becker, 1975) theory posits that individuals with more or higher quality human capital achieve higher performance at a particular task. Education teaches workers valuable skills that make them more productive and enables them to earn higher wages. Becker (1964) distinguishes between general and specific human capital. General human capital refers to overall education and practical experience and is defined to be useful, not only for the current employer but also for other potential employers. On the other hand, specific human capital refers to education and experience with a range of application restricted to a certain context which can potentially lead to increasing the productivity of a worker only with respect to the tasks that he is performing on his current job. Importantly, human capital variables include knowledge, education, skills and experience, and these variables are likely to influence the growth of the firm.

Specifically human capital attributes (education, experience, skills), in particular those of the business owner, have been argued to be a critical resource in small firms (Pfeffer, 1994), influencing overall performance and growth of the firm. Importantly, while small business literature focused in human capital of business founders/owners, the human capital of employees in small businesses has been widely ignored (Rauch *et al.*, 2005). Still, the little empirical evidence with regard to human capital of employees also points to the positive influence on firm growth (Mata and Portugal 1994), although some doubts have been raised as well (Westhead and Storey, 1996).

Hence, departing from its importance and the lack of studies that utilize this theory in transition and extreme and marginalized context, in this doctoral thesis, in addition to institutional theory, we introduce human capital theory, thus trying to capture the internal firm factors that might influence the growth of firms.

1.5. Anticipated contributions

By achieving the specific objectives and reaching the overall purpose of the doctoral thesis, the anticipated contribution of the present study is threefold:

First, this doctoral thesis reveals the importance of empirical investigation concerning small business growth and entrepreneurship within the broader environmental context, while emphasizing the case of small firms exposed to extreme and marginalized conditions. In this context, for the academy it offers results from rather a distinctive context, characterized by extreme conditions for doing business, a transitional period and a marginalized context. Certainly, we believe that the results derived from this doctoral thesis can be useful in furthering our understanding in this field and they will enrich the current models of small business growth and entrepreneurship. Moreover, our results are based on a large sample, covering a wide range of variables, which was the main suggestion of Hall and Wahab (2007), and include three sectors - trade, manufacturing, and services.

We examine the impact of variables related to entrepreneurs, namely their human capital attributes and intentions to grow, on both initial size and subsequent growth. Many enterprises are set up, survive and sometimes even grow despite major institutional constraints which characterize the transition phase, mainly due to the creativity and drive of individuals and their flexibility in adapting to hostile external environments (Smallbone and Welter, 2001: 259). A study by Capelleras *et al.* (2008) has also confirmed the importance of human capital attributes of firm founders in explaining start-up size and growth, regardless of the institutional environment faced by new ventures.

There is no evidence, so far, coming from transition countries in terms of the real contribution of fast growing firms to job creation. This is an important outcome of this study, since the fast growing firms in transition countries might be heavily influenced by the hostile environment and other transitional particularities. This group of firms might also be differently affected by firm and entrepreneur characteristics. For this reason their contribution to employment might

be different when compared to the western countries. In this context, we seek to expand the knowledge on the topic of fast growing firms by providing evidence from a transitional, yet extreme context. This is in line with Peng and Heath (1996) who point to the need for further research on firm growth in transition countries in order to make the theory of firm growth more complete.

Whilst prior research has studied the effect of perceived institutional barriers on entrepreneurial activities and small business growth (e.g. Bartlett and Bukvic, 2001; Pissarides *et al.* 2003; Grilo and Thurik 2006, Van der Zwan *et al.* 2011), little is known about the interrelatedness of formal and informal factors and their influence on the overall context. Most prior research has implicitly assumed a “one-way relationship” between entrepreneurship and the respective context (Welter, 2011); while in this doctoral thesis we examine a two-way relationship between entrepreneurs and the context *per se*, through analysing not only how context influences entrepreneurial behaviour, but also how entrepreneurs shape that context.

Second, for entrepreneurs it provides valuable insights on the determinants of growth and barriers to doing business. Individuals considering starting up a business might become interested to evaluate their ambitions according to the models developed in this doctoral thesis and to foresee the barriers which they might face if they decide to start-up a business. In addition, they can find out which factors influence firm growth, especially they can reflect on the determinants of fast growth, and act accordingly.

Third, for policy makers it provides sophisticated data processed by scientifically proven techniques, and with accurate results and appropriate policy recommendations. Policy makers can observe which of the barriers hinder small business growth most and accordingly take action on reducing them. They can as well become aware of the importance of fast growing firms for the overall economic regeneration of the country, and support them with both general and specific policies. In addition, they can take into consideration several policy recommendations drafted in the concluding section of the doctoral thesis.

1.6. Structure of the Doctoral Thesis

In order to address and achieve the objectives of the doctoral thesis, we have designed this doctoral thesis around several topics, departing from the general study on determinants of small business growth and start-up size. Next, we exclusively focus in a specific group of growing firms - fast growing firms, and investigate their contribution to employment and the determinants of fast growth. Throughout this doctoral thesis, the barriers to growth and entrepreneurship were important part and have been used as independent variables. Therefore, the last topic of the doctoral thesis explores barriers to doing business and the interrelatedness between formal and informal barriers.

However, before getting into the core topics of the doctoral thesis we first start with some information about the general context in Kosova. Hence the next chapter offers an overview of the historical development of entrepreneurship and small business growth in Kosova. It presents general insights related to the overall economic and social situation in Kosova, starting from the period when Kosova was part of Yugoslavia, until independence was declared in 2008. More specifically, it emphasizes the role of political and social developments and their influence on entrepreneurship and small business growth in Kosova. An early version of this chapter was published as a case study titled "The Nature of Entrepreneurship under Extreme and Marginalized Conditions – The Case of Kosova" in *International Journal of Entrepreneurship and Innovation* Vol 10, No 1, 2009, pp 73–76.

The third chapter presents the paper titled "Start-up Size and Subsequent Growth in a Marginalized and Transitional Context: The Role of Entrepreneurial and Institutional Factors" published in *Post-Communist Economies*, Vol. 22, No. 3, 2010 pp. 411-426. An initial draft of this paper was presented at the Babson College Entrepreneurship Research Conference, in 2008, in North Carolina, USA.

The fourth chapter consists of the paper titled "Fast Growing Firms in a Transitional and Extreme Environment - Are They Different?" published in the *Journal of Small Business and Enterprise Development* Vol. 17 No. 3, 2010 pp. 350-370. An initial draft of this paper was presented at the RENT XX - Research in Entrepreneurship and Small Business, in 2006, Brussels, Belgium.

The fifth chapter contains the paper titled "*Entrepreneurs' perceptions of institutional barriers in an extreme and marginalised context*". An earlier version of this chapter titled "Barriers to doing business in Kosova: an institutional approach" was published in the *International Journal of Entrepreneurship and Small Business*, Vol. 8 No. 2, pp. 186–199. A more elaborated version will be submitted for publication.

Finally, in the last chapter we summarize and discuss the main results. We continue further by presenting the primary theoretical and practical implications, followed by policy implications and recommendations that might be useful in favouring entrepreneurship development. This doctoral thesis concludes by listing the limitations of the research and highlighting future lines of research.

CHAPTER 2

THE HISTORICAL DEVELOPMENT OF ENTREPRENEURSHIP AND SMALL BUSINESS IN KOSOVA

2. The historical development of entrepreneurship and small business in Kosova

2.1. Economic position of Kosova during Socialist era

The Republic of Kosova (spelt 'Kosova' in English) is a newest European country located in the south-eastern part of Europe, that is, in the Balkan Peninsula. Internationally, Kosova borders Albania, Macedonia, Montenegro and Serbia. It has an area of 10,908 square kilometres and an estimated population of 1.9–2.2 million (of which Kosovar Albanians constitute 92% and Serbs 4% – the rest is made up of other communities).

Figure 1 : Map of Kosova



Before it declared the independence, on 17th of February 2008, Kosova was one of the eight constituent units of the Socialist Federation of the Republic of Yugoslavia (SFRY). The economic and political model of the former Yugoslavia was significantly different from the mainstream

model of communism exercised in the Soviet bloc. Essentially the SFRY was a non-aligned, socialist state with less strict government intervention. The command economy was looser, allowing different forms of private ownership (Sklias and Roukanas, 2007).

Theoretically, the Yugoslav self-managed system resembled rather closely a market economy thanks to the fair autonomy of enterprises, the weak role of central planning, the wide range of free or quasi-free prices and economic openness. However, returns to economic activity were substantially centralised, resources were allocated centrally through bargaining mechanisms with republican governments, and wages were largely planned. Therefore, compared to a market economy institutions were distorted, perhaps even more so than in a centrally planned economy. In fact, in the latter discipline (budget constraint) was a reality, albeit mostly at the political level (Kornai, 1992).

Another feature of the Yugoslav system that made it unfit for an orderly and productive transformation consisted of re-distributive processes. Introduced to settle inter-ethnic and inter-republican tensions, they generated macroeconomic instability, which in turn exacerbated those tensions both directly and via the effect of stabilisation policies (Dallago and Uvalic, 1998).

Even so the economic model in SFRY created good opportunities, and encouraged entrepreneurial activities. Nevertheless the most distinguished feature that encouraged the enormous entrepreneurial wave across SFRY including Kosova, was the implementation of Enterprise Law by Federal Government in 1988, designed to increase the competitiveness and efficiency of the economy. This law allowed the creation of new firms with the mixed and private ownership. As matter of fact the process of deregulation (in particular with respect to foreign trade and company registration) quickly encouraged a wave of new start-ups. However former Yugoslavia was far away from implementing free market economy. Yet the concept of the process of transition from a socialist to a market economy was not entirely novel for the SFRY and latter on for successor states (Sklias and Roukanas, 2007)

Before the collapse and the breakdown of former Yugoslavia, Kosova was the less developed entity, with a per-capita output of only 28% compared to average per-capita output in Yugoslavia. Huge disparities in income and wealth between the richer northern Republics and regions (Slovenia, Croatia, and Vojvodina) and the very poor southern ones (Macedonia, Montenegro and, particularly, Kosova) began to emerge in the 1960s and 1970s. The most developed region, Slovenia had perhaps six or seven times the GDP per capita, depending on the year in question, of the least developed region Kosova (Mrak et al 2004). As a result this has seriously undermined the viability and cohesion of the Yugoslav Federation.

Table 2.1: GDP in Socialistic Federal Republic of Yugoslavia

Gross Social Product per Capita in SFR Yugoslavia / Slovenia = 100 unless otherwise indicated							
Republic or Province	1952	1965	1974	1980	1989	1997	1999
Slovenia	100.0	100.0	100.0	100.0	100.0	100.0	10,078
Croatia	66.7	65.8	62.5	64.1	64.1	48.0	6,464
Vojvodina	49.1	60.9	58.0	57.1	59.6	24.3	6,006
Serbia without Vojv. and Kosovo	56.7	52.2	48.0	49.5	52.0	18.9	5,243
Serbia with Vojv. and Kosovo	51.5	50.0	45.0	45.5	46.0	17.1	4,632
Montenegro	48.5	41.3	34.0	39.9	36.9	16.1	3,716
Bosnia and Herzegovina	52.6	39.1	33.0	33.3	34.3	10.2	3,461
Macedonia	39.2	36.4	34.0	33.8	33.3	20.3	3,359
Kosovo	25.7	19.6	16.0	12.1	12.6	5.1	1,272
<p>Notes: 1) In 1997, data refer to GMP per capita for all Yugoslav republics (including Kosovo), and to GDP per capita for other countries. – 2) Actual GDP per capita (in USD at exchange rate) for Slovenia, and hypothetically attainable level of GDP per capita (in USD at exchange rate) for other republics, under the assumption that regional discrepancies (as measured in GDP per capita) are the same as in 1989.</p> <p>Source: WIIW for 1997 and 1999, and OECD for other years.</p>							

Table 2.1 gives an indication of the regional differences in gross social product per capita (similar to gross material product concept used in other socialist countries) across the republics and provinces in former Yugoslavia over a long period. Although significant regional disparities were more than evident, the new Enterprise Law encouraged the development of the entrepreneurship and small business, which was also positively reflected in Kosova.

In case of Kosova the development of entrepreneurship should be analyzed within the wider context of social and political change – and especially war period that had a remarkable influence on overall entrepreneurial activity. As Sorensen (2006) correctly emphasizes, the economic sphere cannot be isolated from its political and social context, but that the economy is embedded in social relations, informal and formal institutions.

Some positive trends in the end of the 80s toward a more liberalized economy were diminished when the political climate in Serbia shifted towards nationalism, and the autonomy of Kosova was suspended. Subsequently, the Serbian regime practically occupied and governed Kosova by means of police and military force. In the face of this situation, Clark (2000) emphasizes that Kosovar Albanians responded with a non-violent separatist movement, employing widespread civil disobedience and the creation of parallel structures in education, medical care and taxation, with the ultimate goal of achieving independence for Kosova. This behaviour showed a wide spread boycott of the Serbian state and military controlled institution. Albanian interaction with political and social life in Serbia proper was virtually non-existent (Sorensen, 2006). In these circumstances, entrepreneurship in Kosova developed in a unique business environment which will be explained further in proceeding text.

The entrepreneurship development in Kosova can be divided in three main phases. The first phases captures the period from late 80s until the beginning of the war in 1998, where the Serbian regime ruled in Kosova. The second phase starts with an ending of the war in 1999, and with establishment of United Nations institutions and local government bodies. The third phase reflects the period after the declaration of independence in 2008.

2.2. Political turmoil and entrepreneurship development

Having opposed the Serbian regime, during 90s and refusing to recognize the Serbian government in Kosova, Kosovar Albanians employed in state and public institutions were expelled from employment en masse. It is estimated that around 150,000 Kosovars have been dismissed from civil administration, public institutions and socially and publicly owned enterprises as a respond to the Labour Act for Extraordinary Circumstances and other discriminatory legislation imposed by Serbian totalitarian regime. This discriminatory policy significantly increased the unemployment level, which was already high specifically among the Kosovar Albanian population during this phase. Over the next five years (1900 - 1995), GDP contracted by 50 %, falling to less than US\$400 per head by 1995, with a particularly severe contraction in industry and mining.

A lack of job opportunities and the increased level of state terror were key factors in encouraging a new wave of migration, mainly of young families and men, which brought the total number of Kosovar Albanians in northern Europe to between 350,000 and 400,000 – the majority settled in Germany and Switzerland (Korovilas, 2002). The important feature of the migration of Kosovar Albanians is the amount of remittances which they sent back to Kosova, mainly to their families. This helped families to survive and poverty to reduce. In fact as we will notice latter on, the remittances remain an important income for people in Kosova.

Nevertheless, for local people residing in Kosova, the only possibilities for survival was self-employment and entrepreneurial activity. Doctors, lawyers, journalists, teachers and others were ‘transformed’ into shopkeepers, street traders, taxi drivers and in some cases even pushed to become a smugglers. These small-scale entrepreneurial activities, motivated by push factors, had no other positive externalities apart from enabling families to survive, escape from poverty and prevent from migration.

It is noteworthy that the authoritarian ruling of the Serbian regime significantly influenced the culture of doing business in Kosova. Many entrepreneurial activities were conducted informally, away from Serbian tax authorities. Since almost entire local population rejected the ruling of the Serbian regime in Kosova, such illegal entrepreneurial behaviour was considered patriotic. During this phase almost no research and statistics are available that would enable a clear picture on the small business development at that time. Nevertheless the most of the business activities were conducted in an informal way, by avoiding authorities and tax payment. Importantly, having been excluded from the formal economic system during the 1990s, Kosovar Albanians learned how to survive in extreme and marginalized conditions through small-scale entrepreneurial activities. Still, the main characteristic of this phase was the political instability that resulted in a devastating war in 1998–99. Indeed the overall economic situation in Kosova was dramatically deteriorated as a result of the war that took place in Kosova during 1998 – 1999. The ethnic conflict most severely affected housing, agriculture, and telecommunications. About 30 percent of the housing units, both urban and rural, are unusable. More than 50 percent of agriculture assets were reportedly damaged or lost. Key parts of the telecommunications system were destroyed during the conflict. In addition, equipment of all types and personal property were looted extensively (European Commission/World Bank, 1999)

2.3. Post-war period and entrepreneurial opportunities

Immediately after the war, on 10 June 1999, Kosova was placed under temporary UN administration by United Nations Security Council Resolution 1244, in order to provide substantial autonomy and self-government to the people of Kosova. This marked the end of the war and the start of the recovery and reconstruction. Indeed, Kosova has experienced remarkable post-war recovery. The overwhelming help of the international community, coupled with the entrepreneurial spirit of the Kosovars and remittances from Diaspora, enabled rapid recovery.

The second entrepreneurial wave started immediately after the end of war. During the war, approximately 30.000 houses, were burned out and/or completely destroyed. Many more has been partially destroyed or even totally looted. However, the end of the war and the return of around one million refugees, planning to rebuild their homes and begin a new life, brought great entrepreneurial opportunities. In particular, the construction sector experienced rapid growth because of the need to rebuild the destroyed houses. These opportunities were partially exploited by local entrepreneurs in the construction sector. In addition, an important flow of firms and workers came from neighbouring countries to fulfil the demands of the construction sector. Trading was also quite an attractive sector for entrepreneurs because of the low entry cost. In this context, many local entrepreneurs started up micro-firms to respond to the demands of the local population – this can be seen from the number of registered businesses that were started up in the years immediately following the war. Actually, many of the today's large companies started as a micro firms operating in the trade sector.

Overall, for a brief period following the end of the war, economic growth surged on account of massive reconstruction efforts financed by huge inflows from donors and Kosovar Diaspora. The GDP growth was estimated at 21 percent in 2000, mostly due to large inflows of foreign assistance for reconstruction activities, and private investments in response to significant trade reforms. But estimated real GDP growth between 2002 and 2005 has been slow and volatile. Real GDP growth was negative in 2002 and 2003. This was followed by a positive upturn in 2004 due to expansionary fiscal stance World Bank (2007).

Table 2.2. GDP in Kosova

Gross Domestic Product in current prices 2002-2010								(Million of Euro)	
Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP-current prices	2.589,9	2.505,0	2.912	3.003	3.120,4	3.393,7	3.851,4	3.912,4	4.215,6
GDP per capita (Euro)	1.363,1	1.296,5	1.822	1.845	1.882	2.013	2.249	2.247	2.383

It has to be noted though, that starting up a firm at that time was a high risk activity despite the evident opportunities. The risk derived mainly from the lack of basic laws enabling fair competition and creates equal conditions in the marketplace. Nevertheless, despite the unfavourable and extreme business environment, entrepreneurial activities played a part in improving the welfare of the Kosovar people.

Immediately after the war in Kosova, financial resources available to the entrepreneurs were extremely limited. Most firms were created with support of family members or remittances from abroad. The banking sector was still not developed in such a way it could substantially support the small business development.

Despite the very tough conditions for entrepreneurship development and business growth, the SME sector in Kosova has shown continual growth in absolute terms. This reflects the entrepreneurial propensity of the local population and their desire to overcome the consequences of war. The number of registered firms in Kosova more than doubled during 2000–2006. There is no evidence on firms’ continued existence and closures; however, data from the Tax Administration of Kosova show that around half of the registered firms are actually inactive.

Table 2.3. Official registration of SMEs In Kosova

The number of registered firms after the war period (by the end of the respective years)												
Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of firms	29564	40094	54412	56572	63032	74110	78499	84237	90929	97357	103755	111590

Source: SME Support Agency in Kosova, 2012

A further impetus to entrepreneurship was expected to emerge from the acceleration of the privatization process and changes in the ownership structure. The privatization process in Kosova inherited around 500 Socially Owned Enterprises of which only 30% with around 60 000 employees were functioning after the War (Riinvest, 2008).

The first results of the privatization process were not as encouraging as it was expected, especially in terms of creating new jobs. In fact the privatization process failed to attract significant foreign direct investments. Most of the investors were either local entrepreneurs or Kosovar Albanians that were living abroad and return in Kosova to invest their savings. According to Riinvest (2008) report on privatization issues, around one third of privatized companies are not active. Nevertheless, some positive elements could be observed such as growth of sales, exports, and investment Riinvest (2008).

In general Kosova lagged behind other European countries with respect to the number of SMEs per inhabitant. There were only 16 SMEs per 1.000 inhabitants in 2004 as opposed to 31 in Central and Eastern Europe and 34 in the European Union (Hoxha and Krasniqi, 2008). Although during the past war period a significant entrepreneurial activity were observed, yet the proper entrepreneurial infrastructure consisting on consulting and training organization, business incubators, and strong business association at that time was still missing.

After the war, Kosovar entrepreneurs had to deal with severe and unique barriers to doing business, because small business was developed in the absence of the formal institutions. In this rather chaotic setting, as noted above, the most obvious barrier was the lack of appropriate legislation. As a result, significant illegal activities, in the form of unfair competition, fiscal evasion and corruption, were evident. However, together with the change in business conditions, firms' perceptions of the difficulty of obstacles to business development have changed (Riinvest, 2003). Until 2002, the absence of legislation was considered to be the main obstacle to entrepreneurship.

Since then, however, the importance of this obstacle has decreased with the passage of several important laws by the Kosova legislature (Hoxha, 2009a). According to Riinvest (2005), the main obstacles to doing business in 2005 were unfair competition, the informal economy and corruption. The harmful effects of these obstacles emerged from the high level of shadow economy creating in this manner an unequal position in the marketplace, by putting the formal

sector in a disadvantageous position (Riinvest, 2005). Although in recent years various laws have been approved and the regulatory framework has been harmonized with EU standards, there remains the major problem of enforcing these laws. As Solymossy (2005) correctly observes, there has been progress in establishing the rule of law (both substantive and procedural), but it has been neither firmly established nor socially accepted.

Furthermore, in the past the overall political situation has not been supportive of entrepreneurship. Although Kosova was a UN protectorate, it was still formally recognized as part of Serbia, which further complicated the business environment, especially with regard to international relations and attracting foreign direct investment. Thus, for example, Kosova was denied access to international organizations such as the International Monetary Fund, the World Bank, the World Trade Organization and the European Union, making it hard to benefit from financial programmes and credit schemes that would put fresh capital into the hands of entrepreneurs. On the other hand, the UN administration was reluctant to formulate policies that would foster entrepreneurial activities, and it was widely known to be bureaucratic and thought to be marred by corruption.

The transition authorities of the UN, acting in parallel with the elected local administration and the government structures, created a complex political environment, in which competences were very often confused and contradictory. The national interests, being represented by the government bodies, were usually opposed by the will of the international authorities and the donor community, as well as the representative bodies of minorities. This resulted in political confusion and a complex decision making process with a lot of delays and uncertainties. Such an environment is clearly not attractive to potential investors (Sklias and Roukanas, 2007).

All these developments, deriving from the unresolved status of Kosova, further marginalized overall economic and social state of Kosova. Thus, despite the fact that entrepreneurial activity increased significantly after the war, it produced only minor positive externalities. The best illustration for this is the World Bank estimations. According to World Bank (2007) the average real GDP growth was around 1.5 percent in the 5 years between 2002 and 2007.

In conclusion of the second phase, entrepreneurship in Kosova during this period developed under very specific circumstances, characterized by extreme conditions (Solymossy, 2005) and transitional particularities (Krasniqi, 2007; Hoxha, 2008), and was undertaken in a marginalized context deriving from the political situation surrounding Kosova, resulting in very minor positive effects for local population.

2.4. Entrepreneurship under new circumstances: a post-independence view

The 17 February 2008 was an important day in the history of Kosova. On that day, independence was declared, bringing with it new hopes for political stability and economic development. Although independence in itself did not automatically solve all the socioeconomic problems, it was thought that it will create the necessary preconditions for increased business development and new entrepreneurial opportunities.

Many transition countries even at the present time continue to wrestle with transitional difficulties. Although the vast majority of post-communist countries already become a full member of EU, Western Balkans including Kosova, remains disintegrated part of the European continent and is still struggling with transitional difficulties and high unemployment rates even after being on the 'transition' path for more than two decades now. Being in this stage of development, entrepreneurship and small business creation are expected to play a fundamental role in the movement towards a modern free market economy, and thus towards socio - economic development and growth.

SME sector after independence is characterized with slow or non-growing firms, predominantly operating in the trade sector, low and unproductive investments, and weak export orientation and not internationally competitive, followed by "me to" business model. Despite these characteristics the SME Sector according to the SME Agency in Kosova, are employing more than 200,000 employees, or approximately 80 % of total employees in the private sector, more

than 60.0% of the total number of employees in Kosova. These numbers are strong evidence for policy makers, that regardless of the weak position of the SME sector, it is worth supporting SMEs since small businesses will act in the future as a sustainable engine of growth and income generation

Still, the macroeconomic picture remains a matter of concern. Unemployment, estimated at 40%, is still the greatest and most urgent social problem that policy should deal with. In addition, low purchasing power characterizes the local population in Kosova, making it even harder for businesses to develop. As matter of fact, based on recent World Bank estimates, around 45% of the population live in relative poverty (on less than US\$2 a day), and around 15% live in extreme poverty (less than US\$1 a day). At the same time, poor transportation infrastructure, power shortages and an unstable water supply diminish the chances for small business development and growth.

In the years after independence the GDP continuously increased above 4% each year. It is estimated that this trend will continue in the next three years. Nevertheless this growth is far from addressing employment needs of young Kosovar population. It is predicted that only GDP growth above 7% annually will properly address employment needs. Although the GDP increased continuously in recent years, however the GDP per capita in 2010 equalled to only 9.7% of the EU-27 average.

Currently, then, the environment for business development remains extreme and marginalized, even if there have been improvements since the pre-war and post-war periods. The banking sector has improved substantially with the involvement of foreign banks, although the access to and the cost of finance remained problematic, mainly due to the high risks in the economy.

Most of the laws mentioned above have been enacted and harmonized with European Union directives. Still the legal system continued to suffer from poor accessibility and efficiency. Weak enforceability of contracts remained one of the main concerns of companies and investors in

Kosova. It is also one of the factors explaining the relatively high interest rates charged by commercial banks to the private sector (European Commission (2011))

Several international firms have already begun to operate in Kosova. In addition, the country is well endowed with natural resources and agricultural land, which may attract further foreign direct investment. However the main challenge for Kosova now is to create a friendly environment for encouraging the growth of new firms. Much work remains to be done by the state institutions, especially in law enforcement and ensuring equal conditions for all participants in the marketplace, especially if we have in mind that businesses continue to suffer corruption and red tape in their daily operation.

The declaration of independence has already marked some positive signs in the economy. There is increased attention and market research from other potential investors. Having been recognized as an independent state from most powerful countries, including all G-7 members, Kosova became a full member of World Bank and IMF and EBRD. This will provide a facilitated access to financial capital and other development programs that hopefully will boost private sector development and entrepreneurial activities.

Importantly, despite declaring the independence the marginalized position of Kosova in the region still continues. Indeed, partial recognition of the independence, and not being able to become full member of the United Nations, it is hindering Kosova, to take part in regional economic initiatives, and especially European Commission Framework Programmes and access EU development funds. Kosova even today does not have its own telephone entry code, which is causing a loss of around 20 mil Euros per year. It does not have internet domain and its citizens are the only one in the Balkans who cannot travel visa free to EU member countries. All this underlines the marginalized position of Kosova, which certainly has a negative effect in the entrepreneurship and business development.

CHAPTER 3

START-UP SIZE AND SUBSEQUENT FIRM GROWTH IN KOSOVA: THE ROLE OF ENTREPRENEURIAL AND INSTITUTIONAL FACTORS

3. Start-up size and subsequent firm growth in Kosova: the role of entrepreneurial and institutional factors

Abstract

The successful establishment and subsequent development of new firms have long been a source of interest for researchers. However, there is still limited evidence with regard to causes of both start-up size and firm growth in transitional contexts characterised by extreme conditions such as Kosova. In this study we examine entrepreneurial and institutional factors influencing initial size and subsequent growth by using data collected by structured interviews with 555 firm founders. Results show that entrepreneurs' intentions to grow the business have a strong positive influence on both variables, whereas their formal education is negatively related to initial size and growth. Our findings also suggest that, in the absence of a strong institutional framework, informal barriers have emerged and tend to hinder firm growth in this particular context.

3.1. Introduction

The initial size of new firms and their subsequent growth have long been a source of interest for researchers in both the economics and entrepreneurship literatures. Start-up size has been shown to be a significant determinant of a firm's probability of survival (e.g. Mata and Portugal 1994, Audretsch and Mahmood 1995, Santarelli 1998). Venture growth has been considered an indicator of the firm's overall success (e.g. Fischer and Reuber 2003) and has been linked to both job creation and regional development (e.g. Storey 1994, Acs and Armington 2006).

However, the vast majority of prior research in this area has been conducted in developed and advanced economies. Not much is known about the determinants of start-up size and subsequent growth in marginalised contexts characterised by extreme conditions for entrepreneurship. Empirical research in such contexts may thus help to increase our understanding of the factors influencing the creation and subsequent development of firms. Moreover, factors influencing start-up size and growth have generally been investigated separately.

In the light of these shortcomings, the purpose of the present study is to investigate the determinants of both initial size and subsequent firm growth in the case of Kosova, which can be considered a transitional and extreme context. Transition countries show distinctive features of entrepreneurship such as an unstable and hostile environment for business creation, a different institutional environment, lack of tradition and experience of entrepreneurial activity and a different cultural and social inherited context (Smallbone and Welter 2001, Aidis 2005). In addition to these characteristics, Kosova presents the complex circumstance of an extreme socio-economic environment as a result of its marginalised and transitional particularities (Solymossy 2005, Hoxha 2009b). Therefore, it can illustrate a distinctive way of entrepreneurial development and further our knowledge on the topic.

This research focuses on start-up size and growth of local, young, small and medium-size firms. Looking at these firms rather than state- or foreign-owned enterprises may offer more relevant

lessons for the development of regional economies in Central and Eastern Europe (CEE) than importing examples, based on large, mature firms, drawn from elsewhere (Szymanski *et al.* 2007).

The framework of the study includes factors related to the entrepreneur's characteristics and the firm's institutional context. Hence, the main contributions of this study are twofold. First, we investigate the impact of factors related to entrepreneurs, namely their human capital attributes and intentions for growth, on both initial size and subsequent growth. Indeed, many enterprises in transition countries, particularly in early stages of transition, are set up, survive and sometimes even grow regardless of institutional barriers because of the creativity and drive of individuals and their flexibility in adapting to hostile environments (Smallbone and Welter 2001, p. 259). This is also in line with recent studies that have pointed to the importance of human capital attributes of firm founders in explaining start-up size and growth, irrespective of the institutional environment faced by new ventures (Capelleras *et al.* 2008).

The second main contribution is to explore the impact of formal and informal institutional barriers on both start-up size and growth. While prior research in the industrial economics literature has focused on industry-specific variables to explain start-up size or on the relationship between size and growth to test Gibrat's (1931) law, we draw on the institutional perspective as introduced by North (1990) and distinguish between formal and informal constraints. This perspective has been considered useful for analysing entrepreneurship in transition economies (Hoskisson *et al.* 2000, Aidis 2005, Wright *et al.* 2005, Meyer and Peng 2005, Bruton *et al.* 2008). Importantly, the expansion of the entrepreneurial private sector in these economies has been dependent on the institutional framework emerging in post-communist transition (Winiński 2004).

The rest of the chapter is organised as follows. First we present the theoretical background of the study and derive testable hypotheses. The next section describes the context, data and

variables of the study. Results are then presented. The chapter ends with the discussion and implications of the findings.

3.2. Theory and hypotheses

3.2.1. Theoretical background

Human capital attributes of entrepreneurs are likely to play an important role in explaining venture initial size and growth. The theory of human capital posits that individuals with more or higher-quality human capital achieve higher performance at a particular task (Becker 1975). For example, human capital theorists argue that education and experience provide individuals with valuable skills that make them more productive. Human capital can be developed over time and transferred between individuals. This differentiates human capital from other individual characteristics, such as personality traits, which to date have been found to have a less certain impact on entrepreneurial outcomes (Wright *et al.* 2005). Although most studies have typically examined the determinants of start-up size from an industrial dynamics perspective, a more recent line of research has shown that human capital attributes of entrepreneurs play a role in explaining start-up size (Colombo *et al.* 2004, Capelleras *et al.* 2008) and subsequent firm growth (Colombo and Grilli 2005, Gilbert *et al.* 2006). However, Honig (2001) emphasises that our understanding of the influence of human capital in transitional environments is quite limited. Therefore, the need for additional research based on human capital theory is still apparent.

Apart from human capital attributes of entrepreneurs, their willingness to grow is also likely to have an impact on the development of new firms, since the decision to grow is a choice assumed by the entrepreneur (Kolvereid 1992). According to Ajzen (1991, p. 181), intentions are indications of how hard people are willing to try, of how much effort they are planning to exert in order to perform a behaviour. Hence, the stronger the intention to engage in a behaviour, the more likely should be its performance. While evidence on the relationship between intentions and venture development in transitional contexts is still scarce, prior work

in developed countries has suggested that an entrepreneur's intention to grow the business is positively related to actual firm growth (Wiklund and Shepherd 2003) and that expansion plans appear to provide a solid platform for future growth (LeBrasseur *et al.* 2003).

However, transition economies are known for their unpredictability, volatility and un-codified institutional environments (Smallbone and Welter 2001, Ahlstrom and Bruton 2006). The creation and subsequent development of new firms in such economies are thus substantially influenced by the external environment in general and the institutional context in particular (Welter and Smallbone 2003). According to North (1990), institutions are the rules of the game in a society that reduce uncertainty by providing a structure to everyday life and guide human interaction. Therefore, the kinds of information and knowledge required by entrepreneurs are in good part a consequence of a particular institutional context (North 1990, p. 77). Institutions consist in formal constraints, such as laws and regulation, and informal constraints, such as conventions, codes of behaviour, norms and culture. Both formal and informal elements strongly influence the goals and beliefs of individuals and organisations. Hence these institutional factors have been used to explore new venture growth and performance in transition economies (Hoskisson *et al.* 2000, Aidis 2005, Wright *et al.* 2005, Meyer and Peng 2005). However, it has been suggested that the ability of such economies to reduce the economic distance to the Western economies depends not only on formal factors but also, and primarily, on the informal ones (Winiecki 2004).

Overall, therefore, our framework in this study is based on a joint consideration of entrepreneurial and institutional factors as potential influences on the initial size and subsequent growth of a firm in a transitional and marginalised context, whilst controlling for general characteristics of the firm. In the next two sections we first suggest that an entrepreneur's human capital and intentions to grow will be positively related to initial size and subsequent growth of the new firm. We go on to argue that an entrepreneur's perception of institutional barriers will have a negative influence on both start-up size and growth.

3.2.2. Entrepreneurial factors

Start-up size and growth may be affected by the skills (human capital) and attitudes (intention to grow) of entrepreneurs. In terms of general human capital attributes, highly educated entrepreneurs may be better able to deal with complex problems, since formal education is considered a source of knowledge (Cooper *et al.* 1994). Entrepreneurs who are highly educated may also leverage their knowledge and the social contacts generated through the education system to acquire resources required to create their venture (Shane 2003, Arenius and De Clercq 2005). Moreover, specific human capital attributes of entrepreneurs, such as skills and knowledge that they can directly apply to the job in the firm, may be of special relevance in explaining firm growth (Colombo and Grilli 2005). For instance, entrepreneurs with specific knowledge may also be better able to detect profitable market opportunities that are still unexplored. Specific human capital may also help organise the business successfully, thus facilitating growth (Wiklund and Shepherd 2003). On the whole, it may be expected that individuals with deeper stocks of human capital should be able to create larger ventures. Entrepreneurs with high levels of human capital are also likely to form firms which grow faster than firms founded by individuals without such human capital. We therefore propose hypothesis 1:

Hypothesis 1: An entrepreneur's human capital attributes will be positively related to start-up size and subsequent firm growth

Most business founders have modest growth aspirations for their firms. A majority of firms start small, live small and die small (Davidsson *et al.* 2006) because many entrepreneurs deliberately choose not to grow at all or want to grow only on a relatively modest scale (Wiklund *et al.* 2003). This has been suggested from a theoretical perspective (Ajzen 1991, Wiklund and Shepherd 2003) and demonstrated in several studies across developed countries. For example, Storey (1994) found that about 50% of UK founders start their firm with no intention to grow. Our interest here is whether the entrepreneurs' willingness to grow really matters in the context of transition countries. Although we do not have specific information for

such countries, we suggest that an entrepreneur's intention to grow will still be related to actual initial size and growth. The expectation here is that those entrepreneurs who have or develop an intention to grow their firms will be more likely to have larger businesses at start-up that will grow faster than the rest of firms. We thus offer hypothesis 2:

Hypothesis 2: An entrepreneur's intention to grow will be positively related to start-up size and subsequent firm growth

3.2.3. Institutional factors

In order to explore the impact of institutional conditions on venture development, we focus on the subjective perceptions of the entrepreneurs about formal and informal barriers. Although perceptions are not objective measures, empirical research has indicated that subjective opinions of the entrepreneur have an influence on both motivation and direct behaviour (Davidsson 1991). Since the decision to become an entrepreneur is made at the individual level (Arenius and Minniti 2005), entrepreneurs' perceptions about institutional conditions are of special relevance in terms of new firm development.

With regard to formal factors, prior work suggests that time and costs associated with establishing a new formally registered firm are particularly relevant in emerging and transition economies (Djankov *et al.* 2002). Other factors such as tax burdens (Kontorovich 1999) and high levels of bureaucracy (Bartlett and Bukvic 2001) have been shown to be significant obstacles for new ventures in these countries. In effect, increased government rules and laws may be a concern for those entrepreneurs trying to expand their businesses. Complicated regulations can be especially hard on entrepreneurs with strong ambitions for growth (Baumol 1990). An entrepreneur motivated to grow by hiring extra employees or by seeking funding for expansion may be confronted with excessive administrative burdens. Ultimately, the perception of formal barriers may produce a negative result for individuals involved in starting and developing a new venture (Bowen and De Clercq 2008). Hence hypothesis 3 is suggested:

Hypothesis 3: An entrepreneur's perception of formal institutional barriers will be negatively related to start-up size and subsequent firm growth

According to Smallbone and Welter (2001), government actions and the behaviour of politicians and government officials in transition countries have a major influence in creating the conditions that enable and/or constrain the process of setting up and developing businesses. They showed that frequent changes in the tax system, combined with a prohibitive tax level and unpredictable behaviour by state officials, encourage entrepreneurs to shift some or all of their activities to the informal economy, or in some cases abroad. Moreover, frustrated by the ineffective legal enforcement of contracts and property rights, entrepreneurs depend to a large extent on informal norms for security (Peng 2003) and actively seek to design alternative governance structures and contractual arrangements (Manolova *et al.* 2008). Prior research has also shown a link between formal barriers, such as the time and procedures needed to register a new business, and informal barriers, such as corruption (Djankov *et al.* 2002, Aidis 2005). Similarly, high taxation as a formal barrier has been shown to increase informal activities (Smallbone and Welter 2001). Overall, informal barriers such as corruption and unfair competition from the large informal economy are likely to interfere with firm development in transition countries. We thus formulate hypothesis 4:

Hypothesis 4: An entrepreneur's perception of informal institutional barriers will be negatively related to start-up size and subsequent firm growth

3.3. Methodology

3.3.1. Context of the study

Meyer and Peng (2005) have argued that transition processes in CEE countries provide a series of unique societal quasi-experiments. Manolova and Yan (2002) have claimed that research on entrepreneurship in transition economies has shown that the harshness and hostility of the institutional environment involve strategic behaviours that are unique and vary considerably from the strategic response of their Western counterparts. It is also frequently underlined that countries undergoing transition show distinctive features of entrepreneurship (Smallbone and Welter 2001, Aidis 2005). The distinctiveness of entrepreneurship in these countries is reflected mainly in the hostile environment for business development.

In the case of Kosova, entrepreneurship is developed under special conditions, rarely seen elsewhere, since it is one of the last countries experiencing transition difficulties toward a free and open market economy. The business environment and its entrepreneurial development served as an appropriate setting for Solymossy (2005) for expanding previous models on entrepreneurship. He suggests that Kosova presents the complex circumstance of an extreme socio-economic environment through which to analyse entrepreneurship.

External barriers experienced by entrepreneurs doing business in Kosova are hardly observed elsewhere. For example, the business environment in the post-war period was heavily characterised by an institutional vacuum, followed by the lack of basic economic laws that would stop corruption and unfair competition. Recent evidence has shown that the lack of laws' barrier has been perceived as the most severe one in doing business and continues to be among the highest barriers (Hoxha 2009a).

In recent years there has been some progress in establishing rule of law (both substantive and procedural) but it has been neither firmly established nor socially accepted (Solymossy 2005).

Kosovar entrepreneurs also suffer from power shortages (Kumkar 2003), followed by other infrastructural factors such as poor roads and telecommunication and public services (Riinvest 2008). These barriers are rarely faced by entrepreneurs in developed economies.

Additionally, the very high level of unemployment (at around 45% in 2008) and high poverty rate considerably influence the overall business environment in Kosova. World Bank estimates show that around 45% of the population in Kosova lives in relative poverty, on less than USD 2 per day, and around 15% of the population lives in extreme poverty, defined as individuals who have difficulty meeting their basic nutritional needs with less than USD 1 per day (World Bank 2007). These poverty rates are very high compared with neighbouring countries and, unlike many countries in the region, have not changed over time.

Bearing all these conditions in mind, doing business in this context is quite a challenging and difficult undertaking. Studies that take into account particular settings such as Kosova may thus contribute to a better understanding of firm growth and development. In this study we use this specific transitional and marginalised context for testing the above hypotheses.

3.3.2. Data

We make use of data gathered through a survey of small and medium-size enterprises conducted by Riinvest Institute for Development Research at the end of 2006. The starting point for defining the target population was to include all enterprises that were on the Business Register (BR) universe of the Statistical Office of Kosova. Once the universe file was created, some enterprises were removed based on auxiliary information that was available from the BR. The following enterprises were excluded from the population: (a) enterprises with more than 250 employees; (b) enterprises coded as being non-profit; (c) subsidiaries or affiliates owned by another company; (d) governmental organisations.

The list frame was stratified according to industry sector and firm size. Three main groups of sectors were taken into account: manufacturing, trade and the rest of services. Firm size was defined as the number of employees and three categories were included: micro, small and medium-size enterprises. Within each stratum, simple random sampling was used to select the units. The sample size targeted for the survey was 600 firms, representing more than 1.5% of the number of registered businesses in Kosovo. Firms that were not contacted or declined to take part in the survey were replaced by other firms in the list frame. The survey was conducted for firms that were active during the survey period. To check the sample's representativeness, the group of firms surveyed and the rest of the population of eligible ventures were compared in terms of size and industry. The results revealed no significant statistical differences between those firms which participated in the study and those that did not.

Face-to-face interviews with firm founders were chosen as the method of data collection. Firms were contacted by telephone to arrange the interview. Respondents answered a structured questionnaire, which was subjected to a pre-test in order to check for biased or confusing questions. The structured interview was administered at the normal place of work of the entrepreneur and took about half an hour to complete. In case of errors, the survey's interviewers were sent back into the field, while researchers later on contacted the entrepreneurs directly or by telephone. However, a number of cases were excluded owing to missing information on key questions for the present study. The final sample size for the statistical analysis consists of 555 usable cases.

3.3.3. Variables and measures

Our first dependent variable is start-up size. Prior research on the determinants of start-up size has usually measured this variable as the firm's employment (e.g. Mata and Machado 1996, Görg *et al.* 2000, Colombo *et al.* 2004, Arauzo-Carod and Segarra-Blasco 2005, Nurmi 2006). Similarly, start-up size is defined in this study as the number of employees at start-up. In the

empirical analysis the logarithm of employment at entry is used as a measure for start-up size (e.g. Colombo *et al.* 2004, Nurmi 2006).

The second dependent variable is firm growth. Although a variety of measures have been used in the literature (Delmar 1997, Weinzimmer *et al.* 1998, Davidsson *et al.* 2006) we utilize employment growth because it is an indicator of the likely resources available to the venture (Brüderl and Preisendörfer 2000, Bruton and Rubanik 2002). Moreover, founders of closely-held firms in this particular transitional context are reluctant to provide information about sales and profits and these can be manipulated in these owner-managed firms, through salaries and perquisites, in order to minimise taxable income. Growth was measured as the difference between the logarithm of current employment and the logarithm of initial employment, which is in line with previous studies in this topic (e.g. Brixy and Kohaut 1999).

Explanatory variables can be separated into three main categories. The first group of variables refers to the characteristics of the entrepreneur. A distinction is often made in the literature between the 'generic' and 'specific' components of human capital (Becker 1975). Generic human capital usually relates to the general knowledge acquired by individuals through formal education, while specific human capital refers to skills and knowledge that are less transferable and have a narrower scope of applicability than generic human capital attributes (Gimeno *et al.* 1997). As a proxy for general human capital, entrepreneurs indicated the highest level of education they had completed. In the empirical analysis we use a variable measuring whether (or not) they have a university degree. In terms of specific human capital, respondents were asked whether they received training in management or business-related areas (1=yes, 0= no). In addition to human capital attributes, prior work has also indicated that entrepreneurs' intention to grow is related to actual firm growth (Wiklund and Shepherd 2003). Therefore, respondents were asked whether they had an intention to grow the business in terms of employment in the next three years (1=yes, 0= no). We control for gender (males = 1, females = 0) and age of the entrepreneur.

The second group of variables is related to institutional constraints which are likely to have an impact on new firm development in the particular context of transition countries. Seven variables related to formal and informal barriers (North 1990, Aidis 2005), which were measured on a five-point scale (ranging from 1 = very low to 5 = very high), were evaluated by respondents. We use factor analysis to explore for the underlying factors that can be explained by this group of variables. The Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy is above the conventional 0.7 and Bartlett’s test of sphericity is highly significant. Hence factor analysis is appropriate.

Table 3.1 shows the results of the analysis. The explained variance is nearly 60% and two factors are identified. The first factor describes aspects related to informal barriers such as shadow economy, fiscal evasion, unfair competition and corruption. The second factor includes items concerning administrative burdens, law enforcement and high taxes, and thus mainly refers to formal institutional aspects. Cronbach’s alpha scores are also shown in Table 3.1. All values are above 0.7 thus suggesting a relatively high internal consistency.

Table 3.1. Rotated factor matrix and Cronbach’s alpha

	Factor 1	Factor 2
Informal economy	.808	.063
Fiscal evasion	.754	.070
Corruption	.694	.175
Unfair competition	.676	.056
Administrative charges	.148	.853
High taxes	.124	.781
Lack of Laws	.026	.739
Eigenvalue	2.574	1.536
Variance explained (%)	31.4	27.5
Cronbach’s alpha	0.74	0.72

Finally, a third group of variables describes general features of the firm as controls that may have an influence on start-up size and growth. We include a variable measuring whether the firm started with more than one founder (1=yes, 0= no). The rationale is that the greater number of founders the greater the amount of knowledge, experience and possibly financial capital available for the growth of the business (Hamilton and Lawrence 2001). Since prior research has indicated the importance of legal form of the business in explaining new venture performance (e.g. Harhoff et al. 1998), we use a dummy variable for limited companies. A variable for the broad urban and rural characteristics in terms of population density is included (urban location = 1, rural = 0). We also control for industry sector. Three main sector dummies are included (manufacturing, trade and the rest of services, which is the omitted variable in the estimations). Furthermore, we take account of potential relationships between local firms and foreign partners. Therefore, we included a binary variable measuring whether the firm has a foreign partner (1=yes, 0= no). Finally, it should be noted that both start-up size (number of employees when the firm was founded) and business age (measured as the number of years the firm has been trading) are included as control variables in the model for growth to capture the potential effect of firm age and size on subsequent growth (e.g. Storey 1994).

3.4. Results

We organise the results in the following way. First, we provide a brief overview of the data and correlations of the variables employed in the multivariate analysis. We then turn to the regression results for initial size and growth.

As shown in Table 3.2, the vast majority of respondents are male. They are, on average, 39 years old. A significant proportion of them have a university degree. However, when it comes to specific knowledge, less than 30% of respondents have previously received specialised training. The descriptive data also show that not all entrepreneurs are willing to pursue growth, since only 30% of the respondents expressed an intention to grow the business. Table 3.2 also shows that firms had, on average, about five employees at start-up. The majority of firms were

created in the trade sector. Most of the firms surveyed are located in urban areas, established by one founder and have not established relationships with foreign partners. In terms of institutional obstacles, the factor that shows the highest intensity is the one related to informal barriers (informal economy, fiscal evasion, corruption and unfair competition).

Table 3.2 also shows bivariate correlations. Although several correlation coefficients are found to be significant, coefficients are low enough to conclude that multicollinearity will not affect our results. Additionally, the Variance Inflation (VIF) scores (not shown in Table 3.2 but available upon request) are all below common thresholds, since the highest score is 1.4. Therefore, multicollinearity is not a pronounced problem in our analysis.

Table 3.3 provides the regression results for start-up size and growth. Since there is some evidence of heteroscedasticity (unequal variance of the error term), we computed standard errors that are robust to heteroscedasticity in the two models. Results using robust standard errors confirmed the results given by the standard OLS regressions (for reasons of simplicity, they are presented alone).

Hypothesis 1 suggests that an entrepreneur's human capital attributes will be positively related to start-up size and growth. The results show differing effects of our two measures of such attributes (i.e. formal education and management training). Perhaps surprisingly, we find that individuals with a university degree are less likely to create larger businesses at start-up. The results also indicate that these individuals are more likely to run businesses that grow more slowly than the remaining firms. In contrast, firms founded by entrepreneurs who have received training tend to grow faster. Overall, there is only partial support for hypothesis 1.

According to hypothesis 2, individuals having an intention to grow their business will be positively related to both start-up size and post-entry growth. The results provide strong support for this hypothesis. In other words, entrepreneurs who have strong intentions to grow the business tend to create larger firms that in the post-entry period grow faster as well.

Table 3.2. Descriptive statistics and correlation matrix

		Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	Education	0.57	0.49	1																
2	Training	0.27	0.44	-.313**	1															
3	Intention to grow	0.30	0.46	-.158**	.224**	1														
4	Gender	0.10	0.29	-0.009	-0.047	-0.055	1													
5	Age	39.11	9.94	-.224**	0.027	0.049	-0.029	1												
6	Informal barriers ^a	3.90	1.01	0.006	-0.007	-0.051	.140**	-0.023	1											
7	Formal barriers ^a	3.50	1.02	-0.067	.095*	0.071	-0.043	-0.003	0	1										
8	Number founders	0.20	0.40	-.122**	0.055	.090*	-0.057	0.035	-.133**	-0.016	1									
9	Location	0.78	0.42	-0.054	0.042	0.073	-0.039	-0.035	-.090*	0.029	0.015	1								
10	Foreign partner	0.27	0.44	-.161**	.174**	.181**	-0.01	0.008	-0.027	0.028	0.075	.096*	1							
11	Manufacturing	0.23	0.42	-0.081	.087*	0.06	-.093*	.160**	-.090*	0.018	0.07	-.135**	0.022	1						
12	Services	0.31	0.46	-0.032	0.034	-0.015	0.064	-0.015	.138**	-0.024	0.008	0.081	-0.075	-.365**	1					
13	Trade	0.46	0.50	.098*	-.104*	-0.037	0.019	-.121**	-0.052	0.007	-0.067	0.039	0.051	-.505**	-.619**	1				
14	Legal form	0.65	0.48	-.141**	.125**	-0.04	-0.006	-0.003	-.130**	.131**	.113**	0.005	.086*	-0.009	-0.027	0.032	1			
15	Start-up size	4.7	8.29	-.183**	.097*	.152**	0.018	0.036	-0.006	-0.013	.092*	.101*	.185**	.090*	0.066	-.137**	.114**	1		
16	Firm growth (log)	0.58	0.87	-.209**	.273**	.289**	-0.046	.114**	-0.084*	-0.016	.157**	-0.058	.199**	.162**	-.131**	-0.015	.111**	-.148**	1	
17	Firm age	8.67	7.87	-0.076	0.02	.123**	-.122**	.138**	-.155**	0.045	0.062	-0.007	.125**	.141**	-0.05	-0.072	-0.018	.090*	.141**	1

^aThese variables are based on standardised and ortho-normalized component scores which were subsequently used in the multivariate analysis. To ease interpretation of the descriptive information provided in the above table (i.e. mean and standard deviation), the mean of the items comprising each component are reported.

*Correlation is significant at the 0.05 level

**Correlation is significant at the 0.01 level

Hypotheses 3 and 4 refer to institutional obstacles. We have previously hypothesised that entrepreneurs' perceptions of formal and informal barriers will be negatively related to start-up size and subsequent growth. The results provide no evidence in support of hypothesis 3, since perceived barriers (both informal and formal) are not found to be significantly related to the initial size of the firm. For hypothesis 4 we find that formal barriers are not a significant influence on subsequent firm growth, whereas perceived informal barriers are found to be significantly and negatively related to growth. Thus there is mixed support for hypothesis 4.

Table 3.3. Regression results for start-up size and firm growth

	Start-up size model			Growth model		
	Coef.	Robust Std. Error	t-value	Coef.	Robust Std. Error	t-value
(Constant)	.8502	.196	4.35***	.078	.181	0.43
Education	-.336	.083	-4.03***	-.183	.073	-2.52**
Training	-.021	.094	-0.22	.328	.087	3.76***
Intention to grow	.277	.087	3.17***	.438	.083	5.30***
Gender	.018	.129	0.14	.020	.105	0.19
Age	.001	.004	0.11	.004	.004	1.20
Informal barriers	-.017	.042	-0.41	-.070	.031	-2.26**
Formal barriers	-.024	.036	-0.68	-.041	.032	-1.27
Number of founders	.268	.087	3.10***	.239	.093	2.58**
Location	.197	.079	2.48**	-.102	.079	-1.29
Foreign partner	.403	.090	4.48***	.270	.084	3.19***
Manufacturing	.203	.107	1.89*	.333	.102	3.28***
Trade	-.227	.086	-2.64***	.133	.070	1.90*
Legal form	.011	.078	0.14	.188	.072	2.63**
Start-up size				-.028	.005	-5.20***
Firm age				.012	.006	1.90*
N	555			555		
F-value	12.02			12.14		
R square	0.2099			0.2802		
Root MSE	.81578			.75694		

*** p < 0.01; ** p < 0.05; * p < 0.10.

In line with previous evidence on the determinants of small business growth, several control variables are significant in the two models. The results show that firms established by teams start larger and grow faster than firms founded by only one person. Firms start larger in urban areas but during the subsequent period the location does not appear to have an influence on the growth of the firm. Industry controls affect both start-up size and growth. We also find that having an international partner has a positive impact on both dependent variables. Legal form of the firm is significantly related only to firm growth. The results also indicate that start-up size is negatively related to growth, thus showing that small firms tend to grow faster, while firm age is found to have a positive influence upon growth.

3.5. Discussion and implications

In this study we have investigated the determinants of start-up size and subsequent growth in the case of Kosova, which illustrates a distinctive way of entrepreneurial development due to its extreme, transitional and marginalized context. While prior work in this area mainly starts from an industrial dynamics perspective, a different approach has been used in this study, since factors influencing start-up size and subsequent growth have been examined taking into account entrepreneurial and institutional factors. Hence the present study strengthens the theoretical basis of work in this area by explaining the demonstrated effects with reference to well-developed theories, such as human capital theory and institutional theory, which were not previously integrated with this literature.

First, the article contributes to a better understanding of the role played by entrepreneurs' human capital in transitional environments. Our results concerning the negative impact of formal education on both start-up size and growth differ from previous findings in developed countries which point to a positive relationship between generic human capital and the growth of the firm (Cooper *et al.* 1994, Storey 1994, Davidsson *et al.* 2006, Capelleras and Rabetino 2008). This may be due to the extreme conditions for small business development where formal education plays little role in the growth of the firm. In contrast, our results show that

specific training has a strong positive impact on the growth of the firm. Hence the findings suggest entrepreneurs' specific knowledge, which is more directly used in the process of venture development, appears to be more important in determining initial size and growth than their general knowledge gained through formal education.

Moreover, our findings point to the importance of intentions to explain start-up size and subsequent growth in this context. Univariate results show that 70% of the entrepreneurs surveyed do not have any intention to grow, which is considerably higher than results reported in highly developed countries (e.g. Storey 1994, Morrison *et al.* 2003). These differences could be attributed to the hostile and extreme environment for entrepreneurial activities accompanied by social and political volatility. Nevertheless, intention to grow has been found to be a strong determinant of both initial size and firm growth in the multivariate analysis. One conclusion from such findings is that although there may be fewer entrepreneurs with intentions to grow in marginalised and transitional contexts such as Kosova than in more developed countries, these intentions still have a positive influence on the growth of the firm.

Contrary to our expectation, perceptions of institutional barriers are not a major influence on the firm's start-up size and growth. This contrasts with prior evidence that identifies a negative influence of perceived external barriers on the creation and development of new firms in transition countries (Bohatá and Mladek 1999, Bartlett and Bukvic 2001, Smallbone and Welter 2001, Bitzenis and Nito 2005). However, our results indicate that the factor representing informal obstacles (corruption, fiscal evasion, informal economy and unfair competition) is significantly and negatively related to firm growth. This finding may be related to the fact that informal factors might have prevented formal rules from operating with even a modicum of efficiency (Winiiecki 2004). While prior work suggests that entrepreneurs in Kosova have traditionally been complaining about formal barriers (Hoxha 2009a), it seems that informal barriers have more recently emerged as a major obstacle to firm development. One possible explanation for this result is that entrepreneurs are complaining about the consequences of formal barriers. Hence, in the absence of a strong institutional framework, informal barriers

may have appeared in different forms and tend to hinder firm development and growth in Kosova.

The results also indicate that factors that affect the initial size of firms and those that have an influence on subsequent growth of the same firms are not necessarily the same, since we have found that a number of variables have differing effects on the two dependent variables. While entrepreneurs' training is not significantly related to start-up size, it is highly significant in the growth model. The factor measuring informal constraints is not significant in the first model for start-up size, whereas it has a negative impact upon firm growth. These variables are thus more likely to have an impact after start-up. Moreover, the urban/rural distinction matters for the initial size of the business but it has no effect on subsequent growth. In terms of industry controls, the results show that firms operating in the trade sector start smaller but then grow faster (albeit at the 10% level of significance) than firms in the rest of services.

Overall, our findings improve our understanding of start-up size and firm growth in transitional and marginalised contexts where extreme conditions for doing business exist. Moreover, several practical implications can be derived from our findings. On the one hand, given the important role of specific knowledge attained through relevant management training in the venture development process, entrepreneurs should be encouraged to invest in such training. Similarly, policy makers may facilitate their enrolment in useful training programmes. On the other hand, the results concerning the negative impact of having a university degree on start-up size and growth may prompt policy makers to review and, if necessary, revise higher education curricula.

Any attempt to promote new firm development in Kosova should also take into account the institutional context. One interpretation of our findings is that informal constraints have emerged as major barriers to firm growth mainly because of high taxes, administrative burdens and particularly as a result of the lack of law immediately after the war in Kosova. Therefore,

completing the regulatory framework and above all enforcing the rule of law can be an important goal for policy makers in Kosovo.

The present study has a number of limitations but at the same time opens directions for future research. Although to our knowledge this is the first study exploring the determinants of start-up size and firm growth in an extreme, transitional and marginalized context such as Kosovo, there is still a need to use longitudinal data in order to further examine this important topic. In terms of variable measurement, we may have been limited by the binary nature (yes / no) of the human capital variables. Despite the use of a relatively high number of variables to measure institutional constraints, these variables were based on perceptions rather than on objective measures. Additionally, the perceived institutional barriers were taken from actual entrepreneurs. We are aware that many would-be entrepreneurs were probably discouraged from starting firms by these barriers. Nevertheless the focus of this study was on actual entrepreneurs, though we admit that it would be of interest to survey the perceptions of would-be entrepreneurs as well. We are also conscious that there are other relevant variables which might have an influence on the size of the firm. For instance, a natural extension of the present analysis is to include differing types of prior experience of entrepreneurs as well as variables concerning the competitive strategy of the business (Gilbert *et al.* 2006).

In sum, we believe that further research is needed since firms that thrive in this kind of environment tend to show a distinctive way of entrepreneurial development compared with firms in other contexts. We thus hope that our work will lead to further research in this area.

CHAPTER 4
FAST GROWING FIRMS IN A
TRANSITIONAL AND EXTREME
ENVIRONMENT: ARE THEY
DIFFERENT?

4. Fast Growing Firms in a Transitional and Extreme Environment: Are They Different?

Abstract

Purpose – The paper aims at investigating the contribution of fast-growing firms to employment and the determinants of fast growth in Kosova, which can be considered an environment characterized by a transitional period and extreme conditions for entrepreneurship.

Design/methodology/approach – The paper was based on the data collected from face-to-face interviews with 586 firm founders. The contribution of firms to job creation was computed by using descriptive statistics and then an ordinal logit regression model was employed to explore the determinants of fast growth.

Findings – Results indicate that the contribution of fast-growing firms to employment in this environment is lower than that in Western and developed countries. Findings also suggest that fast growth is positively affected by specific human capital, intentions to grow and the ability to deal with external barriers, while having a university degree is found to be negatively related to fast growth.

Research limitations/implications – This paper provide a better understanding of the phenomenon of fast-growing firms and have several theoretical and practical implications. Importantly, the research on fast-growing firm is still not mature and the overall picture on fast-growing firms has yet to be built.

Originality/value – Most of the empirical evidence on fast-growing firms comes from developed countries. This paper provides the empirical evidence from a transitional yet extreme context to further our knowledge on the topic of firm's fast growth.

4.1. Introduction

Small- and medium-sized enterprise (SME) development has been seen as a key to economic growth, innovation, and market competition in most advanced Western economies (Acs and Audretsch, 1990). Equally, SMEs are considered as a central source of job generation and wealth creation (Birch, 1979; Storey, 1994). In transition countries, the role of SMEs is even more emphasized. It is expected that they take the role of renewing economic state of the country. They contribute to regional development, and provide social wealth, through creating a substantial number of jobs and serving as an engine of growth. However, SMEs failed to take this role in most transition countries. Hostile and unfavourable environment for doing business, lack of start-up capital and other firm-related barriers have substantially hindered SME growth and development in transition countries (Smallbone and Welter, 2001; Aidis, 2005; Bartlett and Bukvic, 2001).

While empirical research on the topic of SME growth is extensive (Davidsson *et al.* 2006; Gilbert *et al.* 2006), the phenomenon of fast-growing firms has not received sufficient attention from researchers. Several authors have claimed that there has been too few studies on rapidly growing firms as a distinct category (Fischer and Reuber, 2003) and that little research has been done explicitly on the needs of high-growth firms and their implications for policy (Autio *et al.* 2007). Likewise, in a recent contribution, Hölzl (2009) points out that it is surprising that relatively little is known about this type of firms.

Importantly, extant research on the topic of fast growth has focused on firms operating in developed countries; whereas, empirical evidence in transition countries is lacking. It has been often emphasized that countries undergoing transition processes show distinctive features of entrepreneurship (Smallbone and Welter, 2001; Aidis, 2005). These countries provide unique setting allowing researchers to identify hidden features and assumptions that are often unnoticed when conducting research in mature market economies (Meyer and Peng, 2005, p. 600). Hence, research on fast-growing firms that take into consideration the particularities of the transitional context may provide a better understanding of the phenomenon.

In the present study, we examine this phenomenon in the case of Kosova, which can be considered a transitional and extreme environment for entrepreneurship and small business development. The first objective of the paper is to investigate whether fast-growing firms in such context are similar or different than fast-growing firms in Western countries in terms of their contribution to employment. The second objective is to explore the determinants of fast-growing firms in this specific environment.

Hence, the paper makes two main contributions. First, we provide the evidence on the contribution to employment that fast-growing firms make in a transitional and extreme context. To our knowledge, there are no studies with regard to the contribution to job creation that fast-growing firms make in transition countries. This is important since such firms might be heavily influenced by the hostile environment and might also be differently affected by the firm and entrepreneur characteristics. Therefore, their real contribution to employment could be different compared to that in developed countries.

Second, the evidence on what determines the fast growth of the firm is short on supply and far from being conclusive, especially in transitional and extreme contexts. Our investigation adds to the limited body of knowledge in terms of the determinants of fast-growing firms in this particular context and can encourage further research on the topic.

Overall, therefore, we seek to expand our knowledge on the topic of fast-growing firms by providing evidence from a transitional yet extreme context. This is in line with the claim made by Peng and Heath (1996), who point to the need for further research on firm growth in transition countries; thus, the theory of the growth of the firm to be more complete.

The paper proceeds as follows. In Section 4.2, we review the literature that exclusively focuses on fast-growing firms. In Section 4.3, we describe the transitional and extreme context where the research took place, followed by specific explanations of the data and variables of the

study. Next, in Section 4.4, we present empirical results. Finally, we end up in Section 4.5 with the discussion and implications.

4.2. *Fast-growing firms – a literature review*

4.2.1. Fast-growing firms – a distinctive group

There are several studies emphasizing the very different nature of fast-growing firms compared to other firms. Delmar et al. (2003) study showed that fast-growing firms exhibit different growth patterns, which are empirically distinct, conceptually comprehensible, and systematically related to demographic affiliation. In an earlier study, Davidsson and Delmar (1997) underlined that fast-growing firms are a particular type of business, which are substantially different from the other businesses.

The distinctiveness of fast-growing firms was also proven empirically. Thus, Barringer and Jones (2004) based on the empirical research claim that the fast-growing firms differ from normal and slow growth firms in a number of key areas with regard to management techniques that they employ. In a same empirical context, Capelleras and Rabetino (2008) observed that while the signs of the significant variables are the same for the declining and low-growing firms, the opposite signs are found in the estimations of the two remaining groups – high- and medium-growth group.

Kim and Mauborgne (1998) found the high-growth entrepreneurs may be distinguished from low-growth entrepreneurs along several dimensions. These include greater strategic intentions, entrepreneurial intensity and growth, and greater willingness to incur the opportunity costs of growing. They also claim that fast-growth-oriented entrepreneurs are more likely to pursue market expansion and technological change and devote more resources to organizational development. Further, according to Siegel et al. (1993), fast-growing firms were also characterized as being more likely to have a plan for diversification reflecting in this manner a long-term orientation by fast growers to create stability by eliminating the vulnerability

inherent in one-product companies. In terms of finance, Andersson (2003) finds that fast-growing firms need extensive financial capital to support the growth. Hölzl (2009) has recently shown that fast-growing SMEs are quite different across country groups in terms of innovation success (share of products new to the market) and R&D.

Although these studies highlight a clear distinction on fast-growing firms, most of the papers fail to make a clear difference between fast and normal growth elaborating these topics as a combined unique topic. However, in this paper, we firmly stress, the need for distinguishing between general growth studies, and the particular fast growth phenomenon.

4.2.2. Defining fast growth

One of the challenging issues when elaborating on fast-growing firms is how to define this kind of particular firms. Even when referring to fast growth, scholars use different expressions such as gazelles (Birch, 1987), fast-growing firms (Almus, 2002), rapid growth firms (Fischer and Reuber, 2003), or high-growth firms (Delmar *et al.* 2003). Yet, they all refer to the small size firms that show extraordinary growth in terms of sales or employment. Nevertheless, there is still no commonly accepted definition of fast growth (March and Sutton, 1997). The lack of a common definition results in difficulties in comparing the empirical evidence because as Almus (2002) points out the probability of being a fast-growing firm depends on the different definitions of fast-growing firms.

Authors introducing sales as a growth measurement usually apply standard definition of having a sales growth of at least 20-25 percent per year within a time period of three to five consecutive years, e.g. Siegel *et al.* (1993), Storey (2001), Birch *et al.* (1994), Nicholls-Nixon (2005) and Fischer and Reuber (2003). On the other hand, several authors interested on the contribution of fast-growing firms to employment tend to focus in 10 percent of firms that display the highest employment growth, e.g. Davidsson and Henrekson (2002), Davidsson and

Delmar (1997), Almus (2002), Schreyer (2000), Capelleras and Rabetino (2008) and Hoxha (2008). Table 4.1 presents an overview of definitions of fast-growing firms.

Table 4.1. Various definitions on fast-growing firms

Siegel <i>et al.</i> (1993)	Firms that had experienced compound annual sales growth of more than 25% for at least 3 consecutive years.
Birch <i>et al.</i> (1994),	Firms with sales growth of at least 25% per year
Smallbone <i>et al.</i> (1995)	Firms that double sales turnover in real terms, reaching a minimum sales turnover of £0.5m and financial stability.
Davidsson and Delmar (1997)	The 10 % of firms that display the highest annual average absolute employment growth
Fischer <i>et al.</i> (1997)	Firms having a minimum average growth in sales of over 20% per annum for a 5-year period.
Schreyer and Paul, (2000)	The 10% of firms in the sample that show the highest growth
Brüderl, and Preisendörfer (2000)	Firms that at least doubled its number of employees over the first 4 years and if they contributed at least 5 new jobs.
Storey (2001)	Firms that have achieved a sales growth of at least 25% in each of the 4 years.
Littunen and Tohmo (2003)	Firms that double sales in real terms over the 1990–97 period, and significant size.
Henrekson and Davidsson (2002)	The 10% of the firms that exhibit the highest average annual growth in absolute employment.
Almus (2002)	Firms that belongs to the upper 5 or 10 percentile of the Birch Index distribution.
Fischer and Reuber (2003)	Firms with an annual sales growth of at least 20 % for 5 consecutive years
Delmar <i>et al.</i> (2003)	The 10 % of firms that display the highest annual average growth on one, or more of six growth indicators
Barringer and Jones, (2004)	Firms with a 3-year compound annual sales growth rate of 80 % or higher.
Nicholls-Nixon (2005).	Firms with annual sales growth of 20 percent (or more) over a 4-year period, on a revenue base of at least \$100,000
Barringer <i>et al.</i> (2005)	Firms with a 3-year compound annual sales growth rate of 80% or above.
Littunen and Virtanen (2006)	Firms that double sales in real terms over the 1990–97 period, and significant size.
Moreno and Casillas (2007)	Firms with a percentage of growth of more than 100% higher than the median of its sector
Zhang <i>et al.</i> (2008)	Firms with a three-year compound annual growth rate of 40 per cent or higher

Capelleras and Rabetino (2008)	The 10 % of firms that display the highest employment growth
Hoxha (2008)	The 10 % of firms that display the highest employment growth
Hölzl, W. (2009).	The 10 (5) % of firms that display the highest employment growth

4.2.3. Contribution of fast-growing firms

While there is no agreement on the definition of fast-growing firms, the relationship between fast-growing firms and economic development has been demonstrated in various studies undertaken by academic researchers, institutions, and governments. Fast-growing firms provide important benefits to countries with job generation, knowledge spillovers, economic multipliers, innovation drivers, and many other positive externalities (EC, 2003; OECD, 2002; Storey, 2000). Prior research has also shown that this group of firms plays a significant role in regional restructuring and dynamism (Julien, 2007). The meta analysis of empirical evidence recently conducted by Henrekson and Johansson (2010) suggest that a small group of high-growth firms, not necessarily small in size but relatively young, are of critical importance as a force for renewal in the economy and responsible for the bulk of net job creation.

Most of the authors agree that the fast-growing firms account for a substantially large amount of jobs created. Indeed, it is frequently claimed that the fast-growing firms are especially distinguished from the other growing firms based on their ability to create a large number of new jobs. Hence, for example in the UK, 4 percent of new start-up survivors were responsible for 50 percent of jobs created by all new firms ten years later Storey (1994). In the USA, 3 percent of the fastest growing firms, generated over 70 percent of the new jobs created by new firms between 1992 and 1996 (Autio *et al.* 2007). Kirchoff (1994) study proved that 4 percent of the new firms produce 75 percent of employment during 1977-1984. In Canada, between the periods of 1985 and 1999, fast-growing firms accounting for 7 percent created over 56 percent of new jobs (Halabisky *et al.* 2006). In Finland, Deschryvere (2008) claims that fast growth firms

have generated about 90 percent of all net jobs created in the Finnish economy during the studied period (2003-2006).

It should be noted though that most of the empirical evidence comes from Western economies. The Henrekson and Johansson (2009) study identified research papers conducted only in the following countries: the UK, the USA, Canada, Spain, Finland, Germany, France, Italy, The Netherlands, and Sweden. However, the contribution of fast-growing firms in transitional economies remains unclear; whereas, generalizing the results from Western economies could potentially be misleading.

4.2.4. Determinants of fast growth

Until now, there is no theory with which to explain rapid firm growth (Acs and Mueller, 2008). Prior work has shown that individual, organizational and environmental factors figure in the prediction of venture growth (Davidsson *et al.* 2006; Gilbert *et al.* 2006; Capelleras *et al.* 2008).

The human capital theory (Becker, 1975) was frequently used with respect to general understanding of the small business development. However, this is not the case in transition countries. Honig (2001) correctly underlines that “our understanding on the influence of human capital in transitional environment is quite limited.” One of the most frequently employed variables in terms of fast-growing firms is formal education as a proxy for human capital. Importantly, this variable was found to positively influence the fast growth of the firm (Cooper *et al.* 1994; Capelleras and Rabetino, 2008; Littunen and Virtanen, 2006; Barringer *et al.* 2005; Friar and Meyer, 2003; Almus, 2002).

More specifically, in a study conducted by Almus (2002), in Germany, it was proved that the human capital of the founder(s) and/or owner(s) is an important factor that determines the speed of growth. The higher the human capital endowment, the higher is the probability that a given firm is a fast-growing one. In a similar research on Finnish metal-based manufacturing

and business service firm, it is underlined that the high-growth is also explained by the adequacy of the entrepreneur's vocational training (Littunen and Virtanen, 2006). Further, Cooper *et al.* (1994) also found that chances of both survival and high growth of the firm were positively associated with having a higher level of education.

In addition, authors have also investigated other variables of interest. For instance, Barringer *et al.* (2005) identified entrepreneurial attributes that positively affect the fast growth of the firm were commitment to growth and growth-oriented vision. Smallbone *et al.* (1995) brought supportive evidence by identifying 70 percent of the high-growth firms in their sample as referring to a strong growth objective in comparison to only 32 percent of the other firms. According to Stam *et al.* (2007), having more entrepreneurs with high-growth ambitions seems to be particularly important in transition countries. The rationale behind this is the fact that in transition countries there are many entrepreneurial opportunities and many highly qualified individuals who lost their jobs at state-financed organizations.

The relationship between firm size and fast growth has been investigated within a Gibrat's (1931) law framework. According to this law, the probability of given proportionate change in size during a certain period is the same for all firms in a given industry regardless of their size at the beginning of the period.

Contrary to human capital, empirical evidence on firm size has shown a mixed impact. While in the studies conducted by Brüderl, and Preisdörfer (2000) and Friar and Meyer (2003), the start-up size of the firm had a positive effect on fast growth, the opposite was found in studies by Capelleras and Rabetino (2008) and Almus (2002).

More specifically, Capelleras and Rabetino (2008) in their investigation of the determinants of firm growth in Argentina, Brazil, Mexico, and Peru showed that start-up size is negatively related to employment growth, thus indicating that smaller firms at the start tend to grow

faster than the rest of the firms. In a study on Finnish fast-growing firms, the negative relationship between initial firm size and fast growth was also confirmed (Deschryvere, 2008).

Almus (2002) also utilizes the start-up size for controlling the fast growth of the firm. The results confirm theoretical considerations that a lot of firms are founded with a sub-optimal size and, therefore, must grow quickly to reach their industry-specific minimum efficient scale level of production. Importantly, Hölzl (2009) based on a sample of fast growing manufacturing firms located in 16 European countries, confirmed a negative relationship between size and growth. This result is statistically significant across all country groups. Further, Moreno and Casillas (2007) using discriminant analysis tried to identify which factors distinguish between high-growth firms and non-high-growth firms. They claim that the size is the most discriminating variable between high-growth and non-high-growth firms, hence rejecting the Gibrat's law in terms of fast-growing firms.

However, Brüderl, and Preisendörfer (2000) found that larger start-ups have higher probability of rapid growth. Friar and Meyer (2003) also found that the start-up size of the firm had a positive effect on fast growth.

Importantly, the small business development is heavily influenced by the institutional environment. However, the literature specifically addressing the effects of institutions on fast-growing firms is scarce. Henrekson and Johansson (2009) argue that studies exploring for the impact of informal institutions in fast growth of the firms are lacking. An exception is Davidsson and Henrekson (2002), who analyze the effects of institutions on the incentives for entrepreneurs to establish and rapidly expand firms.

4.3. Methodology

4.3.1. Context of the study

Studying the institutional environment of entrepreneurship in Central and Eastern European countries extends entrepreneurship theory. While most prior studies focused on entrepreneurship in developed countries (especially, the UK and the USA), there are notable developments for the field in different regions, including emerging economies (Ireland *et al.* 2008). Thus, there is a strong need to develop an understanding of entrepreneurship and small business development in emerging economies.

Bruton *et al.* (2008) correctly claims that the setting today can be summarized as what is known from the world's developed economies may not readily apply to entrepreneurship in emerging economies plus there is only limited research directly on these environments. In addition, Manolova and Yan (2002) argue that the research on entrepreneurship in transitional economies has shown that the institution environment involve strategic behaviours that are unique and vary considerably from the strategic response of their Western counterparts. It is also frequently underlined that countries undergoing through transition process show features of entrepreneurship (Smallbone and Welter, 2001; Aidis, 2005). The distinctiveness of entrepreneurship in these countries is reflected mainly in hostile environment for business developments. All these characteristics of transition countries are also observed in the case of Kosova, which is one of the last countries experiencing transition difficulties.

Importantly, besides transitional particularities, in Kosova, entrepreneurship is developed under extreme and marginalized conditions, rarely seen elsewhere. The business environment and its entrepreneurial developments served as an appropriate setting for Solymossy (2005) for developing and expanding the previous models on entrepreneurship. He argues that Kosova presents the complex circumstance of an extreme socio-economic environment through which to analyze entrepreneurship and small business development.

External barriers experienced from entrepreneurs doing business in Kosova are hardly observed elsewhere (Hoxha, 2009a; Krasniqi, 2007). For example, in the post-war period (2000-2002), the business environment was heavily characterized by the institutional vacuum followed by the lack of basic economic laws that would stop corruption and unfair competition. In fact the barrier – lack of laws – was perceived as the most severe one in doing business in 2001 and continued to be among the three top barriers in 2002 (Hoxha, 2009a). Although during recent years, there has been progress in establishing rule of law (both substantive and procedural), however, it has neither been firmly established nor socially accepted (Solymossy, 2005).

Currently, according to Riinvest (2008), the main barrier to doing business in Kosova is shortage of power supply followed by the other infrastructural factors, such as road and telecommunication and public services. These barriers are rarely faced by the entrepreneurs in the developed economies.

On the other hand, high unemployment approximated at around 45 percent in 2008, and high-poverty rate have considerably influenced the overall business environment in Kosova. Recent World Bank estimates show that around 45 percent of the population in Kosova lives in relative poverty, on less than US\$2 per day, and around 15 percent of the population lives in extreme poverty, defined as individuals who have difficulty in meeting their basic nutritional needs with less than US\$1 per day (The World Bank, 2007).

These specific developments make Kosova rather an extreme and distinctive context for small business development and research. Therefore, we are convinced that studies that take into account these particular settings refine and fulfil the theory of the growth of the firm.

4.3.2. Data

For the purpose of this paper, we utilize the data gathered by Riinvest Institute for Development Research based in Kosova. Indeed, Riinvest Institute conducted a survey with 586 SMEs across Kosova, representing more than 1.5 percent of the overall population of SMEs in Kosova. The sample was chosen randomly from the business register of the Statistical Office of Kosova and was twice stratified. First, the sample was stratified according to the sectors in order to fully take into account the differences in population in terms of manufacturing, trade, and service sector. Afterwards, the sample was stratified according to the size, thus counting for micro, small, and medium size enterprises. The sample of this size and stratified according to the mentioned criteria, offers a reliable foundation for generalization of the research results.

The interviews were conducted through the face-to-face method with the key people in each enterprise, that is, with entrepreneurs/owners of the firm. The initial aim was to survey around 600 SMEs. Given the high reputation of the Riinvest Institute, almost all firms replied to the interviews. Less than 30 firms have either refused to take part in this research due to time constraints, or it was impossible to contact them. In these cases, the survey administrators have replaced the missing firm with another one from the reserve list that was particularly created, in a random manner, for addressing this problem.

Several steps were taken in order to assure the reliability of data-gathering process. First, the appropriateness of the questionnaire was verified by performing a test survey with 10 percent of the sample. Later, the project team concluded that the research instrument was suitable for proceeding with interviews. A thorough data-quality assurance, during the entire project, was undertaken by controlling the questionnaire for potential mistakes or consistency failures. The field control was performed as well. In case of observed errors, the survey administrators were sent back on the field, while researchers later on contacted the entrepreneurs directly or by telephone.

4.3.3. Variables

In line with the other authors, such as Davidsson and Delmar (1997), Almus (2002), Capelleras and Rabetino (2008), Storey (1994) and Delmar *et al.* (2003), we define fast-growing firms as the 10 percent of firms that display the highest employment growth within our SME database. By applying this definition, we create four groups of firms: declining firms (negative growth), static firms (no growth), slow-growing firms, and fast-growing firms (top 10 percent). Table 4.2. shows the exact number of firms belonging to each particular group. Importantly, several tests were undertaken in order to verify the differences between the groups. After rejecting the null hypothesis of homogeneity by using ANOVA test of variance, we also run Games Howell's tests for checking the mean difference between the groups. Both tests proved significant differences among the four groups.

Table 4.2. Relative employment growth in four groups

		Minimum	Maximum	Std. Deviation	Mean
Group 1	49	-0.94	-0.05	-0.47	0.21
Group 2	213	0	0	0	0
Group 3	266	0.07	7	1.27	1.69
Group 4	58	5	84	11.46	12.16

We apply different statistical techniques according to the objectives of the paper. Apart from using descriptive statistics to measure the contribution of fast-growing firms to employment, we employ ordinal logit regression for investigating the determinants of fast growth. In addition, we calculate the marginal effects for each particular group of firms.

As presented in Table 4.3 the first category refers to the human capital characteristics of the entrepreneurs and employees. As a proxy for general human capital, entrepreneurs indicated the highest level of education they had completed. A distinction is often made in the literature between the "generic" and "specific" components of human capital (Becker, 1975). Generic human capital usually relates to the general knowledge acquired by individuals through formal

education, while specific human capital refers to skills and knowledge that are less transferable and have a narrower scope of applicability than the generic human capital attributes (Gimeno *et al.* 1997). Having this in mind in the empirical analysis, we use a binary variable measuring whether (or not) they have a university degree. In terms of the specific human capital, respondents were asked whether the entrepreneurs themselves and their employees have attended specific management or business training (1 – yes, 0 – no). Within this group, we also control for entrepreneurs' intention to grow, gender and age.

The second component gathers variables reflecting the firm characteristics. We pay special attention to the start-up size and the firm age – variables that are commonly discussed within Gibrat (1931) laws. Further, we include a variable measuring whether the firm started with more than one founder (1 – yes, 0 – no).

Since prior research has indicated the importance of legal form of the business in explaining venture growth (Harhoff *et al.* 1998; Capelleras and Greene, 2008), we use a dummy variable for limited companies. A variable for the broad urban and rural characteristics in terms of population density is included (urban location – 1, rural – 0). Additionally, we control for industry sector. Three main sector dummies are included (manufacturing, trade, and services). Finally, we are also interested in relationships between local firms and foreign partners (Rialp *et al.*, 2002). Therefore, we included a dummy variable (1 – yes, 0 – no) measuring whether the firm has a foreign partner or not.

The third group of variables is related to perceived barriers, which are likely to have an impact in the fast growth of the firm in this particular context of transition countries.

Table 4.3. Description of Variables

Category	Variables	Definition
Human Capital	Entrepreneurs Education	1 = if the entrepreneur has university degree, 0 = otherwise
	Entrepreneurs Training	1= if the entrepreneur followed training in last two years
	Employ Training	1=if the employees followed any training in last two years
	Intention to growth	1 = if the firms plans to hire new employees, 0 = otherwise
	Entrepreneur Age	Age of the entrepreneur in years
	Gender	1 = female 0 = male,
Firm	Start-up size	Logarithm of Number of employees at start up
	Firm Age	Number of years the firm has been operating
	Partner	1 = if the firm has a foreign partner, 0 = otherwise
	Location	1 = urban, 0 = rural
	Number of Founders	1= one founder, 0 = more than one founder
	Legal Form	0 = if firm is with limited liability, 1 = with unlimited liability
	Service	1= if the firms operates in service sector, 0 = otherwise
	Manufacturing	1= if the firms operates in manufacturing sector, 0 = otherwise
	Trade	1= if the firms operates in trade sector, 0 = otherwise
Barriers	Formal Barrier	High taxes, administrative burdens, law enforcement
	Informal Barriers	Corruption, fiscal evasion, unfair competition, shadow economy
	Skill Barriers	Employee skill, managerial skill

Following prior research (North, 1990; Aidis, 2005), a list of variables related to institutional barriers were evaluated by the entrepreneur. The variables representing the institutional factors were designed based on the Likert scale where the entrepreneurs had the possibility to perceive barriers from 1 meaning a very high barrier to 5, implying that the particular variable is not perceived as a barrier to doing business. Owing to the fact that, we had a number of variables which could potentially be correlated, we employed a principal component analyses. In this context, the Kaiser-Meyer-Olkin test was above conventional 0.7 point, while the total variation explained by our final results was at the satisfactory level. Table 4.4 shows the outcome of the factor analysis.

Table 4.4. Rotated Component Matrix

	Component		
	1	2	3
Informal Economy	0.805		
Fiscal Evasion	0.75		
Corruption	0.71		
Unfair Competition	0.663		
Administrative Charges		0.856	
High Taxes		0.793	
Lack of Laws		0.718	
Managerial Skills			0.898
Employee Skill			0.879
% of variance explained	24.4	21.3	18.3
Cronbach's alpha	0.74	0.72	0.76

The first factor describes aspects related to informal barriers such as shadow economy, fiscal evasion, unfair competition, and corruption. The second factor includes items concerning administrative burdens, law enforcement, and high taxes, and thus is mainly referred to formal institutional aspects. Finally, the third factor captures variables related to employee and managerial skills. Cronbach's alpha scores are also shown in Table 4.5. All values are above 0.7, thus suggesting a relatively high internal consistency.

4.4. Results

In this section, we present the results in the following way. First, we provide a brief overview of the sample characteristics and correlations of the variables employed in the multivariate analysis. Next, we turn to the contribution of fast-growing firms to employment. Finally, we present the determinants of fast growth.

Table 4.5 shows that 90 percent of the respondents are male. Although few in numbers, female entrepreneurs in Kosova represent a growing sector (Hoxha and Krasniqi, 2008). Entrepreneurs in Kosova have, on average, 39 years. A significant proportion of them have a university degree. However, when it comes to specific knowledge, less than 30 percent of respondents have

previously followed relevant training in the field of business management. The descriptive data also prove what was underlined by several authors, such as Davidsson (1989) and Storey (1994), not all entrepreneurs are willing to pursue growth. In our sample, only 30 percent of the respondents have expressed their intentions to grow.

A typical firm operating in Kosova has, on average, six employees at start-up while the current firm size is 14. It is worth noting that although start-up size in our case might look large, 68 percent of the firms were created with one to three employees. A large number of firms (46 percent) were created in the trade sector most likely due to the small entry cost. In addition, most of the firms are located in urban areas, established by one founder and the majority of them do not have relations with foreign partners. In terms of institutional obstacles, the factor that shows the highest intensity is the one representing informal barriers (informal economy, fiscal evasion, corruption, and unfair competition).

As shown in Table 4.5, bivariate correlations analyses indicate some significant correlation between independent variables. In order to check for potential multicollinearity, the variance inflation (VIF) scores were calculated. In general, VIF scores are low, where the highest score is 1.4, which is below common thresholds. Therefore, in terms of our independent variables, multicollinearity is not a pronounced problem.

As we had underlined above, there is no evidence, so far, on the contribution of fast-growing firms in transition countries. This section brings empirical evidence from transitional yet extreme environment, such as Kosova, on the contribution of fast-growing firms to employment.

Importantly, the fast-growing firms in Kosova create 36.5 percent of jobs during the examination period. The contribution of 5 percent of fastest growing firms is 25.2 percent.

Table 4.5. Correlation Matrix

		mean	Std	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	Entrepreneurs Education	0.57	0.495	1																		
2	Entrepreneurs Training	0.27	0.444	-.310**	1																	
3	Employee Training	0.19	0.394	-.294**	.507**	1																
4	Intention to Grow	0.3	0.457	-.145**	.222**	.256**	1															
5	Gender	0.1	0.294	-0.013	-0.038	.095*	-0.058	1														
6	Entrepreneurs Age	39.1	9.944	-.235**	0.027	.085*	0.038	-0.029	1													
7	Informal Barriers	2.08	0.96	0.006	-0.013	0.022	-0.049	.134**	-0.03	1												
8	Formal Barriers	2.51	1.05	-0.064	.091*	.136**	0.076	-0.044	-0.004	0	1											
9	Skill Barriers	4.57	0.76	0.056	-0.01	0.041	0.026	-0.08	0.008	0	0	1										
10	Ln Start up Size	1.04	0.973	-.265**	.155**	.311**	.214**	-0.011	.099*	-0.036	0.061	0.057	1									
11	Number of founders	0.2	0.403	-.123**	0.058	.208**	.093*	-0.063	0.044	-.136**	0	-0.016	.223**	1								
12	Legal Form	0.65	0.476	.131**	-.126**	-.094*	0.034	0.009	0.013	.125**	-.126**	-0.042	-0.034	-.106*	1							
13	Location	0.78	0.416	-0.061	0.046	.129**	0.065	-0.036	-0.029	-.092*	0.023	-0.025	.104*	0.015	-0.006	1						
14	Foreign Partner	0.27	0.442	-.160**	.176**	.233**	.177**	-0.012	0.01	-0.027	0.025	0.067	.227**	0.072	-.086*	.096*	1					
15	Firmage	9.35	7.87	-.135**	0.012	.089*	.083*	-.082*	.147**	-.096*	.084*	-0.005	.234**	0.077	0.083	0.039	0.08	1				
16	Production	0.23	0.424	-0.078	.091*	0.026	0.067	-.097*	.159**	-.092*	0.027	-0.021	.198**	.092*	0.009	-.14**	0.023	.175**	1			
17	Service	0.31	0.461	-0.027	0.031	0.042	-0.015	0.062	-0.022	.142**	-0.027	-0.002	0.019	-0.002	0.023	0.078	-0.07	-0.076	-.37**	1		
18	Trade	0.46	0.499	.091*	-.105*	-0.061	-0.043	0.026	-.115**	-0.052	0.002	0.019	-.186**	-0.076	-0.029	0.042	0.047	-0.079	-.51**	-.61**	1	
19	Ordinal Group			-.185**	.271**	.246**	.267**	-0.036	.102*	0.049	.104*	-0.053	-0.049	.134**	-.094*	-0.062	.165**	0.068	.150**	-.093*	-0.04	1

*Correlation is significant at the 0.05 level., **Correlation is significant at the 0.01 level

As we can see from Table 4.6, fast-growing firms (10 percent of the sample) in the initial period of starting up contributed with 246 new jobs or almost 7 percent of the total employment. During the subsequent period, they substantially increased the size. This can be observed from the mean which increases from 4.24 percent in the start-up to 52.6 in the time of interview. The drastic changes in size confirm that fast-growing firms experience tremendous organizational changes, furthering managerial complexity, and increasing internal turmoil, challenges that are not easy to cope with, especially in the short run. Thus, the growth of the firm might not be always desired by the entrepreneurs.

Table 4.6. The contribution of fast growing firms to employment

	Number of firms	Total employment in 2006	Contribution in %	Mean in 2006	Start-up employment	Contribution in %	Start-up mean
Sample	586	8357		14.26	3567		6.09
10%	58	3052	36.52	52.62	246	6.90	4.24
5%	29	2143	25.64	73.9	124	3.48	4.28

As results clearly show, the fast-growing firms operating in Kosova differ substantially from similar firms from Western developed economies in terms of contribution to the employment. While the contribution of fast-growing firms in Western world reaches nearly 80 percent, in the case of Kosova, we observe substantially lower contribution. This is an important finding because the current literature claims that fast-growing firms account for a disproportionately large amount of jobs created. This is not supported in the case of Kosova where these firms bring minor contribution to employment.

The results gained from the ordinal logit regression (column two in Table 4.7.) and especially the calculated marginal effect (columns three to six) show that influencing factors in terms of fast-growing firms can be found within human capital component, institutional as well as firm component. Importantly, one can clearly observe a general pattern derived from estimating the marginal effect, that is, a fundamental split between fast-growing firms and growing firms in one hand, and static and declining

firms on the other hand. All signs of the significant variables, in terms of four types of firms, are the same for the first two groups, while opposite signs are observed in two remaining groups.

Table 4.7. Ordered logit model and marginal effects for each group

Variables	General Model	Declining Firms	Static Firms	Growing Firms	Fast Growing Firms
Entrepreneurs Education	-1.78*	0.02*	0.06*	-0.06*	-0.02*
Entrepreneurs Training	3.46***	-0.04***	-0.15**	0.13***	0.06***
Employee Training	2.43*	-0.04***	-0.13***	0.11***	0.05**
Intention to Grow	5.07***	-0.05***	-0.19***	0.17***	0.08***
Gender	-0.27	0.01	0.02	-0.02	-0.01
Entrepreneurs Age	1.29	0	0	0	0
Informal Barriers	2.17**	-0.01**	-0.04**	0.04**	0.01**
Formal Barriers	1.27	-0.01	-0.02	0.02	0.01
Skill Barriers	-0.5	0	0.01	-0.01	0
Number of founders	2.11**	-0.03**	-0.09**	0.08**	0.03*
Legal Form (Liability)	-2.15**	0.02**	0.07**	-0.07**	-0.02**
Location	-0.37	0	0.01	-0.01	0
Foreign Partner	2.93***	-0.03***	-0.11***	0.10***	0.04***
Firm age	1.02	0	0	0	0
Production	3.83***	-0.05***	-0.17***	0.15***	0.07***
Trade	0.94	-0.01	-0.03	0.03	0.01
LN Start up Size	-5.41***	0.03***	0.11***	-0.11***	-0.03***

Pseudo R2 = 0.1237, Log likelihood = -539.74261, Prob > chi2 = 0.0000

Surprising effects are found in terms of human capital. Despite the extensive empirical evidence supporting the positive relationship between formal education and firm fast growth, in our case, results indicate an opposite relation. Indeed entrepreneurs with lower level of formal education were more likely to run fast-growing firms. However, two other variables capturing the specific human capital (specific knowledge attained through focused training of employees and entrepreneurs), point to a positive relationship between specific human capital and growing firms. This indicates that a specific human capital attained after starting up the firm contributes more in terms of the firm fast growth compared to the formal education gained before starting up.

The intentions to grow are a strong positive determinant of fast growth. It seems that intentions to grow are a substantial prerequisite for fast growth. Two other control variables, age and gender of the entrepreneur did not show any significant impact on growth.

With regard to institutional barriers to doing business, only those barriers related to informal factors showed significant influence in the fast growth of the firm. Declining firms are the ones that suffer the most from informal barriers. The estimated marginal effects indicate that static firms and declining firms are most severely hit by these barriers. This might be one of the main reasons of a large group of static firms that due to hostile and extreme business environment are not able to grow.

In terms of the firm-related component, the most robust predictor of firm fast growth is the start-up size. Results show that smaller firms at start-up tend to grow faster than the rest of firms. On the other hand, the age of the firm did not show any influence in the firm fast growth.

The results also indicate that having a foreign partner and starting up the firm in teams increases the chances to become the fast-growing firm. There is a strong indication of increasing the competitive advantage of the firm through establishing a business relation with foreign partners, while entrepreneurs that start their firms individually are found more frequently in groups with negative or static growth.

Surprisingly, the location where the firm operates does not play any significant role in fast growth of the firm, implying that firms located in rural and urban areas have equal chances in growing fast. In term of the operating sector, the results show that manufacturing firms are more likely to experience fast growth compared to firms operating in the service or trade sector. Regarding the firm legal status, we notice that firms with limited liability are more likely to be found among fast-growing firms.

4.5. Discussion and implications

4.5.1 Discussion

The aim of the present paper was to examine whether the fast-growing firms operating in transitional and extreme environment are more similar or different than fast-growing firms in Western countries. We have investigated this question departing from two standpoints. First, we compared the contribution of fast-growing firms in Kosova with the other similar firms in the Western world. Second, we explored the determining factors of fast growth. Though one should note that comparing the determinants of fast growth is almost impossible mainly due to the limited number of articles investigating particularly fast growth determinants and impossibility of building a clear picture on what determines fast growth.

Importantly, this paper underlines the importance of empirical investigation of fast-growing firms in terms of the broader environmental context, emphasizing the case of fast-growing firms exposed to extreme and marginalized conditions.

We have found that fast-growing firms in Kosova differ substantially from similar firms in Western economies concerning their contribution to employment. In effect, the contribution of fast-growing firms is rather minor comparing to this type of firms in Western economies. Therefore, we can conclude that empirical evidence brought by several authors (Storey, 1994; Brüderl, and Preisendörfer, 2000; Autio *et al.* 2007; Kirchhoff, 1994; Halabisky *et al.* 2006; Henrekson and Johansson, 2010) on disproportionately large amount of jobs created by fast-growing firms cannot be generalized to a transitional and extreme context.

The reasons for the minor contribution of fast-growing firms to employment are potentially related to the marginalized and extreme context that Kosova is experiencing due to political and social volatility which are resulting in a very weak and static SME sector.

Our results concerning the impact of institutional barriers suggest that, in the absence of a strong institutional and regulatory framework, informal barriers have emerged in different forms, and tend to hinder the entire SME sector. All this together emphasizes the crucial role of external environment for small business development especially for entrepreneurs willing to expand quickly their businesses.

Further, there are also some differences in the factors that determine the fast growth of the firm. Formal education, which is our measure for generic human capital, shows a negative effect in the firm fast growth, contradicting in this manner the previous results in other contexts (Capelleras and Rabetino, 2008; Barringer *et al.* 2005; Friar and Meyer, 2003; Almus, 2002; Gundry and Welsch, 2001). Several factors could explain the negative influence of the formal education. It could be that entrepreneurs with more formal education are less risk taking and are keener to long-term analyzing. Since the fast growth implies a tremendous organizational change with many unknowns, entrepreneurs with more formal education could hesitate to take that risk. Moreover, bivariate correlations indicate that entrepreneurs with more formal education have fewer intentions to grow, while the latter was proved as a crucial factor in achieving the fast growing stage. Similarly, Wiklund and Shepherd (2003) based on a large longitudinal data set, indicate that education affects growth only when accompanied by growth motivation.

Nevertheless, two other variables capturing specific human capital show a positive influence on the fast growth of the firm. This implies that specific human capital, gained during operation through specialized trainings, contributes more than formal education to the rapid growth of the firm. Therefore, we can assume that the education gained in universities is of that kind that does not offer proper foundation in which entrepreneurs can build their competitive advantage and thus enlarge their businesses as well the extreme conditions for small business development where formal education plays little role in the fast growth of the firm.

Importantly, intentions to grow represent the variable with the largest influence and marginal effect in predicting firm fast growth. It should be noted though that 70 percent of Kosovar entrepreneurs lack the intentions to grow, which is considerably higher than reported in Storey (1994) for the UK entrepreneurs – 50 percent, or in Morrison et al. (2003) for Australian entrepreneurs – 11 percent. These differences should be attributed mainly to the hostile and extreme environment for entrepreneurial activities which discourages entrepreneurs from desiring growth. Nevertheless, having intentions to grow exhibited a robust influence on the fast growth of the firm. One conclusion from such findings is that although there are fewer entrepreneurs with intentions to grow in Kosova compared to more developed countries, still these intentions have a positive influence on the fast growth of the firm. Moreover, these entrepreneurs are willing and capable of dealing with external barriers, over passing them, and achieving fast growth. Nevertheless, it was correctly suggested by Sadler-Smith *et al.* (2003), that an essential characteristic of entrepreneurial behaviour is the intention to grow the business.

The start-up size of the firm has been found to exert a negative influence on the growth of the firm. These results are important because they reject the Gibrat's law in terms of fast-growing firms and are in line with vast majority of previous empirical evidence. Such an influence is in line with previous empirical evidence in developed countries (Capelleras and Rabetino, 2008; Moreno and Casillas, 2007; Almus, 2002). Further, this result indicates that no matter of extreme environment for doing business, start-up size shows similar impact of the fast growth with majority of studies in Western developed countries.

4.5.2. Implications, limitations, and future research directions

There are a number of implications derived out of this paper. First, the firm growth theory does not differentiate between contribution of fast-growing firm in Western and developed countries in one hand and contribution of fast-growing firms in transitions countries. As we have noticed based upon the case of Kosova, the differences regarding the contribution of fast-growing firms are substantial. On the other hand, we have also observed some differences in terms of determining factors of fast growth. These results have a theoretical implication because they imply that a rather separate focus is needed, which definitely should take into account the contextual factor of the business environment.

Second, the studies investigating the fast growth of the firms use wide spectrum of the methodologies and growth indicators making rather difficult to compare the results. On the other hand, the variables introduced in the analyses are limited, and often not conclusive, therefore, depicting any fast growth patterns is almost impossible. Moreover, these studies are mostly concentrated in selected countries of Europe and North America while the empirical evidence in terms of extreme, underdeveloped, marginalized or transitional, countries are slightly lacking.

Third, the literature review conducted on the topic of fast-growing firms revealed that most of the papers fail to make a clear difference between fast growth and growth, and there is a tendency of elaborating these topics as a joint unique topic. However, in the present paper, we firmly stress, the need for distinguishing between general growth studies, and the particular fast growth phenomenon. We argue that the fast-growing firms indeed should be considered as particular type of firms, hence necessitating a particular research focus. In fact, if fast growth is understood as an extraordinary form of growth (Moreno and Casillas, 2007) then is fair to expect that different or additional factors influence the fast growth of the firm in comparison with other firms that experience normal growth.

Having this in mind, we are convinced that research on fast-growing firm is still not mature and the overall picture on fast-growing firms has yet to be built. Therefore, we think that the firm fast growth deserves a substantially more attention from researchers.

Apart from theory, our result also points to several implications for entrepreneurs as well. The first implication for entrepreneurs is the importance of the specific human capital attained through relevant business trainings. Investments in these specific trainings are highly recommended because they have been found to exert a positive effect on fast growth of the firm. A second implication for entrepreneurs is that they should put efforts in establishing relations with foreign partners, and consider to start the firm in teams rather than individually, because our results indicate strong positive influence of these variables.

In the end, we admit that this paper has a few limitations. We are especially conscious that there are other variables of interest, which might further influence the fast growth of the firm. Another limitation of this paper is the lack of longitudinal data, which is frequently mentioned as one of the main drawbacks of firm growth studies. In fact, as it is claimed in Davidsson *et al.* (2006), growth is a phenomenon that necessarily happens over time.

Despite the above limitations, we think that this paper opens several questions that necessitate further discussion in future research.

Our results indicate that research attention should be directed toward understanding more specifically how the institutional environment influences fast-growing firms. Therefore, future studies should also pay attention to the specific environment, such as the transitional context, and extreme and marginalized environments for

entrepreneurship and small business development. In this way, the theory of the growth of the firm will certainly become richer.

A natural extension of the present analysis is to include variables related to the strategy of the firm and its relationship with environmental conditions. Particularly, our conclusion that fast-growing firms in transition countries contribute less to employment, compared to similar firms in developed countries, should be further examined preferably by investigating similar firms from each type of countries. Future studies in this field should also use longitudinal data on small business growth (Davidsson et al, 2006), so that research can yield more reliable results.

CHAPTER 5
ENTREPRENEURS' PERCEPTIONS OF
INSTITUTIONAL BARRIERS IN AN
EXTREME AND MARGINALISED
CONTEXT

5. Entrepreneurs' perceptions of institutional barriers in an extreme and marginalised context

Abstract

While there are an increasing number of studies on the institutional context in emerging market economies, there is still a need to better understand how institutional factors affect entrepreneurial perceptions and behaviours in these economies. Drawing on an institutional perspective, the following chapter investigates the interrelationships between formal and informal institutional factors, as perceived by entrepreneurs. The study is based on data collected in 2001 from 610 face-to-face interviews and in 2006 from 586 entrepreneurs in Kosova, which can be considered a transitional, extreme and marginalized context. Multivariate results tend to confirm the interrelationship between formal and informal factors. The paper also suggests that the institutional context shapes the entrepreneurial behaviour frequently by encouraging unproductive and destructive entrepreneurship.

5.1. Introduction

Prior research in mature market economies has shown that new, small firms which survive and grow tend to have a positive impact on the economy in terms of generating jobs, innovation and wealth creation (e.g. Storey, 1994; Delmar, 1997; Davidsson *et al.* 2006). This is because entrepreneurs can create new jobs, broaden the tax base, introduce new products to the market, and adopt new technologies (Brixiova, 2011).

Entrepreneurship and small- and medium-sized enterprises (SME) have also been expected to play a key role in enhancing economic prospects in emerging market economies. The experiences of economies in Central and Eastern Europe (CEE) have confirmed the importance of productive entrepreneurial activities for growth, job creation, innovation and poverty alleviation (Smallbone and Welter, 2001; Brixiova, 2011).

However, in most of CEE countries, small and new firms have failed to take on this role. Several studies suggest that the presence of external barriers on business creation and growth has slowed down the development of SME sector in Eastern European transition economies (Doern, 2011). A hostile and unfavourable environment for doing business, derived from weak legal structures, bureaucratic corruption, lack of start-up finance, and other barriers, have been shown to hinder entrepreneurial development and SME growth in these countries (e.g. Bartlett and Bukvic, 2001; Smallbone and Welter, 2001; Pissarides *et al.* 2003; Aidis, 2005).

In effect, entrepreneurial activity might vary considerably according to the context in which it occurs. Recent contributions have clearly underlined the importance of the context in explaining entrepreneurial activities and behaviours (Brixiova, 2011, Welter 2011; Welter and Smallbone, 2011). The institutional context appears to be particularly relevant to determine entrepreneurial attitudes and behaviours. Welter and Smallbone

(2011:107) suggest that this is more apparent in emerging market and transition economies with an uncertain and ambiguous institutional framework, such as most CEE countries.

Institutions can enable and constrain entrepreneurial activities and the development of productive entrepreneurship (North, 1990; Baumol, 1990). Thus, entrepreneurship scholars acknowledge that the allocation of entrepreneurship towards differing forms of entrepreneurship is certainly resulting from institutions (Henrekson 2007).

We draw on an institutional perspective to examine how entrepreneurs perceive formal and informal factors in a transitional, extreme and marginalized context. Whereas formal factors refer to laws and regulations, informal factors encompass customs and norms, which are embedded in the culture (North, 1990).

An increasing number of studies have looked at the institutional context in emerging market and transition economies, but there is still a need to better understand the relationships between entrepreneurial behaviour and institutional factors in these economies. Whilst prior research have studied the effect of perceived institutional barriers on entrepreneurial activities and small business growth (e.g. Bartlett and Bukvic, 2001; Pissarides *et al.* 2003; Grilo and Thurik 2006, Van der Zwan *et al.* 2011), little is known about interrelatedness of formal and informal factors and their influence on the institutional context. In addition existing models of small business growth may be appropriate in explaining the entrepreneurial behavior in developed and high growth economies. However these models fail to fully present entrepreneurship in transition, extreme and marginalized context such as Kosova.

Hence, the central purpose of this paper is to investigate how entrepreneurs perceive institutional factors and the interrelationships between formal and informal institutional factors. As Williamson (2000) illustrates, formal and informal institutions are not

independent and tend to interact. In this line, we suggest that formal and informal institutions are strongly interrelated and this is what ultimately shapes the institutional evolution of an economy. Specifically in a post war context and immediately after the war, it is expected that formal barrier will influence the informal ones, while in the subsequent period the informal factors will influence the formal ones.

Our study contributes to the existing research by bringing a contextualized view of entrepreneurship in Kosova, an environment considered as an extreme and marginalized for doing business (Solymossy, 2005; Capelleras and Hoxha, 2010). According to Welter (2011), a contextualized view of entrepreneurship will contribute to better understanding of entrepreneurial behaviours. Indeed, institutional deficiencies of a post war yet emerging country, continued political and social turbulence and high level of poverty and corruption offer an interesting setting for examining entrepreneurial behaviour. Moreover, this study examines a two way relationship between entrepreneurs and the context per se, through analysing not only how context influences entrepreneurial behaviour, but also how entrepreneurs shape the context.

The current research on entrepreneurship and small business development which takes into consideration particularities of the regions such as Kosova is underdeveloped. Importantly, these regions provide unique environments for extending existing approaches, which may be well suited to explain entrepreneurial behaviour in mature developed economies, but not necessarily to fully capture entrepreneurship and small business development in emerging, transition and particularly in post war/conflicting countries.

In the next section, we examine the role of the institutional context in affecting entrepreneurial responses with a special emphasis in transition countries. In section 5.3 we explain the specific extreme and marginalized context of our research. Section 5.4 describes the data and variables used in our quantitative study. Afterwards we present

the results of the empirical analysis. The final section discusses the results and the implications that can be derived from the findings.

5.2. Theory and hypothesis

5.2.1. Theoretical background

The context in which entrepreneurship occurs is important to better understand the phenomenon, but it is not always sufficiently recognized by researchers. Johns (2006) suggested that context is often taken for granted, its influence is underappreciated or it is controlled away, although context provides in depth understanding into how individuals interact with situations and how situations impact individuals.

According to Welter (2011), a contextualized view of entrepreneurship will contribute to our understanding of entrepreneurial perceptions and behaviours. However, most research in this area implicitly assumes a “one-way relationship” between entrepreneurship and the respective context where entrepreneurs and businesses have to take a context as given. On the contrary, context may enable or constrain entrepreneurs, since it may provide individuals with new opportunities and at the same time may limit their actions. Therefore, contextualizing entrepreneurship means examining how context factors influence entrepreneurship but also to explore how entrepreneurship impacts its context (Welter, 2011).

Understanding the institutional context and its relationship with entrepreneurship is especially relevant for post war countries, where government has an urgent need to recover from war and bring social stability. Entrepreneurship in this type of environments should be seen not only as a tool to create new jobs and alleviate poverty, but also as an instrument for peace prosperity and social reconciliation especially when conflicts have ethnic dimensions. As noted by Collier (2006: 9) development may be the best strategy for peace.

However as suggested by Naudé (2007), certain types of entrepreneurship may prove dysfunctional in conflict or post-conflict settings, as they may deepen existing inequalities, further weaken institutions, or provide conditions for the continuation of conflict. In fact, how the immediate post conflict period is managed considerably determine the institutional building and economic development of the region

Importantly, the importance of context is particularly salient in emerging market and transition economies where institutional environments are characterized by high levels of turbulence (Welter and Smallbone, 2011). Consequently, the institutional approach offers the highest degree of novelty in such environments (Peng, 2003) and is considered an appropriate framework of reference because of its emphasis on the role of external influences on entrepreneurial behaviour (Welter and Smallbone, 2011). Therefore, a number of empirical studies have employed an institutional perspective to investigate small business growth in post socialist countries (e.g. Manolova and Yan, 2002; Aidis, 2005; Capelleras and Hoxha, 2010). In addition the institutional approach recently has been applied in the research on corruption (Lambsdorff, 2002, 2006) and the linkages between corruption, economic development and entrepreneurship Tonoyan et al. (2010).

The institutional theory is based on the concept of institution as rules of the game or “the humanly devised constraints that shape human interaction” (North, 1990:3). An institutional framework consists of the “set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution” (Davis and North, 1971:6).

Institutional frameworks are made up of formal and informal factors. Formal institutions consist on laws and regulation, while informal institutions are conventions, codes of behaviour, norms and culture, which are not supported by formal law, but by social custom (North, 1990) and both formal and informal institutions strongly influence the

goals and beliefs of individuals and organizations (Scott, 2002). Whilst informal institutions are the culturally accepted basis for legitimating entrepreneurship, formal institutions provide the regulatory frame (Wade-Benzoni et al. 2002). In other words, formal institutions create opportunity fields for entrepreneurship; but informal institutions determine the collective and individual perception of entrepreneurial opportunities (Welter and Smallbone, 2008).

Importantly, institutions enable and constrain small business development in the same time. Institutional change will have a positive influence on entrepreneurship in those cases where it removes or lowers barriers to market entry and market exit, thus creating opportunity fields for productive entrepreneurs, and vice versa (Welter and Smallbone, 2008). On the contrary, when market-supporting institutions are weak, the ownership of resources, and the means by which an entrant can gain control over those resources, will be subject to considerable risk (Meyer and Peng, 2005). The less sophisticated the institutions supporting the market mechanism, the more political, economic and social uncertainties are likely to affect firms' strategies (Peng, 2003; Meyer and Nguyen, 2005).

Institutions both formal and informal continuously change, although the latter with significantly lower pace. An example of how a change in formal institution can affect entrepreneurship is the adoption of laws that encouraged initiating of private enterprises in late 80s in CEE countries. Still, while formal rules may change overnight as the result of political and judicial decisions, informal constraints are much more resistant to deliberate policies (North 1990).

In addition to continuous change of formal and informal institutions, an interaction between them is expected to occur, since they are not totally independent (Williamson, 2000). For example, societies simultaneously have formal political institutions and rules and also a wide array of informal institutions that facilitate interaction.

5.2.2. Formal institutions and entrepreneurship

The institutional context in transition and emerging market economies tend to demand a rather different style of the entrepreneurial behaviours that are likely to differ from behaviours of entrepreneurs in Western Countries. Frequently, inadequate legal framework for doing business results in entrepreneurs' behaviours which, although rational from their point of view, are non-productive from the economy's standpoint (Welter and Smallbone, 2003). This is because it diverts resources that could otherwise be put to productive use, into dealing with some of the unnecessary costs associated with an institutional context in which the framework conditions for productive entrepreneurship have still to be established. In such a context, productive entrepreneurial activities remain limited, with very few incentives for starting up a new business.

Prior research has shown a link between formal institutional barriers, such as the time and procedures needed to register a new business, and informal institutional constraints, such as corruption (Djankov et al. 2002). High taxation as a formal barrier increased informal activities in Belarus market (Smallbone et al., 2001), while Sookram and Watson (2008) suggested that small business owners are motivated to participate in the informal sector when, amongst other things, they believe that the risk of detection by the tax authorities is low and that government regulations are burdensome, but there is no evidence, according to the authors, that the tax rate itself is an issue.

Moreover, Dadashev et al. (2003) argued that in Russia high taxation has resulted in unprofitable businesses and in the increase of the shadow economy. In the case of Lithuania, Aidis (2005) found that perceived formal barriers were associated with corruption and that perceived environmental barriers were linked to management problems.

Welter and Smallbone, (2008) claim that an external environment in Uzbekistan with formal institutional deficiencies hampers the development of productive entrepreneurship, for both men and women, and they equally share many formal barriers.

A weak rule of law increases the transaction costs of doing business as well as the riskiness of entrepreneurial activity. Hence irritated by the lack of laws and ineffective legal enforcement of contracts and property rights, entrepreneurs frequently seek for informal norms for security (Peng 2003) and as a result, they set up alternative governance structures and contractual arrangements (Manolova et al. 2008). When faced with weak economic institutions and high level of corruption, entrepreneurs' propensity to exit from the formal sector and exercise unfair competition is high. In reality, Friedman et al. (2000) claim that the weak institutions and informal economy go hand in hand while the causal link runs from weak economic institutions to the size of the informal/shadow economy

Overall, therefore, entrepreneurs' perceptions about formal institutional factors are likely to be influenced by their perceptions about informal ones, and vice versa. This leads us to:

Hypothesis 1: Entrepreneurs' perceptions about formal institutional factors (especially perceptions related to lack of laws) will be positively related to their perceptions about informal institutional factors.

5.2.3. Informal Institutions and entrepreneurship

Baumol (1990) was the first to make a distinction between productive, unproductive and destructive forms of entrepreneurship. Productive entrepreneurial activity refers to any activity that contributes directly or indirectly to net output of the economy. An

unproductive entrepreneur engages in innovative activity but makes no contribution to the real output of the economy. A destructive entrepreneur engages in innovative activity that leads to the misallocation of valuable resources into pursuits that from the viewpoint of the economy are useless and are carried out for the self-serving purposes of the entrepreneur. Baumol (1990) argued that policy has an important role to play by altering the structure of payoffs under the framework of social norms and attitudes in a particular context.

Some recent studies have explored these issues. For example, Sobel (2008) explicitly tested Baumol's hypothesis regarding productive and unproductive entrepreneurship utilizing cross-sectional data from USA and found that where the payoff to engaging in unproductive activities is relatively high, entrepreneurs will tend to exploit those opportunities at the expense of productive opportunities which contribute to economic growth. Capelleras et al (2008) showed that formal institutional factors in terms of business regulations have a strong influence on the distribution between what can be more easily captured by society (productive entrepreneurship) and other forms of entrepreneurship where there is likely to be some leakage in the benefits available to society (unproductive entrepreneurship).

Similarly, corruption has been shown to affect the magnitude of the rewards that can be earned from entrepreneurship activities (Wintrobe, 1995) and more importantly it is less likely that in a context characterized with high level of corruption, entrepreneurs pursue productive entrepreneurship. As shown from previous empirical evidence in highly corrupt countries, the widespread presence of illegal business activities provides entrepreneurs with a certain rational justification to engage also in corruption activities. Tonoyan et al. (2010). In the same study it has been confirmed that inefficient legal system and weak enforcement of property rights will increase the level of corruption. Indeed corruption tend to undermine the foundations of institutional trust that are needed for the development of trade and entrepreneurial and innovative activity

(Anokhin and Schulze, 2009), especially in post war countries where among the first challenges is the building of sound and sustainable institutional framework. Moreover corruption has been linked with the number of new entries. Hence for example Desai et al. (2003) show corruption significantly reduces entry in Central and Eastern European countries. Ovaska and Sobel (2005) find corruption to considerably reduce the number of new enterprises (per 1000 capita). Specifically, SME owners who are not able to circumvent informal barriers such as corruption, are likely to also be influenced by formal barriers such as tax level and business legislation (Aidis, 2005)

In a post-war context the opportunities for rent-seeking are likely to abound, especially through the fact that international donor funding, foreign investment levels and the reconstruction of infrastructure is often the target of entrepreneurs seeking preferential access to these business opportunities (Naudé, 2007). Entrepreneurs benefiting in this way besides promoting unfair competition become dependent from ruling political parties, which they have to pay a rent.

In these circumstances a social inequality routes deeply in the society, and a class of rich destructive entrepreneurs and politicians coexist. In such an extreme environment a supply of new start-up firms contributing to productive entrepreneurship is certainly reduced while incentives to get into unproductive and destructive entrepreneurship increases since entrepreneurs perceive that these are the rules of the game. In this line, Wolff (2007) showed that Russia's transition has ended up with its elites using the political system to create rents, which are then used to stabilize the political system. The consequence is an absence of pro-growth entrepreneurship. According to Estrin et al. (2006: 693), new firms can be important in a transition context and in a post-conflict society since they are less encumbered with the historic influences of such a society as opposed to existing firms which may themselves be undergoing reform.

Weak and fragile formal institutions (Baumol, 1990) might foster unproductive entrepreneurship. In fact, in a context of weak institutions, entrepreneurs are less likely to undertake new projects or may instead focus their energies on unproductive ones, with a resulting loss of efficiency (Glaeser *et al.* 2003). Therefore, the institutional context and the differing types of entrepreneurship appear to be strongly related. Hence, one would expect that informal constraints will be associated with formal institutional barriers in particularly challenging environments and, as a consequence, there will be individuals engaging in productive entrepreneurship while others engaging in unproductive or even destructive activities. Hence, we suggest the following hypothesis:

Hypothesis 2: Entrepreneurs' perceptions about informal institutional barriers will be positively related to their perceptions about formal institutional factors.

5.3. Methodology

5.3.1. Context of the study

In general, there is a lack of entrepreneurship and small business growth research on transition and emerging economies (Bruton *et al.* 2008). The transition and emerging countries show distinctive features of entrepreneurship (Smallbone and Welter, 2001; Aidis, 2005, yet the distinctiveness becomes even more pronounced, especially in the regions experiencing violent conflict (Naudé, 2010) similar to Kosovo. Therefore understanding the context and its relationship with entrepreneurship and small business development is especially relevant for post war countries, where government has an urgent need to recover from war and bring social stability. Small business development in this type of environments should be seen not only as a tool to create new jobs and alleviate poverty, but also as an instrument for peace prosperity and social reconciliation especially when conflicts have ethnic dimensions. As noted by Collier (2006) development may be the best strategy for peace.

Although the context in which entrepreneurship occurs is important to better understand the phenomenon, however it is not always sufficiently recognized by researchers. Therefore there is a need for contextualizing entrepreneurship by examining not only by examining how context factors influence entrepreneurship but also to explore how entrepreneurship impacts its context (Welter, 2011).

Existing research most often focuses on large countries such as China and Russia (i.e., Lau and Busenitz, 2001; Ahlstrom and Bruton 2010). Nevertheless, transition countries such as Kosova can provide a unique setting for learning more about the entrepreneurial behaviour under extreme and marginalized conditions. In that sense Kosova offers a suitable context through which to analyze entrepreneurship in extreme socio-economic environment (Solymossy 2005). Sorensen (2006) correctly claims that the economic sphere cannot be isolated from its political and social context, but that the economy is embedded in social relations, informal and formal institutions.

Therefore, this chapter draws on empirical research from Kosova where the institutional context as described in the introductory part of the thesis, in general is characterized by following features: a) extreme conditions for entrepreneurship (Solymossy, 2005), b) transitional period influencing entrepreneurial activities (Krasniqi 2007, Hoxha 2008), c) marginalized context (Hoxha, 2009b). All these features shed light into the decisive importance of context for small business development.

One of the main reasons of a large group of static firms that are not able to grow fast and contribute to employment is informal barriers. Indeed declining firms are the ones that suffer the most from informal barriers (Hoxha and Capelleras, 2010). In recent years there has been some progress in establishing rule of law (both substantive and procedural) but it has been neither firmly established nor socially accepted (Solymossy 2005). Kosovar entrepreneurs also suffer from power shortages and other infrastructural factors such as poor roads and telecommunication and public services

(Riinvest, 2008). These barriers are rarely faced by entrepreneurs in developed economies. The weak rule of law, corruption, high level of informal activities, and *ad hoc* policies have increased economic uncertainty and deep structural problems continued to hamper the economy. In addition access to and the cost of finance remained problematic, mainly due to the high risks in the economy (European Commission (2011))

The marginalized conditions for doing business in Kosovo are further presented in some key macroeconomic indicators. Hence for example World Bank estimates show that around 45% of the population in Kosovo lives in relative poverty, on less than USD 2 per day, and around 15% of the population lives in extreme poverty, defined as individuals who have difficulty meeting their basic nutritional needs with less than USD 1 per day (World Bank, 2007). These poverty rates are very high compared with neighbouring countries and, unlike many countries in the region, have not changed over time.

Unemployment figures are still the highest in Europe. According to Labor Force Survey 2009 unemployment is at 45.4%. No data are available on the unemployment rate in 2010 because the government has cancelled financing of the Labor Force Survey. GDP per capita is estimated at around € 2,385 in 2010, equal to 9.7% of the EU-27 average.

The European Commission Progress Report about Kosovo (European Commission, 2011) underlines that economic development in Kosovo continued to be marked by fragile growth and significant domestic and external imbalances, aggravated by poor fiscal policy. In particular, the high inflation and dysfunctional labour market pose major challenges for economic and social cohesion and the significant economic uncertainty remained an obstacle to job creation and private-sector development.

Starting a new business in Kosovo, according to World Bank doing business report for 2011, is particularly difficult. Globally, Kosovo stands at 168 in the ranking of 183 economies on the ease of starting a business. An entrepreneur in Kosovo needs 58 days

to open a business compared to five days in Albania, three in Macedonia, 13 in Serbia, and 10 days in Montenegro. Further, the rankings for comparator economies and the regional average ranking provide other useful information for assessing how difficult it is for entrepreneurs in Kosova. Hence for example neighbouring Albania is ranked 61st , Macedonia 6th , Croatia 67th Serbia 92nd while regional average (Eastern Europe and Central Asia) is 39. In general Kosova is ranked in 117 out of 183 countries, significantly lower compared to the neighbouring countries.

Considering all particularities of the business environment in Kosova, developing productive entrepreneurship in this context is quite a challenging and difficult mission. Nevertheless, from research point of view, studies that take into account entrepreneurial behaviour in a similar setting such as Kosova, may contribute to a better understanding of firm growth and entrepreneurship development and extend the current theoretical perspective. In addition, the lessons that can be learned from the case of Kosova could potentially be helpful and further applied to other similar post war/conflict regions.

5.3.2. Data

For the purpose of this paper, we utilize the data gathered by Riinvest Institute for Development Research based in Kosova. Indeed, Riinvest Institute conducted annual surveys of approximately 600 SMEs across Kosova. We use the data base from annual survey in 2001 consisting of 610 firms and in 2006, 586 respectively. In both cases the sample was chosen randomly from the business register of the Statistical Office of Kosova. The sample of this size, offers a reliable foundation for generalization of the research results.

The interviews were conducted through the face-to-face method with the key people in each enterprise, that is, with entrepreneurs/owners of the firm. The initial aim was to survey around 600 SMEs. Almost all firms replied to the interviews, less than 30 firms

have either refused to take part in this research due to time constraints, or it was impossible to contact them. In these cases, the survey administrators have replaced the missing firm with another one from the reserve list that was particularly created, in a random manner, for addressing this problem. Several steps were taken in order to assure the reliability of data-gathering process. First, the appropriateness of the questionnaire was verified by performing a test survey with 10% of the sample. Later, the project team concluded that the research instrument was suitable for proceeding with interviews. A thorough data-quality assurance, during the entire project, was undertaken by controlling the questionnaire for potential mistakes or consistency failures. The field control was performed as well. In case of observed errors, the survey administrators were sent back on the field, while researchers later on contacted the entrepreneurs directly or by telephone.

5.3.3. Variables and measures

The institutional factors were measured based on the subjective perceptions of the entrepreneurs. Indeed, transition economies are known for their unpredictability, volatility, and un-codified institutional environments (Smallbone and Welter, 2001; Ahlstrom and Bruton, 2006). In terms of post war countries, the role of extreme events on expectations and perceptions may actually be more important than the more visible direct consequences in form of material destruction. In this context, Voors, (2011) showed that conflict is robustly correlated with preferences, and it has a long term effect.

In addition, as underlined in Brück *et al.* (2011) actual and psychological impact of extreme events may thus affect, among other things, the propensity to undertake entrepreneurial activity. Therefore, we take into account the perceptions of entrepreneurs with regard to the institutional conditions they face, since they have been shown to affect the creation and development of new firms (Davidsson, 1991).

Although perceptions are not objective measures, empirical research has indicated that subjective opinions of the entrepreneur have an influence on both motivation and direct behaviour (Davidsson, 1991). Djankov *et al.* (2002) have underlined that subjective perceptions are important, since they may shape economic choices. More specifically objective measures of the corruption and other informal factors are quite exceptional, mainly because respondents hesitate to admit illegal activities. Thus, research in this field argues that subjective measures are an acceptable alternative for measuring informal factors such as corruption (Lambsdorff, 2006; Tonoyan *et al.* 2010).

In similar context, it was mentioned, that since environmental issues are often ambiguous and require interpretation for issue diagnosis, perceptions are critical in guiding decision making (Lau and Busenitz, 2001; Schneider and de Meyer, 1991). Further, given that the decision to become an entrepreneur is made at the individual level (Arenius and Minniti, 2005), entrepreneur's perceptions about the external environmental conditions are of special relevance in terms of firm growth and development.

In previous empirical research, entrepreneurs are typically presented with a list of factors and asked to select only those they perceive to be the most important to inhibiting the growth of the firm. Also, frequently entrepreneurs are asked to rank each factor in terms of perceived difficulties that they are faced with. Other studies are based exclusively on the frequency of reported factors as an indication of its level (e.g. Bohatá and Mládek, 1999). In our case, in the process of surveying, the entrepreneurs were presented with a list of potential factors. The answers were collected through Likert scales where 1 implies that certain factor does not represent at all barrier to doing business and 5 represented very high barrier.

Several ordered Logit models were performed in order to investigate the interrelatedness of informal and formal institutions, in an environment characterized by

extreme events and marginalized context. In the first stage, we employ two ordered Logit models based on the data gathered in 2001. In both models the dependent variables are related to informal factors (North 1990, Aidis 2005), that is unfair competition (first model) and corruption (second model). The independent variables remain the same in both models. Considering that the period after the war in Kosova (1998 - 1999) was profoundly characterized by the lack of laws, our aim here was to explore the interrelationship of lack of laws and other formal factors with informal ones.

Next, in the second stage, we utilize data set from 2006 and run three Ordinal Logit Models with following dependent formal factors: high taxes, administrative charges, and lack of laws. Since all recent indicators (World Bank, Transparency International, European Commission) show that the corruption in Kosova has taken the endemic form, and unfair competition is one of the highest ranked barrier to doing business, our intention was to investigate how this particular environment affects the formal institutions/factors.

Apart from the institutional factors, we have introduced common control variables related to the main characteristics of the entrepreneur (age, gender, education and), and firm itself (age, sector, legal form). It is worth mentioning that the survey conducted in 2006 contained more questions and hence offered more variables compared to 2001. Therefore we have decided to utilize some additional variables in the model of 2006 particularly start up size of the firm, in order to check how businesses of different size cope with formal factors.

5.4. Results

In this section, initially we provide a brief overview of some key descriptive results and correlations of the main variables introduced in the regression analysis. We then turn to the core model that is the interrelatedness of formal and informal barriers.

As shown in Table 5.2 and 5.3 the average age of the entrepreneurs/owners of the surveyed firms is 39 years. In both samples the average years in operation is around 8. Immediately after the war, trade sector accounted for half of the registered firms. In 2006 the trade sector together with production decreased in size, mainly in favour of growing service based industry. In both periods the participation of female entrepreneurs remains slightly above 10% reflecting in this manner extremely low female entrepreneur's participation.

Descriptive results from the survey in 2001 show that (see Table 5.1), during this period, the environment in Kosova was heavily characterized by the institutional vacuum, manifested mainly through the lack of basic economic laws that would provide equal opportunities for all entrepreneurs in the marketplace. In fact, the barrier – the lack of laws – was perceived as the most severe one in doing business in 2001 and continued to be one of the top three barriers in 2002 (Hoxha, 2009a). The second ranked barrier perceived to hinder the businesses in 2001, is unfair competition followed by high taxes. On the other hand in 2006 the lack of laws is not among most rated barrier to entrepreneurship. Instead top three ranked barriers are unfair competition, corruption and high taxes.

Table 5.1. Descriptive statistics on the barriers to doing business 2001 / 2006

	Obstacles to doing business	Mean 2001	Mean 2006
1	High taxes	3,3	3,79
2	Administrative charges	2,58	3,34
3	Lack of laws	4,04	3,35
4	Strong Competition	3,31	3,38
5	Unfair competition	3,99	4,16
6	Corruption	2,62	4,06
7	Fiscal Evasion		3,49
8	Informal economy		3,93

As expected, barriers to doing business are highly correlated among themselves. Hence, for example the lack of laws barrier is related with high taxes, while unfair competition is related to almost all barriers to doing business included in the model. In 2006 the unfair competition remains related with most of the variables. The same holds for corruption as a second ranked barrier for doing business in 2006. Although several correlation coefficients in Table 5.2 and 5.3 are found to be significant, coefficients are low enough to conclude that multicollinearity will not affect our results. Additionally, the Variance Inflation Factors (VIF) scores (not shown but available upon request) are all below common thresholds, since the highest score is 1.8 in 2006 model and around 2 in 2001 model. Therefore, multicollinearity is not a pronounced problem in our analysis.

The results from the Ordinal Logit Regression underline the robust relation between formal and informal institutions. As Table 5.4 clearly shows, based on the data from 2001, the firms facing lack of laws are more likely to experience unfair competition and corruption. Strong competition is the next variable, influencing in the same manner the perception of entrepreneurs related to the unfair competition. Indeed these two variables exercise the highest effect of the perception of entrepreneurs related to unfair competition. It is worth noting that firms which have complained on administrative charges are more likely to face corruption.

Table 5.2. Correlation matrix 2006

	Mean	Std	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
Entrepreneurs Age	39.01	9.9	1																	
Years in Business	8.62	5.92	0.14**	1																
Start-up size	4.72	8.31	0.04	0.09*	1															
Gender	0.1	0.29	-0.03	-0.12**	0.02	1														
Education	0.58	0.49	-0.22**	-0.08	-0.18**	-0.01	1													
Production	0.23	0.42	0.16**	0.14**	0.09*	-0.09*	-0.08	1												
Service	0.31	0.46	-0.02	-0.05	0.07	0.06	-0.03	-0.37**	1											
Trade	0.46	0.5	-0.12**	-0.07	-0.14**	0.02	0.10*	-0.51**	-0.62**	1										
Intention to grow	0.3	0.46	0.05	0.12**	0.15**	-0.06	-0.16**	0.06	-0.02	-0.04	1									
High Taxes	3.8	1.31	-0.02	0.01	0.03	0.00	0.15**	0.02	-0.05	0.03	-0.04	1								
Admin Charges	3.35	1.23	-0.01	-0.04	-0.02	-0.02	0.04	-0.02	0.01	0.01	-0.04	0.59**	1							
Lack of Law Enforcement	3.33	1.39	0.04	-0.02	-0.05	0.09*	-0.03	-0.02	0.06	-0.04	-0.07	0.33**	0.48**	1						
Strong Competition	3.4	1.43	-0.07	-0.08	-0.04	0.01	0.16**	-0.11**	-0.01	0.10*	-0.05	0.15**	0.16**	0.00	1					
Unfair Competition	4.14	1.18	0.03	0.08	0.01	-0.11*	0.01	0.02	-0.09*	0.07	0.06	0.14**	0.17**	0.05	0.30**	1				
Corruption	4.05	1.3	0.07	0.09*	-0.01	-0.06	-0.02	0.06	-0.09*	0.03	-0.03	0.15**	0.23**	0.20**	0.05	0.36**	1			
Fiscal Evasion	3.49	1.41	0.02	0.16**	0.01	-0.11*	0.00	0.10*	-0.07	-0.02	0.06	0.17**	0.19**	0.08	0.14**	0.34**	0.38**	1		
Informal Economy	3.93	1.31	-0.03	0.12**	0.01	-	0.15**	0.03	0.09*	-0.16**	0.08	0.04	0.17**	0.16**	0.10*	0.17**	0.40**	0.47**	0.55**	1

*Correlation is significant at the 0.05 level., **Correlation is significant at the 0.01 level

Table 5.3. Correlation matrix 2001

	Mean	Std	1	2	3	4	5	6	7	8	9	10	11	12	13
Entrepreneurs Age	39.62	9.18	1												
Years in Business	8.92	7.16	0.259**	1											
Gender	0.04	0.19	-0.086*	-0.092*	1										
Trade	0.5	0.5	-0.124**	-0.123**	-0.007	1									
Production	0.32	0.47	0.12**	0.179**	-0.098*	-0.678**	1								
Service	0.19	0.39	0.016	-0.057	0.127**	-0.473**	-0.326**	1							
Education	0.52	0.5	0.13**	0.055	0.121	-0.074	0.053	0.032	1						
High Taxes	3.3	1.46	-0.087*	-0.01	-0.063	0.099*	0.06	-0.199**	-0.025	1					
Administrative Charges	2.58	1.32	-0.025	-0.052	-0.009	0.026	0.032	-0.072	-0.006	0.5**	1				
Lack of laws	4.04	1.27	0.003	-0.005	-0.012	0.004	0.035	-0.047	0.065	0.16**	0.202**	1			
Strong Competition	3.31	1.48	-0.009	-0.067	0.005	0.106**	-0.002	-0.133**	-0.047	0.081	0.059	0.052	1		
Unfair Competition	3.99	1.41	0.043	0.008	-0.023	0.066	0.085*	-0.187**	0.081*	0.115**	0.118**	0.238**	0.33**	1	
Corruption	2.62	1.68	0.065	0.006	-0.053	0.047	0.029	-0.094*	0.044	0.122**	0.169**	0.187**	0.066	0.196**	1

*Correlation is significant at the 0.05 level., **Correlation is significant at the 0.01 level

The results also emphasize that whether or not a firm is owned by female or male entrepreneur, or the firm is young or more mature in the market, was not related to the encountering of barriers to entrepreneurship. On the other hand the perceived barrier of corruption is mostly related to the lack of law and administrative charges.

In the first hypothesis we have suggested that formal barriers will positively influence the informal ones. The first hypothesis holds in terms of lack of laws and administrative charges in terms of corruption, while there is no evidence that high taxes have any influence in informal barriers. Therefore, we find partial support to the first hypothesis.

Table 5.4. Results from the Survey in 2001

	Unfair Competition		Corruption	
	Estimates	STD Error	Estimates	STD Error
Control Variables				
Entrepreneurs Age	0.013	0.01	0.016*	0.009
Years in Business	-0.002	0.012	-0.002	0.011
Gender	0.057	0.429	0.329	0.424
Trade	-0.615***	0.223	-0.37*	0.222
Production	-0.91***	0.247	-0.376	0.238
Education	-0.339**	0.171	-0.154	0.158
Independent Variables				
High Taxes	0.037	0.068	0.026	0.063
Administrative Charges	0.014	0.075	0.169***	0.068
Lack of laws	0.387***	0.065	0.255***	0.066
Strong Competition	0.466***	0.059	0.08	0.053
Pseudo R-Square	0.207		0.08	
Log Likelihood	1346.800		1595.711	

Level of Significance at: * < 0.10, ** < 0.05, *** < 0.01;

Next, in an attempt to reach the overall objective of this chapter we have utilized data from 2006 and applied the Ordinal Logit Regression, but this time by putting formal factors as a dependent variable. Since the descriptive statistics has shown that in 2006 the most emphasized barriers by entrepreneurs are informal factors (unfair competition

and corruption) our goal was to explore how these factors influence the formal factors at this time period.

Table 5.5. Results from the Survey in 2006

	High Taxes		Administrative Charges		Lack of Law Enforcement	
	Estimates	STD Error	Estimates	STD Error	Estimates	STD Error
Control Variables						
Entrepreneurs Age	0.000	0.009	-0.001	0.009	0.005	0.009
Years in Business	-0.018	0.015	-0.030**	0.015	-0.013	0.015
Start-up size	-0.015	0.106	-0.114	0.104	-0.21**	0.104
Gender	-0.585*	0.312	-0.139	0.294	-0.453	0.296
Education	-0.408**	0.187	0.011	0.183	0.24	0.184
Production	-0.209	0.239	-0.078	0.23	0.257	0.229
Trade	-0.050	0.204	0.20	0.199	0.339*	0.201
Intention to grow	0.195	0.194	0.013	0.19	0.388**	0.192
Independent Variables						
Strong Competition	0.151**	0.066	0.111*	0.065	-0.030	0.065
Unfair Competition	0.084	0.087	0.060	0.086	-0.058	0.086
Corruption	0.12	0.08	0.33***	0.081	0.345***	0.081
Fiscal Evasion	0.093	0.075	0.098	0.073	-0.058	0.075
Informal Economy	0.141*	0.086	0.019	0.085	0.098	0.086
Pseudo R-Square	0.094		0.1		0.096	
Log Likelihood	1264.180		1353.434		1365.56	

Level of Significance at: * < 0.10, ** < 0.05, *** < 0.01;

The results in Table 5.5 show that the probability of facing high taxes as a barrier increases if a firm complains about informal economy as a barriers to entrepreneurship. This is an indication that firms which are not facing this type of unfair competition can handle tax regime and comply responsibly. There is also a positive relation between strong competition and high taxes although.

Next dependent formal factor, that is administrative charges, are also positively related with corruption. Businesses which have complained more about administrative charges

complained more on corruption. Interestingly, the probability of facing administrative charges decreases with the firm age. Most likely, the older the business is, it learns from the experience to avoid the administrative charges, assumable frequently using corruption as a survival tool. Same as high taxes, strong competition also influences the perception on administrative charges.

In the third model using data of 2006 where the lack of law is dependent variable, some positive significant relation with informal factors has been observed. Thus the probability of facing high lack of law enforcement as a barrier increases if a firm complains about corruption as a barrier to entrepreneurship. Also the size at the start up has its own implication at how entrepreneurs perceive the lack of laws as a barrier. Thus, smaller start-ups experience more difficulties in terms of lack of laws. Differently from other two models based on the data from 2006, intentions to grow show a significant positive relation with lack of law, indicating that entrepreneurs with more intentions to grow are more likely to face lack of laws as a barrier to doing business.

Overall, there is a positive and significant relation between corruption as an informal barrier, and a lack of law enforcement and administrative charges as a formal barrier, while informal economy as expected is related with high taxes. This gives support to our second hypothesis.

5.5. Discussion and extensions

Most prior research has implicitly assumed a “one-way relationship” between entrepreneurship and the respective context. Hence, the focus of such research is on how context factors influence the nature and extent of entrepreneurship, while the role of entrepreneurs in shaping the context for entrepreneurship tend to be ignored. However, entrepreneurs may influence their context as well. Our approach in this paper is based on the assumption of a “two-way” relationship between entrepreneurs and the context (Welter, 2011, Welter and Smallbone, 2011).

Based on an institutional perspective, we have suggested that formal and informal institutional factors, as perceived by entrepreneurs, are likely to be interrelated. We have used data collected from entrepreneurs in Kosova, a context that can be considered a transitional, extreme and marginalized environment for doing business.

Before the war (1998 - 1999) in Kosova, most of the entrepreneurial activities were conducted informally and away from the Serbian totalitarian regime. Doing business in this way, has determine the entrepreneurial culture in Kosova. In contrast the period immediately after the war, as our results show, was characterized by the lack of laws and deficiencies in the formal institutional context. The past well established culture for doing business, coupled with the state of the lack of laws had created a suitable environment for unproductive and even destructive forms of entrepreneurship. Indeed, local leaders and UN authority which was mandated with creation of sound democratic institutions, failed to utilize the enthusiasm of the local population in building free and democratic society. In turn, UN authorities has been very slow and bureaucratic in building institutions and sometimes directly or indirectly stimulated corruption.

Our results from the data collected in this period (2001) show that the lack of laws, influenced entrepreneurial behaviour by making entrepreneurs act in an unfair way

through utilizing destructive practices such as corruption. In the institutional context characterized by the absence of the “rule of law,” the entrepreneur naturally expects that the costs of sanctioning to be at the minimum level or non-existent at all. Considering the rationalistic behaviour the entrepreneur calculates between costs and benefits. Hence he/she “assess opportunities and risks and disobey the law when the anticipated fine and probability of being caught are small in relation to the gains from noncompliance” (Murphy 2004: 188). In this regard, Leitzel (1997) argues that to the extent that breaking rules entails some risk of a future punishment, including a loss of reputation, individuals will be more willing to run such risks in less stable settings. On the other hand the punishment that accompanies some forms of rule-breaking has been undermined during the transition period substantially (Tonoyan *et al.* 2010). Indeed as shown from our empirical results, due to the formal factors, the overall business context in Kosova become breeding ground for evolvement of corruption.

As a result of unproductive and destructive entrepreneurial behaviour, the new set of informal “rules of the game” has been established for existing, and more importantly, for would be entrepreneurs, influencing in this manner the context itself.

In effect, as the results from data collected five years later (2006) indicate, the presence of corruption and other destructive entrepreneurial behaviour, made it more difficult to enforce the law and maintain an efficient legal system, which would create a friendly environment for entrepreneurs and enable productive entrepreneurship. In a corrupt environment enforcing the law becomes tremendously hard task. Levi *et al.* (2009) identifies corruption as one of the most important aspects that undermine compliance with law.

Values and norms reveal whether a society tolerates bribery, corruption, tax avoidance, or other forms of unproductive or destructive entrepreneurship, which considerably influence entrepreneurial behaviour. More importantly values and norms are firmly

embedded in society and change rather slowly and hardly compared to formal institution. In the case of Kosova, it seems that society not only tolerates the different forms of destructive entrepreneurship but most entrepreneurs has adapted and embraced these new informal rules of the game. Tax avoidance, bribery and unfair competition appear to be socially acceptable norms, and the skills that all these activities require are potentially determinants of business survival and development. This is especially harmful for new firms because of their lack of the legitimacy and resources during the start-up phase. Would be entrepreneurs besides thinking how to deal with common star up barriers, a substantial part of time and resource should allocate in order to adapt and overpass the informal rules of the game.

In fact, it is the individual's subjective perception of the context that enforces the intention to start up a new firm. Hence, if the entrepreneurs' perceptions about the institutional context are that corruption and unfair competition characterizes the business environment, then almost no choice is left for would be entrepreneurs apart from accepting extreme rules of the game or withdrawing from starting up the new firm. Moreover as Burt (2000) underlines, when the business environment is characterized with high levels of corruption the prestige of being an entrepreneur, decrease; this may lead to a decrease in the level of entrepreneurs in the economy.

As expected, when formal legislative framework was put in place and basic laws were approved (2005 - 2006), the behaviour of entrepreneurs did not change. As Dallago (2003) correctly claims, individuals and organizations incorporate their past experience in the form of systemic and social capital which influences their present decision-making. Considering that entrepreneurs most likely draw on their previously learned behaviours, it is not expected that the values and norms deeply rooted in their daily business activities will change over the short period. On the contrary, they will struggle to keep the same informal rules of the game since any change in the informal institution will imply uncertainty and possible losing the competitive edge gained in the unfair

context. In this kind of setting, transaction costs of enforcing formal rules are substantially high and risky. This highlights the fact that spontaneous efforts toward improving environment to doing business may be unsatisfactory or counterproductive for developing a strong and sustainable SME sector.

Overall, our interpretation of the findings is that the institutional context in Kosovo can be described as a “vicious circle”. In fact, lack of law has feed the corruption in post war period and has developed in that level, than even when a proper legislative framework has been put in place, it is tremendously hard to fight it back. Since the overall institutional context has been contaminated with corruption and other unfair behaviour, the likelihood that entrepreneurs adopt to this environment and accept rules of the game, is high. Consequently this makes even harder to fight corruption.

Hence, from a policy perspective, only determined and widespread radical institutional reforms, jointly with socio-cultural extensive changes, would make possible to break the vicious circle that is affecting the entire society. With that in mind, policy makers, entrepreneurs and other agents such as legislators, consultants or educators, should work together to better understand the interrelationships between the institutional context and the various forms of entrepreneurship. In this vein, since we have found that entrepreneurial perceptions are to certain extent influenced by individual and firm-related characteristics, institutional reforms should take into account the heterogeneity of entrepreneurship.

The present study has some limitations but at the same time opens interesting routes for future research. For example, we have focused on a number of formal and informal institutional variables, so further research in this area should use a wide range of variables measuring these factors. In addition to subjective perceptions of entrepreneurs, the use of objective measures is recommended.

Moreover, while we took advantage of having data at two different points of time to explore the interrelationships between perceived formal institutional factors and informal ones, it would be necessary that future studies track businesses over time and make use of panel data.

A better understanding of the relationship between entrepreneurship and the institutional context will also require additional methodologies. In effect, future research should examine more fully the actual processes of venture creation and development by using a case study approach. It would be of particular interest to explore how formal and informal factors affect each other over time in these specific processes.

Finally, while there is much value on concentrating upon an extreme context such as Kosovo, there is still a need to examine the relationships between entrepreneurship and the institutional context in other emerging market economies and transition settings.

CHAPTER 6
CONCLUSIONS

6. Conclusions

6.1. Summary of main results and discussion

The final chapter summarizes the main research findings and provides a brief discussion in terms of the general purpose and specific objectives of the doctoral thesis. Next, considering the specific context in which the study took place and the research results derived, we emphasize some theoretical implications which can be used for the extension of current theoretical framework on small business growth and development. Practical implications for entrepreneurs are also elaborated. Before concluding the thesis with limitation and future lines of research, we also discuss and recommend some policies to foster small business and entrepreneurship development.

Our initial literature review has revealed several gaps in the field of researching entrepreneurship and small business especially in terms of underdeveloped countries. The vast majority of prior research in the area of small business growth has been conducted in developed and advanced economies. Not much is known about the determinants of start-up size and subsequent (fast) growth in transition and extreme context. In addition, to our knowledge, there are no studies of fast growing firms in similar context and the empirical evidence on the determinants of fast growth is limited in general.

Further, entrepreneurial activity might vary considerably according to the context in which it occurs, and the context per se, appears to be particularly relevant to determine entrepreneurial attitudes and behaviours. An increasing number of studies have looked at the institutional context in emerging markets and transitional economies, however, little is known about interrelatedness of formal and informal factors and their influence in the context itself.

Considering the gaps in the literature and the contextual uniqueness of the environment where the research was conducted, the general purpose of the present doctoral thesis was:

To examine entrepreneurial and institutional determinants of small business growth and the interrelationships between institutional factors in the context of an extreme, transitional and marginalized environment

Departing from the general purpose of the doctoral thesis we derived three specific objectives:

1. To analyze entrepreneurial and institutional determinants of start-up size and subsequent firm growth

In order to reach the first objective of the thesis the determinants of start-up size and subsequent growth have been examined taking into account entrepreneurial and institutional factors. As a result, we came to conclusion that there is substantial heterogeneity in a number of factors associated with firm growth which supports the previous research in the field (Delmar *et al.* 2003).

Our results concerning the negative impact of formal education on both start-up size and growth differ from previous findings in developed countries which point to a positive relationship between generic human capital and the growth of the firm (Storey, 1994; Davidsson *et al.* 2006; Cooper *et al.* 1994). This may be due to the extreme conditions for small business growth where formal education plays little role in the growth of the firm, or even the quality of education that entrepreneurs have, might not offer them practical skills for managing the growth of the firm. Also it should be understood, that our empirical study did prove that entrepreneurs with formal education have less intention for growth compared to other entrepreneurs. In contrast with the influence of generic human capital attributes, the results show that management training has a strong positive impact on the growth of the firm. The entrepreneurs' specific knowledge, which is more directly used in the process of venture development, appears to be more important in determining the firm growth compared to their general knowledge gained through formal education.

The results provide strong support to the positive influence of the intentions for growth in both start-up size and post-entry growth. In other words, entrepreneurs who have strong

intentions to grow the business tend to create larger firms that in the post-entry period grow faster as well. Although only 30 percent of surveyed entrepreneurs have intentions to grow, which is significantly less than entrepreneurs of developed economies, this proved to be a strong predictor of the growth of the firm. Entrepreneurs willing to grow their firms besides internal organization challenges, in transition economies, have to deal with external inhibiting factors especially those related to informal barriers. As a result, in this particular setting, entrepreneurs with intention to grow are few in numbers, but still these intentions are an important factor for firm growth.

With respect to institutional factors, we have found that formal factors are not influencing the start-up size and subsequent growth of the firm. Whereas perceived informal barriers are found to be significantly and negatively related to growth. The absence of a strong institutional framework has created a breeding ground for informal factor to emerge, and hence hinder the growth of the firms in Kosova.

In terms of the first objective, we can conclude that while intentions to grow and specific human capital attributes proved to be a strong positive entrepreneurial determinant of firm growth, informal factors tend to slow the growth of the firm. In addition the results show that factors that affect the initial size of firms and those that have an influence on subsequent growth of the same firms, are not necessarily the same, since we have found that a number of variables have differing effects on the two dependent variables.

2. To examine the contribution to employment of fast growing firms and the factors which have an influence on the fast growth of firms

Concerning the second specific objective, this doctoral thesis reveals the importance of empirical investigation of fast growing firms in terms of the transitional and extreme context where firms operate. In reality, the fast-growing firms in Kosova create 36.5 percent of jobs during the examination period. The contribution of 5 percent of fastest growing firms is 25.2 percent. Comparing to similar firms in well-developed economies, the contribution of fast growing firms in Kosova is rather minor. Therefore we can conclude that empirical evidence brought by several authors (Storey, 1994; Brüderl, and Preisendörfer, 2000; Autio *et al.*

2007; Kirchoff, 1994; Halabisky *et al*, 2006; Deschryvere, 2008; Henrekson and Johansson 2009) on disproportionately large amount of jobs created by fast growing firms cannot be generalized to a transitional and extreme context for small business development, such as Kosova.

An investigation of the determinants of the firm fast growth, pointed out, that besides different contribution of fast growing firms into employment, there are also some differences in the factors that determine the fast growth of the firm. Formal education, which is our measure for generic human capital, shows a negative effect in the firm fast growth, contradicting in this manner the previous results in other contexts (Capelleras and Rabetino, 2008; Barringer *et al*. 2005; Friar and Meyer 2003; Almus 2002; Gundry and Welsch, 2001). Nevertheless, two other variables capturing specific human capital show a positive influence on the fast growth of the firm.

Intentions to grow represent the variable with the largest influence and marginal effect in predicting firm fast growth, emphasizing that such intentions are not only important for normal growth but are essential for experiencing fast growth.

The start-up size of the firm has been also found to exert a negative influence on the growth of the firm. These results are in line with vast majority of previous empirical evidence (Calvo, 2006; Almus, 2002; Sutton 1997; Caves, 1998; Geroski, 1995). The results also indicate that having a foreign partner, starting up the firm in teams, and operating as a limited liability company increases the chances to become the fast-growing firm. In terms of the operating sector, the results show that manufacturing firms are more likely to experience fast growth compared to firms operating in the service or trade sector. The location where the firm operates does not play any significant role in fast growth of the firm.

Regarding the second objective, we can conclude that fast growing firms in transitional and extreme environments such as Kosova, are rather different from similar firms in well developed economies. Importantly, as our empirical results suggest there is a wide spectrum of determinants that affect the firm fast growth. There is not only one factor or

even a group of similar factors that could entirely and solely influence the fast growth of the firm. It is rather a combination of different factors emerging from different groups that in a combined way influence fast growth.

3. To investigate how entrepreneurs perceive institutional factors and the interrelationships between formal and informal institutional factors.

The third objective has been examined by utilizing two databases, from 2001 and 2006. Hence the results from the research addressing the last specific objective of the present doctoral thesis showed that while in 2001 entrepreneurs complained more on formal factors, namely lack of laws, in 2006 entrepreneurs have listed informal factors in the first place. This resulted in the further investigation of the relation between formal and informal factors.

Indeed, this study underlines the robust relationship between formal and informal institutions as perceived by entrepreneurs. Hence for example in 2001, firms that have faced the lack of law barrier, and strong competition, were more likely to face unfair competition. On the other hand the perceived barrier of corruption is mostly related to the lack of law and administrative charges. Hence the empirical evidence of this study, demonstrate the influence of formal factors upon informal factors. More specifically, the results indicate that the lack of laws influenced entrepreneurial behaviour by making entrepreneurs act in an unfair way through utilizing destructive practices such as corruption. This has confirmed previous empirical evidence (e.g., Smallbone *et al.* 2001; Welter *et al.* 2000) arguing that entrepreneurs often cope with an inadequate institutional framework through 'evasion' strategies (Leitzel, 1997), which allow them to survive in an extreme environment, where government typically considers private businesses to be mainly a source of tax revenue and where inadequate public law enforcement leads to corruption and unfair competition.

Next, since the descriptive statistics has shown that in 2006 the most emphasized barriers by entrepreneurs are informal factors (unfair competition and corruption) we have examined how these factors influence the formal factors. The results show that the

probability of facing high taxes as a barrier increases if a firm complains about informal economy as a barriers to entrepreneurship. There is also a positive relation between strong competition and high taxes. Further administrative charges, are also positively related with corruption. In addition the probability of facing high lack of law enforcement as a barrier increases if a firm complains about corruption as a barrier to entrepreneurship. As a result of unproductive and destructive entrepreneurial behaviour, the new set of informal “rules of the game” has been established for existing, and more importantly, for would be entrepreneurs, influencing in this manner the context itself, by making it more difficult to enforce the law and maintain an efficient legal system, which would create a friendly environment for entrepreneurs and enable productive entrepreneurship.

Overall, related to third objective we can conclude that our results confirm the interrelationship between formal and informal factors. The institutional context shapes the entrepreneurial behaviour frequently by encouraging unproductive and destructive entrepreneurship, which subsequently affect the institutional context.

6.2. Contributions of the Doctoral Thesis

Taking into consideration the lack of the entrepreneurship research on transition and emerging economies (Bruton et al. 2008) especially in extreme context, one of the key contributions of the present doctoral thesis is that this study extends the current body of knowledge about small business growth and entrepreneurship by bringing empirical results from rather unique context such as Kosova. By drawing from the research in Kosova, a society characterized by transitional, extreme and marginalized conditions for doing business, we offer a more contextualized view of entrepreneurship, enabling a better understanding of the importance of context for entrepreneurship research.

It has been shown in other domains such as business strategy, that researchers should not assume that empirical findings in a developed economy will be equally applicable in other less developed economies (Peng, 2003). In terms of entrepreneurship and small business research, the assumptions derived from western developed economies may need

considerable adjustment when researching underdeveloped, transition marginalized societies.

The little work that does exist on developing countries is all too often based on small samples taken from ad hoc questionnaires (Coad and Tamvada, 2012). The results derived from this thesis are based on a large and representative sample, with well drafted and tested questionnaire.

In particular, this doctoral thesis contributes to a limited understanding of the role played by entrepreneurs' human capital in transitional environments (Honig, 2001). Our results concerning the negative impact of formal education on start-up size, growth and fast growth, differ from previous findings in developed countries which point to a positive relationship between generic human capital and the growth of the firm (Cooper et al. 1994, Storey 1994, Davidsson *et al.* 2006, Capelleras and Rabetino 2008).

An additional contribution is the analysis of the role that entrepreneurs' intentions to grow play in the overall firm growth process. While the evidence on the relationship between intentions and venture development in transitional contexts is still scarce, prior work in developed countries has suggested that an entrepreneur's intention to grow the business is positively related to actual firm growth (Wiklund and Shepherd 2003). We have found that despite extreme and marginalized context for doing business in Kosova, intentions to grow are strong predictor of the firm (fast) growth.

Next, as far as we are aware, this may be the first study measuring the contribution of fast growing firms to employment in transitional and extreme settings. Thus, this doctoral thesis contributes to the existing literature on the fast growth of the firm by putting forward some new empirical insights on the contribution of fast growing firms into employment. While prior work in this area suggested that fast growing firms create disproportionately large amount of jobs (Storey, 1994; Brüderl and Preisendörfer 2000; Autio *et al.* 2007; Kirchhoff, 1994; Halabisky *et al.* 2006; Henrekson and Johansson, 2009), our findings indicate the such contribution of fast growing firms to employment is lower in contexts such as Kosova.

Additional contribution to the entrepreneurship and small business literature in general, is the empirical evidence which points to the influence of the institutional factors, namely informal factors, on the growth of the firm. Bruton *et al.* (2008) have argued that very little is known about the impact of institutions on the behaviour of entrepreneurs in either transition or mature market economies. This study proved that informal factors hinder the growth of the firm.

This study also contributes to a better understanding of the “two-way relationship” between entrepreneurship and the respective context. As emphasized earlier, most research up to now implicitly assumes a “one-way relationship” (Welter, 2011) where context is taken as given. On the contrary, context may enable or constrain entrepreneurs, since it may provide individuals with new opportunities and at the same time may limit their actions. In the institutional context characterized by the absence of the “rule of law,” the entrepreneur has utilized unproductive and destructive forms of entrepreneurship, influencing the context itself by affirmation of the new rules of the game. The presence of new rules of the game (corruption and other destructive entrepreneurial behaviour), made it more difficult to enforce the law and maintain an efficient legal system, which would create a friendly environment for entrepreneurs and enable productive entrepreneurship.

6.3. Theoretical implications

Overall, the results of this doctoral thesis support what, Peng and Heath (1996) claimed more than a decade and an half ago. Indeed more research should be directed in firm growth in transitional and emerging countries in order for the theory of the growth of the firm to be more complete. The distinctiveness of the entrepreneurship in transitional countries in general, and specifically characteristics of entrepreneurship in post war countries were extreme condition for doing business exist, exhibit a substantial role for the development of the theory on firm growth and contextualizing entrepreneurship research.

Concerning the determinants of start-up size and growth, this study strengthens the theoretical basis in this area by explaining the demonstrated effects with reference to well-

developed theories, such as human capital theory and institutional theory, which were not previously integrated with this literature.

An important theoretical implication emerged when investigating the contribution and determinants of fast growing firms. In fact the theory should acknowledge the minor contribution of fast growing firms into employment in a transitional, extreme and marginalized context. On the other hand, we have also observed some differences in terms of determining factors of fast growth implying that entrepreneurial activity might differ considerably according to the context in which it occurs. Potentially, a separate focus is needed when studying fast growing firms and normal growing firms.

Our empirical evidence also proved that growth of the firm emerges as a result of various factors coming from different groups. Therefore the theory of the growth of the firm should continuously be fulfilled, and updated with other groups of factors that influence the firm growth. Specifically this doctoral thesis also contributes to the limited understanding of human capital in transitional environments (Honig, 2001) by bringing some new results that point to a negative relationship between formal education and firm growth in a context such as Kosova. Importantly this holds not only for growing firms, but also for a specific group of fast growing firms.

This study also confirms the application of the institutional approach as a suitable conceptual framework for the analysis of small business growth in this particular environment. Moreover our research confirms that entrepreneurial behaviour might cause institutional change just as the latter can impact on behaviour, extending and refining in this manner the institutional approach toward small business growth and entrepreneurial research.

Overall, our findings fulfil and refine our understanding of the small business growth and entrepreneurship in a transitional, extreme and marginalized context. Studies that take into account entrepreneur behaviour in similar settings such as Kosova may thus contribute to extending the current theoretical perspective.

6.4. Policy implications

Governments, both at the local and national level, have a substantial role to play in setting up a favourable context for business development. They build the basic regulatory framework consisting in laws and regulation shaping the future of the entrepreneurial activity. Indeed, Frye and Shleifer (1997) classify governments as either providing an 'invisible hand', a 'helping hand', or a 'grabbing hand' as far as the private sector development is concerned. Taking more optimistic view, the government and state institutions can provide a helping hand to small businesses through sustainable and determine long term, general and specific public policies.

Indeed, public policy by which we understand the intentional use of the powers of government to influence a societal outcome, are general and specific (Greene and Storey, 2010). While general policies have wider macroeconomic influence and accordingly could influence entrepreneurship and small business growth, such as developing financial markets, tax policies, legal aspects, or property rights, the specific policies are tailored designed measures targeting SMEs and entrepreneurs. Such specific policies include access to financing (seed capital, credit guarantee schemes, grants for start-up), provision of information, advice and networking, management consulting programs, or entrepreneurship education.

Typically, more general policies proved to be more productive, when governments need only a more favourable context for small business growth. However, in the particular context of transition and post war countries such general policies are certainly insufficient.

A precondition for pro-growth entrepreneurship in similar contexts such as Kosova is that governance and transactional trust be restored. This will entail the establishment of rules, regulations, property rights, contract enforcement, limiting the role of the state as an economic player, and lowering the costs of business formation (Fogel *et al.* 2006: 541). However, one of the main policy implications of the previous analysis is that "one size does not fit all". In other words, if entrepreneurial efforts are to be allocated to productive

activities, policy strategies need to address the specific institutional context of each economic region (Wagner and Sternberg, 2004). Hence, taken together, the theory and empirical results presented in this study suggest that no single policy can be put forward to encourage entrepreneurship and small business development in Kosova. It is rather a mix, of simultaneously conducted specific and general policies aiming to boost entrepreneurship and small business growth.

Until recently Kosova, lacked any formal public policy directed toward entrepreneurship and small business development. Only in 2011 the Government approved SME Development Strategy, while the action plan for the implementation of this strategy has been approved in 2012. Before that, measures supporting small business development were random, not coordinated and short term. Hence, this did not result in any improvement of the business environment in Kosova, in the contrary the environment for doing business continuously deteriorated. Therefore it is not surprising the overall ranking of Kosova in World Bank Doing Business Report. In general Kosova is ranked in the 117th place out of 183 countries, significantly lower compared to the neighbouring countries.

The current conditions of the business environment in Kosova call for immediate action in addressing the informal factors which play a crucial role in hindering small business growth. Our results revealed that certain informal barriers are undermining the growth of the firm especially fast growing firms, presumably by diverting resources towards managing barriers involving unproductive or destructive entrepreneurial behaviour. Therefore, efforts to foster entrepreneurship and small business growth will be unproductive if not accompanied by policy reforms addressing corruption and unfair competition (informal factors).

Concretely, informal factors should be tackled by undertaking sustained efforts for strengthening the rule of law through completing the legislative framework and most importantly enforcing the existing laws. Strengthening the court's system to improve contract enforcement and property rights will certainly restore trust toward governmental institutions. For this to happen, there is a need for a strong political willingness and determined leadership in order to break the vicious circle of corruption and other illegal

activities, which currently are present in Kosova. Further, actions toward establishing and continuous functioning of the Regulatory Impact Assessment and improved access to information concerning laws and regulations are essential in creating a more friendly business environment.

Besides immediate action to improving the business environment, the government should adopt specific policy measure targeting particular segment of the SMEs. An important policy matter is whether to stimulate start-ups, to help existing firms survive, or to focus on (potentially) fast growing firms. A similar dilemma consists on whether the entry of many new firms or the rapid growth of a few firms that generate employment growth is more appropriate, the so-called Mice versus Gazelles debate (Davidsson and Delmar 2003).

The literature review brings contradictory thoughts about policies supportive of fast growing firms. Hence for example Bridge *et al.* (2003) brings arguments against and in favour of targeting fast growth firms which are important to have in mind when deciding policy measures. For example, selecting potential high-growth firms is too difficult, and public policy should seek to back all the winners and avoid any loser. In addition, start-ups in general deserve policy support, due to their seedbed function, unequal access to finance and information, their employment creation, and their effect on regional prosperity in the long run. However, there are at least as many arguments in favour of targeting (potential) fast growing firms. In this context, policy targeting these types of firms increases the effectiveness and efficiency of support measures. Focusing resources on a small group of ambitious entrepreneurs is more effective than more generalized support. As Estrin *et al.* (2012), emphasized, a public policy which focuses on promoting small business development in general, but not on high growth firms, is likely to be ineffective in enhancing employment.

In the case of Kosova we think that a complementary policy should be followed. As our findings suggest, younger firms tend to grow faster. On the other hand the fast growing firms do not contribute substantially to employment growth likewise in western developed economies. However, with an improvement of the business environment, it is expected that

the contribution of fast growing firms to employment might significantly increase. Hence a rather mixed strategy of fostering creation of new firms and supporting fast growth companies would present the best policy recommendation.

Specifically, in order to stimulate new firm formation, the government should remove barriers to entry. This will bring more dynamism to the market and potentially more sustained employment. Currently Kosova stands at the 168th place in the ranking of 183 economies on the ease of starting a business. An entrepreneur in Kosova needs 58 days to open a business compared to three days in neighbouring Macedonia (WB, 2012). Eliminating different licensing and permits, minimizing requirement regarding start-up capital, simplifying registration procedures through transparent electronic systems can ease the business formation and bring more new firms into the market.

In terms of supporting fast growing firms, specific public policies can be designed to develop financial instruments to fund the fast growth of the firm, and provide R&D and intellectual property protection. Further, it has been confirmed in this study that foreign partnerships tend to accelerate fast growth of the firm. Facilitating international firm co-operation may be one of the ways of helping local fast growing firms to penetrate in foreign markets, overcome some of the internal resource constraints and adopt innovative strategies.

We also believe that entrepreneurs might need training in business management, especially if they want to promote fast growth. Intangible assistance to firms in the form of specific management training or mentoring appears to be essential to new and small business growth (Capelleras *et al.*, 2011). Hence, policy makers should promote advisory programs to entrepreneurs and favour the cooperation with consulting companies, through various voucher scheme models.

One of the main preconditions for small business development is to strengthen the entrepreneurial culture, especially among the young population. Therefore, a general policy on promoting entrepreneurship education should be designed. A possible measure could imply a revision in primary and higher education curricula for promoting entrepreneurship

amongst the educated youth. This could cultivate the entrepreneurial spirit from the very beginning of formal education. In higher levels of education, the establishment of technology and business incubators could create good conditions for students to become entrepreneurs. In addition, public awareness campaigns promoting entrepreneurship as a career option amongst the youth population, especially at the primary secondary and tertiary education, could produce positive results. However, governmental institutions should realize that awareness actions at primary and secondary school level only have long-term effects, while university programmes can produce results in terms of business creation in the medium- and short-term.

Finally, it is important to acknowledge that whatever policies governmental institutions decide to carry out, it may be relevant to provide these in a decentralized manner. A shortcoming of many public policies is that they tend to be centralized.

6.5. Practical implications

Apart from theoretical implications, our result also point to several implications for entrepreneurs as well. Given the important role of specific knowledge attained through relevant management training in the venture development process, especially for the fast growth of the firm, entrepreneurs should be encouraged to invest in such type of training in order to keep the competitive edge. Although this implies a financial burden considering that these types of trainings have significant costs, the decision for investing into specific human capital may certainly pays off in the long term.

Would be entrepreneurs should be informed that starting up a firm in larger teams increases the probability of creating a fast growing firm. They should consider joining their human and financial resources prior to start up in order to survive the initial critical period. They also should take into account that their aspirations to grow and propensity to innovate (Hormiga *et al.*, 2013) may promote the growth of the new firm.

Moreover, as our results indicate, entrepreneurs should put more efforts in establishing relations with foreign partners. This is an important implication for entrepreneurs in Kosova, since it might favour the internationalization process of their firms, particularly an accelerated internationalization from inception (Rialp *et al.*, 2005), and lead to better growth outcomes.

Our study also alerts would be entrepreneurs for unfavourable and hostile conditions for starting up a firm. Despite unfavourable context for doing business there are entrepreneurs that are capable of overcoming these barriers and establish fast growing firms. Therefore would be entrepreneurs should not be discouraged from entering the market; however, they need to be conscious of the impediments to entry and additional formal and informal barriers, and build adequate responses to improve the chances for survival and growth prospects.

6.6. Limitations of the study and future lines of research

The present doctoral thesis has a number of limitations but at the same time opens directions for future research. First of all, it should be noted that we have used official business registry data provided by the Statistical Office in Kosova to select the representative sample of SMEs in Kosova. This way of selecting the sample is particularly problematic in transition countries where business registries are not entirely reliable. This was also indicated from the entrepreneurs complaining on informal economy and unfair competition, which partially might come from unregistered businesses as well.

One of the main drawbacks of firm growth studies is the lack of longitudinal studies. In fact, as claimed by Davidsson *et al.* (2006) growth is a phenomenon that necessarily happens over time. Hence, the firm growth should be researched longitudinally at least in the sense that assessment of the predictors precedes assessment of the outcome, i.e. the change in size. Measuring the growth of the firm between two points of time, as we do in this study (start-up size and a current size) has been criticized because it models growth as one giant leap (Davidsson and Wiklund, 2000) and it makes the calculation overly sensitive to

stochastic variation (Weinzimmer *et al.*, 1998). Unfortunately, our database does not contain longitudinal data on the employment growth of the firm. Having this in mind, the future research, certainly should try to encompass longitudinal data when studying the growth of the firm. Moreover, future efforts in researching firm growth should take into account other growth indicators besides employment such as sales or profits and preferably compare the results and examine the changes when a particular growth indicator is introduced. This would enable a deeper insight into the growth process.

It is important to acknowledge that the data were gathered at one point in time, therefore it was impossible to follow up the fluctuations of different variables (e.g. intentions to grow, human capital, institutional factors) and the implications that this might have in growth of the firm. Therefore, future research should investigate how intentions to grow, for example, change over time, what influences this change, and how this is reflected on the growth of the firm. This would further our understanding of the role that intentions to grow actually have in the firm growth process.

Although we have made use of a relatively high number of variables to measure institutions constraints, we have been limited by the binary nature of the human capital variables, which may eliminate the possibility of observing, with a greater degree of precision, the relationship between variables. In addition the perceived institutional factors were based on perceptions rather than on objective measures. Objective measures of the corruption and other informal factors are quite exceptional, mainly because surveyed entrepreneurs hesitate to admit illegal activities. We are also aware that probably many would be entrepreneurs, were discouraged to start their firms due to these barriers. Nevertheless the focus of this study were actual entrepreneurs, though we admit that it would be of interest to survey the perceptions of would-be entrepreneurs as well.

We are also conscious that there are other relevant variables which might have an influence on the firm (fast) growth. For instance, a natural extension of the present analysis is to include differing types of prior experience of entrepreneurs as well as variables concerning the competitive strategy of the business (Gilbert *et al.*, 2006). Since the reputation that a

new firm can create in their first few years has been shown to have a strong positive impact on its development and success (Hormiga *et al.*, 2011), there is also a need to investigate the role of reputation in explaining new firm growth in contexts such as Kosova.

Moreover, an interesting insight into the firm growth process would be to examine the interaction effects of different independent variables. Therefore, future studies should consider analyzing the joint effect of particular variables, especially the interaction between internal (entrepreneurial and firm-related) and external (institutional or environmental) variables.

Additionally, our conclusion that fast growing firms in transition countries contribute less to employment than similar firms in developed countries should be further tested in a similar context, in order to strengthen the hypothesis that the firm fast growth in transition countries is rather different to fast growing firms in developed economies.

Importantly, our results indicate that further research should be conducted for testing the two-way relationship between the context and entrepreneurship, in order to learn more specifically how institutions affect entrepreneurship, and how entrepreneurs influence institutions. A better understanding of the relationship between entrepreneurship and the institutional context will also require additional methodologies. In effect, future research should examine the actual processes of venture creation and development by using a case study approach. It would be of particular interest to explore how formal and informal factors affect each other over time in these specific processes.

Departing from the idea of contextualizing entrepreneurship, future research would benefit from further exploring similar contexts, especially post-war societies, and extreme environments for entrepreneurship. Only in this way researchers can make entrepreneurship theory more context sensitive.

Although the above mentioned limitations are important and should be addressed in future research, we nevertheless are convinced that this doctoral thesis contributes to a better understanding of small business growth and entrepreneurship in the context of an extreme, transitional and marginalized environment.

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