

How to Join EU while there are Many Differences of Doing Business in the Same City?

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Doi:10.5901/ajis.2015.v4n2s1p89

Abstract

Everything in the world is compound from small pieces; I am starting with this sentence because if our country wants to join the European Union, our leaders should start by solving small problems in our country. This study explores the differences of doing business in Mitrovica city, Republic of Kosovo. Mitrovica is a small city which is located in the north part of the Republic of Kosovo and it is a divided city where in the north part of the city lives the Serbians and in the south part of the city lives Albanians. It is very important to study more deeply this issue because the situation of Mitrovica is unique in Europe and also there are no other studies about this issue. The methodology of research is compound by qualitative and quantitative data. This study is an exploratory research that starts from small parts to explain a new problem. To accomplish the research objectives, the study was divided in four parts: first, the theoretical part, second part is a research in Mitrovica that contains primary data (a survey through a questionnaire in 40 SME-s, 20 SME-s in the south part of the city and 20 SME-s in the north part of the city) and secondary data (data from institutions of the RKS, World Bank), third part explains the repercussions from the security approach and finally some concluding remarks and recommendations. From the results obtained from research we argue that the differences on doing business between two parts of the city exist and the economy of the city is facing with informal economy. All these differences found and the informal economy has a negative impact in the economic development of our country.

Keywords: Differences, Informal Economy, Taxes, Economic Development, Security.

1. Introduction

It is well known that there is a lot of literature about businesses activity, the way how they are doing business, business barriers etc, but, the scholars are continuing to make researches on these fields that's because they are trying continuously to improve the business operating way.

In the Republic of Kosovo there are a lot of studies regarding business barriers, entrepreneurship, business climate, etc, but there is no any study that explores the situation of doing business in the North part of Mitrovica and the South part of the city. Every day we are hearing the speeches of our leaders saying that our goal is to join the European Union and we know that the European Union calls countries to fight against corruption, against informal economy, to respect law, etc, something that still has a lot of problems in our country, and, this is exactly the reason why we chose to do a research in this field because we want to prove that what is happening in our city is a special case in Europe on which our leaders and Europe needs to pay attention.

The objective of our study was to confirm that businesses in Mitrovica are doing business in the same city but completely in different ways and that we are facing with informal economy.

The methodology of research is compound by qualitative and quantitative data. By objectives of the study we can see that this is an exploratory research that starts from small parts to identify a new problem.

2. Theoretical Part

We can say that a business is an activity, a place on which different people buy or sell goods or services to fulfill the main objective that is profit. It starts with identification of opportunities. According to *Peterson and Plowman*, 'a single isolated transaction of sale and purchase will not constitute business. Recurring or repeated transactions of sale and purchase alone means business'. (R.P. Maheshwari (2004). *Principles of business studies*, Pg. 1.)

The major activities of each business are three: 1. Production, which can be defined as an activity of making or

production of products or services to satisfy the customer needs; 2. Marketing, which can be defined as the activity of presentation of the product or service to the customers; 3. Finance, monitors and organizes all the money of the company. (Burrow, Kleindl & Everard (2008). *Business Principles and Management*, Pg. 4, Thomson South Western.)

All industrialized nations of the world seek economic growth, full employment and price stability. The business cycle is compound from four phases: 1. *the peak* on which the economy is in the best position where unemployment is low; 2. *recession* on which one country will have decline on the Gross Domestic Product which will last two or three months; 3. *depression* is the phase on which the economy is facing with extremely high unemployment rates and according to this the businesses activity is very low; 4. *recovery or expansion* is the phase on which the economy of one country starts to improve. (Pride, Hughes & Kapoor (2012). *Business*, Eleventh Edition, Pg. 20-21.)

All the businesses should respect the law of the country on which they operate because as we know laws have been used to achieve equality in those aspects of life in which equality is not a reality. For example: the social welfare programs of state and federal governments were created to further the cause of economic justice, the equal-right-to-employment acts were passed to bring greater equality to the job market, etc. (Marianne M. Jennings (2012). *Business: Its Legal, Ethical and Global Environment*, Ninth Edition, Pg. 7.)

It is very important to mention that the businesses are very important for the economic development of our country, because if we have more successful businesses, we will have lower unemployment rate and we will have higher state budget.

3. Research Part

It is very important to mention that 16 years after the war the Republic of Kosovo is still facing with a lot of problems, like: lack of production, corruption, lack of law functioning, informal economy, high interest rates etc. To support this, we will mention the data from the World Bank report (2013) which has listed the Kosovo as one of the poorest countries in Europe. (World Bank, 2013)

3.1 Research results, North and South Mitrovica, Kosovo

Small and Medium Enterprises are very important for the economy of Kosovo because they account for nearly 40% of Gross Domestic Product. 99% of all businesses in the Republic of Kosovo are SME-s and they are known as job generators in Kosovo because they employ around 60%. But, despite this SME-s in Kosovo are still facing with a lot of institutional and other barriers in the business environment. (Group for Legal and Political Studies (06/2012). *Business environment in Kosovo*, Pg. 5.)

Through the results of the research that we have done we will explain how the businesses are operating in both parts of the city. The research was done through a questionnaire that contains 12 questions. Our sample is compound by 40 businesses in total: 20 from North part of Mitrovica and 20 from South part of the City. We will interpret all the questions results below.

3.1.1 Business Type

From the analyses we can see that the number of businesses that participated on this sample is 40 from which (for both parts of the city): 3 or 7.5 % are production oriented businesses, 17 or 42.5 % are services oriented businesses and 20 or 50.0 % of the businesses are trade oriented businesses.

Table 1 & 2 - Businesses Type for both parts of the Mitrovica city

Business type, South part	Frequency	Percentage
Production oriented	3	7.5
Services oriented	17	42.5
Trade oriented	20	50.0
Total	40	100.0

Business type, North part	Frequency	Percentage
Production oriented	1	5.0
Services oriented	9	45.0
Trade oriented	10	50.0
Total	20	100.0

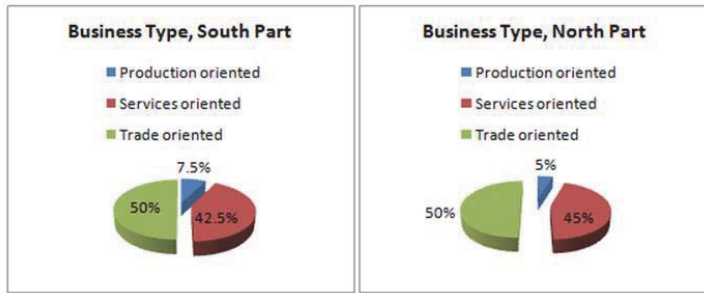


Figure 1 & 2 - The percentage of businesses by type for both parts of the Mitrovica city

3.1.2 Businesses Classification regarding the number of employees

From the analyses we can see that the number of businesses classified by the number of employees is: 31 or 77.5 % are microbusinesses, 6 or 15.0 % are small businesses and 3 or 7.5 % are medium businesses.

Table 3 & 4 - Businesses Classification for both parts of the Mitrovica city

Number of employees	Frequency	Percentage
From 0 to 9	13	65
From 10 to 50	5	25
From 51 to 250	2	10
Total	20	100

Number of employees	Frequency	Percentage
From 0 to 9	18	90
From 10 to 50	1	5
From 51 to 250	1	5
Total	20	100

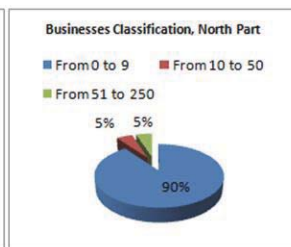
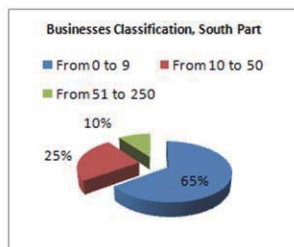


Figure 3 & 4 - The percentage of businesses classification regarding the number of employees

3.1.3 Experience in the market

From the analyses of the results from both parts of the city we can see that in total we have: 13 or 32.5 % businesses that are in the market from 1-3 years, 9 or 22.5 % businesses that are in the market from 4-9 years and 18 or 45.0 % businesses that are in the market more than 10 years.

Table 5 & 6 – Businesses experience in the market for both parts of the Mitrovica city

Experience in market	Frequency	Percentage
From 1 to 3	6	30
From 4 to 9	5	25
From 10 to ∞	9	45
Total	20	100

Experience in market	Frequency	Percentage
From 1 to 3	7	35
From 4 to 9	4	20
From 10 to ∞	9	45
Total	20	100

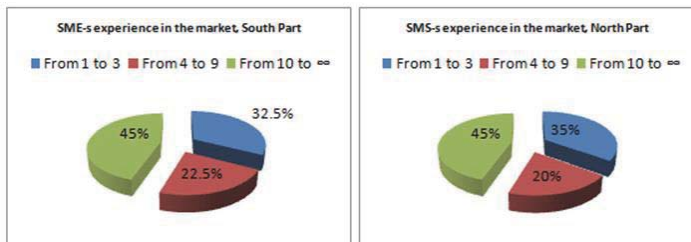


Figure 5 & 6 - The percentage of businesses classification regarding the experience in the market

3.1.4 The main country of import

Through the questionnaire we have made a comparison between businesses in the South and North part of Mitrovica and from the results we can see that all the businesses from the North part of the city that import goods have chose as the main country of import Serbia, and, the businesses in the South part have different import countries as listed in the tables below. In the table of the South Part we have greater number comparing with the table of South Part because some of the businesses from the South Part declared that they have more than one country from which they import.

Table 7 & 8 – The main country of import

Main Country of Import, South Part	Frequency	Percentage	Main Country of Import, North Part	Frequency	Percentage
Serbia	8	17.78	Serbia	10	50.00
Macedonia	7	15.56	Macedonia	0	0.00
Albania	10	22.22	Albania	0	0.00
Turkey	6	13.33	Turkey	0	0.00
Germany	2	4.44	Germany	0	0.00
China	5	11.11	China	0	0.00
Dubai	3	6.67	Dubai	0	0.00
No where	4	8.89	No where	10	50.00
Total	45	100.00	Total	20	100.00

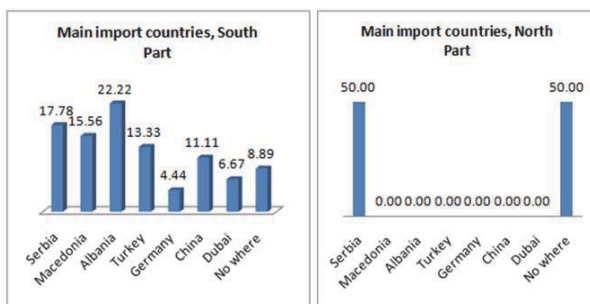


Figure 7 & 8 – Main import countries percentage

3.1.5 The difficulty of importing

From the results obtained we can see that 70.0 % of the businesses in the South Part of the city responded that yes they have difficulties while importing, while, only 5.0 % of the businesses from the North Part of Mitrovica responded that they have difficulties while importing.

Table 9 & 10 – The difficulty of importing for SME-s from both parts of the city

Is it difficult to import? SP	Frequency	Percentage	Is it difficult to import? NP	Frequency	Percentage
Yes	14	70	Yes	1	5
No	2	10	No	9	45
Don't know	4	20	Don't know	10	50
Total	20	100	Total	20	100

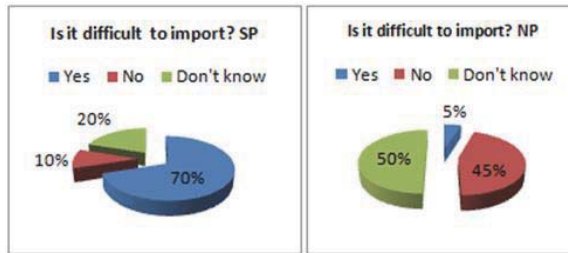


Figure 9 & 10 – The difficulty of importing in percentage

3.1.6 *Barriers of importing*

The SME-s were asked about the barriers of importing, and, from the results we can see that the businesses from the South part of Mitrovica answered that: 37.5 % from the most important barriers of importing are taxes, 30.0 % are Customs Terminal Procedures, 22.5 % are transport barriers and 10.0 % answered that they don't know (this group is compound from the businesses that do not import). While, the businesses from the North part answered that 40.0 % of the biggest barriers of import is transport, 10.0 % answered for Customs Terminal Procedures and 50.0 % answered don't know (service businesses).

Table 11 & 12 – Barriers of importing for SME-s from both parts of the city

Barriers of importing SP	Frequency	Percentage	Barriers of importing NP	Frequency	Percentage
Transport	9	22.5	Transport	8	40
Taxes	15	37.5	Taxes	0	0
Customs Terminal Procedures	12	30	Customs Terminal Procedures	2	10
Don't know	4	10	Don't know	10	50
Total	40	100	Total	20	100

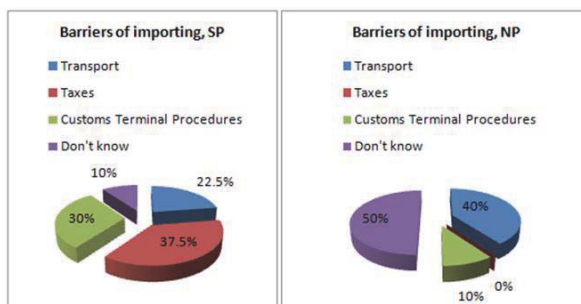


Figure 11 & 12 – Barriers of importing in percentage

3.1.7 Barriers of doing business

The question which are the barriers of doing business, the SME-s have evaluated by number from 10-1 (from the most important till the least important). And from the results you can see that the most important barrier on doing business in the SP (South Part) of Mitrovica is high costs, while, for the businesses from the NP (North Part) of the city the most important barrier of doing business is unfair competence.

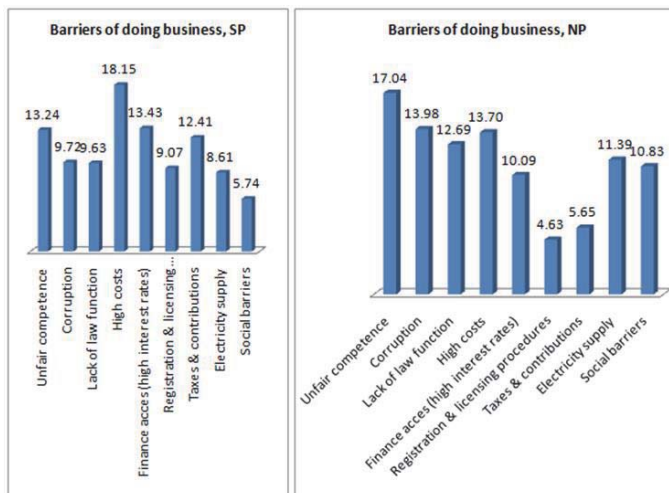


Figure 13 & 14 – Barriers of doing business

3.1.8 Tax declare – period of time

From the results we can see that we have completely different results from both parts of the city. That's because the businesses in the South part always declare taxes, while, the businesses from the North part of Mitrovica do not declare taxes.

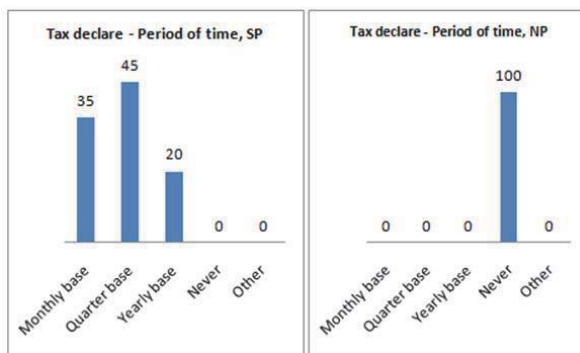


Figure 14 & 15 – The percentage of tax declaration for businesses in SP&NP of Mitrovica

3.1.9 Taxes declare – to which authority?

From the results of the research you can see that the businesses that operates in the SP of the city declare taxes to the

Tax Authority of Kosova, while, businesses from the NP do not declare taxes anywhere.

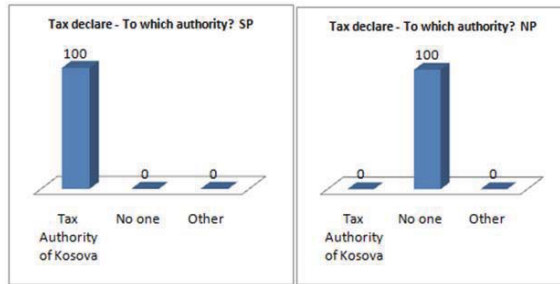


Figure 15 & 16 – Taxes declare authority in percentage

3.1.10 Controls from Tax Authority

From the results we can see that in the North part of the city businesses there are no Tax Authority official's controls, while, in the South part of the city's businesses there are often controls from the Tax Authority officials.

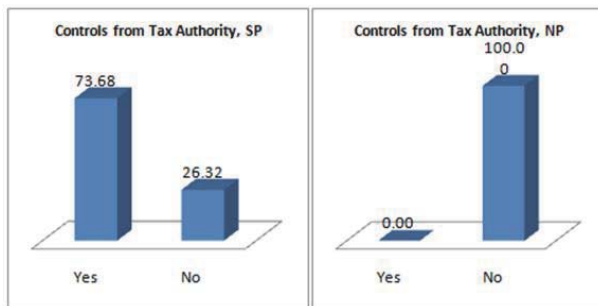


Figure 17 & 18 – Tax Authority Controls in percentage

3.1.11 TAK last control

From the results of this question we can see when was the last control of the TAK on the businesses in the SP of the city, while, in the NP there had never TAK control.

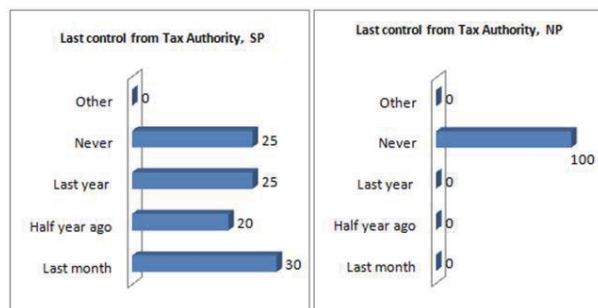


Figure 19 & 20 – Last control from TAK officers in percentage

3.1.12 Changes expected

From the results of the research we can see that changes expected from the businesses that operate in the SP of Mitrovica are: 80.0 % expect tax rates reduction, 15.0 % expect facility on finance access and 5.0 % expect no changes. While, the changes expected from the businesses that operate in the NP of the city are different: 60.0 % expect no changes, 30.0 % expect not to much changes and 10.0 % expect facility on finance access.

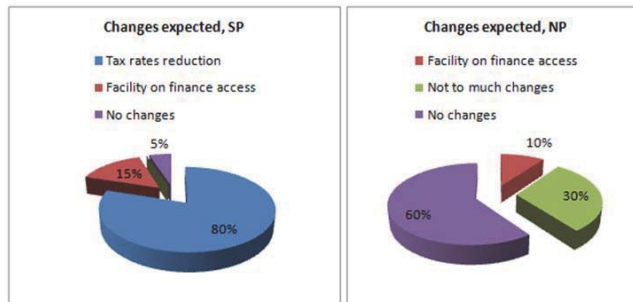


Figure 21 & 22 – Changes expected from businesses in percentage

4. Security Approach

According to the classic definition of state sovereignty:

“Sovereignty is the power of a state to do everything necessary to govern itself, such as making, executing, and applying laws; imposing and collecting taxes; making war and peace; and forming treaties or engaging in commerce with foreign nations” and, comparing it to our findings, we conclude that in our state the sovereignty is still fragile after 7 years of declaring independence.

The repercussions in the security field are enormous and this situation can cause “a second Bosnia” by establishing national enclaves through foreign interferences (from Serbia). So the Republic of Kosova must treat very seriously this situation and must act as soon as possible to suppress these differences.

It is important to mention that the purpose of Serbians isolation in some parts of Kosova is to refuse the reality. In those parts the majority believes in national purposes and ideology but those who makes business and control the market in enclaves doesn't care about nationality or ideology, so they cooperate with Albanians.

From the security approach this is very dangerous fact, because inside those “enclaves” will cultivate primitive nationalism and anytime it can cause conflicts. So the Republic of Kosova must integrate them in our society.

5. Conclusion

This study is a research on SME-s. We have done a study for SME-s because the private sector was and is indispensable in the achievement of important development results in the world. This sector constitutes the biggest part of the GDP on a big number of developing countries and it is also responsible for around 90 % of the work places in the world (World Bank, 2012).

It is very important for our country to develop the businesses because they will impact positively in the economic development of our country by reducing the unemployment rate of our country and by contributing in the state budget by paying taxes, because, from the last financial reports of the government of Kosova it is known that the TAK incomes compounds the second biggest income of our state budget.

Through this study we described some definitions about businesses, also, we explained the importance of businesses in the economic development of one country.

By the results obtained we freely must say that we have fulfilled the objectives of our study, because, through the results of research we have proved that the businesses in our city are doing business in a completely different ways from each other, and, we also proved that in the North part of the city our state is facing with informal economy. Our findings

should serve as a start of exploring and as a starting point to solve such a unique problem that without solving it I don't know how our state can join the European Union!

From this situation the budget of the Republic of Kosovo is damaging and it has negative impact in the economic development of our country.

A recommendation for our policymakers is that they should start to put order in the North part of Mitrovica, because in front of the law everyone should be equal. In this case the businesses in the same city are treated in different ways from our policymakers.

New researchers and scholars should make a lot of researches regarding this issue because there is urgent need to pay more attention to such a delicate situation.

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